CCCEU Report on the Development of Chinese Enterprises in the EU in 2021

STRENGTHENING *mutually beneficial* COOPERATION *to shape the common future*

Editorial Board

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Haifeng Xu

Chairman of the China Chamber of Commerce to the EU

Message from CCCEU

2021 is critical for the development of both China and the European Union (EU). Surviving the test of the pandemic, China's economy this year has gotten off to a good start, with economic activity showing strong resilience and vitality. As for the EU, the accelerated rollout of Covid-19 vaccines has fuelled the bloc's economic recovery amid ongoing twin green and digital transitions.

The pandemic is still wreaking havoc, but we can see a glimmer of light at the end of the tunnel: scientists in China, Europe and beyond have been quick to develop jabs while manufacturers across the globe ramp up production. As the Chinese economy continues to bounce back and the 27-country EU emerges from a double-dip recession, we know they are a big win with efforts from all walks of life.

More has been achieved in a much challenging time. For China and the EU, trade volume registered growth, hit a record high, and is maintaining strong momentum. Since the second quarter of last year, China has traded more goods with the EU than any other country or bloc in the world. It is hard to imagine that the two recorded bilateral trade of merely USD 2.4 billion back in 1975, when they set up diplomatic relations, whilst we now see a staggering EUR1.6 billion worth of imports and exports coming and going each day.

The vast markets of China and the EU offer huge opportunities for enterprises, even during the pandemic. Powered by a pioneering spirit, enterprises from both sides are seeking opportunities during the Covid-19 crisis. Thanks to the resilience of both markets and the global supply chain, many companies have witnessed a turn from loss to profit.

For Chinese businesses, the EU's significance as an overseas investment destination has been rising. They have expressed confidence in the promising prospects of Europe's development, as showed in the CCCEU's survey this year. This key finding, along with others, is well presented in the chamber's annual flagship report on the development of Chinese enterprises in the EU.

The third edition of its kind by the CCCEU and Roland Berger, this report presents the status of Chinese enterprises in the EU, documents their success or a hard grind, and more importantly, reflects their views and concerns on the EU's business environment. In the end, it puts forward some 70 constructive recommendations for action.

To the best of our knowledge, most Chinese enterprises in the EU are marathon runners, with less focus on short-term earnings. This is beneficial to local employment, economic development, and technological innovation in the long run. As an ancient Chinese poem goes: "The banks seem wide at the full tide; A sail with ease hangs in the soft breeze." Stable and lasting Sino-EU economic and trade ties will not only do good to enterprises on both sides, but also serve the interests of the EU, China and the rest of the world. It is our hope that this report will contribute to that end.

Denis Depoux

Global Managing Director,
President and Managing Director China

Message from Roland Berger

Since their establishment 46 years ago, China-EU relations have enjoyed steady and sound growth overall, despite some ups and downs along the way. Over the past year, China and EU stood together and helped each other in the face of global challenges such as the Covid-19 pandemic, climate change, and international and regional conflicts, while playing an important role in driving the global economic recovery. Remarkable achievements in economic and trade cooperation between China and the EU made 2020 a milestone year in their bilateral relations. Against this backdrop, it is crucial to get valuable insights into Chinese enterprises in the EU.

As a consultancy that has witnessed deepening China-EU economic and trade relations, Roland Berger has seen that China and the EU have deep foundations for cooperation at multiple levels. At the same time, Chinese and European enterprises are also willing to work together. Hence, we believe that in the future China and the EU will have long-term cooperation in more areas, and play a greater role in the global economic recovery and the sustainable development of humankind.

2021 marks the third year of cooperation between the China Chamber of Commerce to the EU (CCCEU) and Roland Berger on researching the development of Chinese enterprises in the EU. Our report this year is titled "Strengthening Mutually Beneficial Cooperation to Shape the Common Future". In the past year, multiple global challenges have led to greater uncertainty in the world's political and economic landscape compared to the previous year. However, Chinese enterprises still have strong confidence in the long-term development of Sino-European economic and trade relations. Therefore, we hope that this year's report can continue to voice the views of Chinese enterprises in the EU and shed light on the circumstances around their efforts, as well as provide constructive and comprehensive recommendations for cooperation both in key fields and on a broader level.

Looking back, we see that China and the EU have witnessed sustained, resilient, and vibrant cooperation in 2020 and 2021. Looking ahead, we see that both sides will chart a course toward joint development and shared prosperity, as they actively seek growth amidst global uncertainty. We hope that this year's Report can foster communication, understanding, and trust between China and the EU to jointly usher in a future of fruitful and sustainable development.

Executive Summary

The past twelve months were filled with uncertainties and challenges for the global economy and trade relations. Covid-19 continues to affect economic recovery, which varies in degree across the globe. China and the EU are among the few major economies that are steadily recovering, while some developing countries are facing problems linked to the challenges of epidemic prevention and control, vaccines, and economic policies. China-EU relations made great progress in 2020: the two sides signed the China-EU Geographical Indications Agreement; China became the EU's largest trade partner in goods for the first time; the two sides established new high-level dialogue mechanisms on the environment, climate and digital; the leaders of China and the EU jointly announced the conclusion of 7-year negotiations on the China-EU Comprehensive Agreement on Investment. Despite some difficulties and setbacks, China and the EU remain active partners in trade, climate change, and multilateral cooperation. As the world has entered a period of new turbulence and transformation, the complexity of Sino-EU relations and their economic ties has increased, ushering in more opportunities and challenges.

Under these circumstances, the China Chamber of Commerce to the EU ("CCCEU") is publishing its flagship report on the development of Chinese enterprises in the EU with the title "Strengthening mutually beneficial cooperation to shape the common future - A Report on the Development of Chinese Enterprises in the EU in 2021". This year's Report is of special significance due to the following reasons:

1) This Report continues the analytical work of previous editions. Using the research methods of the past two years, we monitored and investigated the changes in the EU business environment. This allow us to make time series analysis of the development of Chinese enterprises in Europe, and compare the EU business environment with the previous years.

2) The analysis in this Report adopts a macroscopic view. Considering the overall development of Sino-EU economic and trade ties, this Report aims to deliver an objective and in-depth overview of the status quo and of the potential of China-EU economic and trade relations.

3) This Report voices the concerns of Chinese enterprises in Europe from a scientific and facts-based perspective. To provide a complete and in-depth image of the development of Chinese companies in Europe, the analysis in this Report builds on a wide set of authoritative data from public administrations and research institutions, as well as on surveys and interviews conducted by the CCCEU and Roland Berger.

4) This Report puts forward practical and constructive recommendations for the benefit of China-EU relations. The Report explores new opportunities for deepening cooperation between China and the EU: to this end, it puts forward about 70 specific recommendations in 10 key areas.

In addition, **this year's report also has innovations in the content, analysis method and presentation. In terms of content,** this year's report has added the analysis of macroeconomic and trade development in both China and the EU and looked thoroughly into the opportunities and prospects for China-EU cooperation in two core fields (green economy and digital economy), thus being much more voluminous than the former issues. **In terms of the analysis method,** in addition to a much larger base of corporate interviewees (with a total of 128 completed questionnaires received and the response rate over 50%) due to the inclusion of the findings from the Spring Business Environment Survey and its flagship report Questionnaire Survey conducted by the CCCEU (the "Two Surveys"), this year's report also incorporates in-depth interviews with 15 companies, organizations and foreign offices, thus providing a more scientific and truer reflection of the changes in the business environment in the EU and the wishes of Chinese enterprises. **In terms of presentation,** using the approach of combining specific details and the general picture, this report highlights the views and wishes of enterprises with "voices of Chinese enterprises" and inserted cases while providing a panoramic view of Chinese enterprises in the EU.

This report consists of five Chapters:

Chapter I. China-EU economic relations continue to grow despite uncertainties. In 2020/2021, China and the EU overcame various adversities and maintained steady growth in economic and trade ties. China remained the EU's largest trade partner in goods throughout 2020 and the first half of 2021. Chinese investors continued to opt for the EU as an investment destination, and private capital amounted to 82% of total FDI from China to the EU in 2020. In 2020, the number of China-Europe freight trains increased by 50% compared to 2019,[1] boosting trade, industry and employment in many countries and cities along the routes. The bilateral agreement between China and the EU on geographical indications came into force. Negotiations on the China-EU Comprehensive Agreement on Investment were completed as scheduled. At the same time, the EU showed a growing tendency to "look inward", and so did its economic and trade policies. In this context, Chinese companies expressed concerns about unilateral tools put in place by the EU. For instance, 20% of Chinese companies already saw a negative impact on their operations arising from the EU's foreign investment screening mechanism; 68% of Chinese companies are concerned that the implementation of EU's New Regulation to address distortions by foreign subsidies might have a direct negative impact on their business operations and participation in public procurement; and 32% believe that future EU regulations on supply chains will create new indirect barriers, as various "non-technical factors" will likely hamper these companies' access and participation in the EU Single Market.

Chapter II. The development of Chinese enterprises in the EU in 2021: cautiously optimistic, focusing on opportunities, and willing to create a better future together

with the EU. In 2020, Chinese companies had a total turnover of 150.3 billion euros[2] in the 27 EU Member States and provided about 320,000 jobs for Chinese and foreign employees in the EU.3 In our 2021 Report, the overall evaluation score of the ease of doing business in the EU fell for the second consecutive year, mainly because of lower scores for the political atmosphere and the business environment. Yet, according to our surveys and interviews, despite the above difficulties and challenges, more than 90% of Chinese companies believe that, in the next three to five years, China and the EU will continue their economic and trade cooperation. They remain confident in the long-term development of China-EU relations and still hope to expand their investment in Europe.

When it comes to the business environment in the EU, Chinese enterprises identify **three issues which are particularly prominent and need prioritizing:**

1) The concept of "strategic autonomy" remains vaguely defined and is being applied in increasingly numerous areas. Chinese businesses are concerned that, under the catchphrase, the EU may tend to bring about a new form of protectionism with potentially negative side-effects. The introduction of screening mechanisms on antitrust, foreign direct investment, and subsidies created stricter requirements for foreign enterprises and the new regulation on foreign subsidies is in the pipeline. Such a set of complex scrutiny measures are likely to impose excessive burdens on enterprises and hinder their business operations, increasing the concerns of Chinese companies about the EU business environment.

2) Business activities are becoming politicized. In a changing global economic and trade landscape, countries risk being pushed to pick sides, but any confrontational approach would end up worsening the overall condition, with concrete losses for everyone. At the same time, setting economic standards without China's participation is likely to lead to further fragmentation of global standards and serious impediments to global connectivity.

3) According to questionnaires and interviews conducted by the CCCEU, 59% of Chinese enterprises believe that disinformation and misinformation pose a threat to their operations. Some companies stressed the doubts and speculation of the "safety" and "competitiveness" of Chinese companies came with concrete repercussions on their economic activities.

Notwithstanding these challenges, Chinese enterprises have achieved steady growth overseas in the past decades, facing the many difficulties with sound optimism, forward-looking resilience, and entrepreneurial spirit. According to our survey, the vast majority of Chinese enterprises believe that China and the EU can overcome obstacles in their relations and maintain developed economic and trade relations. Therefore, most enterprises are optimistic about the value of the EU as a strategic destination for investment in the changing global industrial and economic landscape.

Chapter III. In the field of green economy, China and the EU can join hands in building a green partnership which would also benefit the world. They already share a high degree of consensus on the concept of green development and have made commitments for achieving the emissions reduction targets laid out in the Paris Agreement. Specifically, China and the EU can deepen cooperation in three aspects:

1) Open cooperation and joint development in the key sectors of the green economy, in transitioning energy systems, and in industrial chains. Both sides should give play to the strengths of their markets and complementary capabilities in technological innovation. They should enhance transparency for market access in green-related sectors, and promote the timely upscaling and commercialization of new energy applications;

2) Strengthening policy coordination in setting global standards for green finance, carbon markets and carbon pricing, thus demonstrating their role as leaders in the

development of the global green economy. In the creation of new systems, such as a Carbon Border Adjustment Mechanism in the EU, the EU and China should engage in multilateral discussions at the international level instead of acting unilaterally. Both sides should also support each other in jointly promoting the finalization of a convention and protocols during the UN Biodiversity Conference's first part in October 2021 and second part in 2022;

3) Enhancing the well-being of all humankind, promoting global sustainable development, focusing on global vaccine research and development cooperation. China and the EU should jointly support developing countries in improving local vaccine production, in building infrastructure, and in managing the energy transition.

Chapter IV. In the field of digital economy, China and the EU can improve market access, achieve win-win benefits, and advance the China-EU digital partnership in a pragmatic manner. Global competition for dominance in the digital sector is on the rise, and China and the EU are simultaneously competitors and collaborators in this area. Chinese companies value the opportunities arising from the development of the digital economy and are ready to meet the challenge. Specifically, the Report proposes initiatives in four areas of the digital economy that the EU could implement for mutually beneficial development.

1) In core areas of the digital economy, such as information and communications technologies (ICT) and semiconductors, the EU should constantly provide a fair, open, and non-discriminatory environment for Chinese companies. China-EU cooperation will help the EU attain its goals set in the 2030 Digital Compass. At the same time, China and the EU should support the development of downstream applications by jointly building mature and full-fledged digital infrastructure.

2) Regulations on downstream applications such as cloud computing, Internet of

Things (IoT) and artificial intelligence should be appropriately loosened. Anti-monopoly efforts to boost competition should be combined with extensive efforts to unleash the potential of innovation to create an environment that is truly compatible with digital innovation.

3) The EU should maintain technology neutrality, be a staunch defender of multilateralism, and avoid sealing itself off or forming alliances in the technological domain. Cooperation between China and the EU is conducive to global interconnectivity, shared benefits, and common growth.

4) The EU could unleash the strengths of online platforms business model to connect commercial resources, digital development and green development. The EU could also embrace the platform economy as a new pathway to enhance the digital skills of European citizens, to boost incomes and to empower businesses through digital technologies.

Chapter V. The Report puts forward a series of recommendations to promote China-EU cooperation. Looking ahead to the ambitious blueprint for China-EU cooperation, this Report lays out some 70 recommendations in ten important areas. These proposals include: **enhancing China-EU mutual trust; jointly combating Covid-19 and preventing future global public health risks and facilitating the global recovery; facilitating bilateral investment and trade; eliminating the negative impacts of the EU's unilateral tools; jointly promoting the implementation of China-EU economic agreements; joining hands for building the green economy; enhancing 5G/6G cooperation and conducting talks on cybersecurity; cooperating in building a digital economy; fostering win-win cooperation in third-party markets; promoting China-EU youth communication and cooperation in economic and cultural areas.**

Your feedback and views on this Report, to be submitted to the CCCEU Secretariat, are appreciated.

Chapter I

China-EU economic and trade relations move forward amid uncertainties

"Globally, we are experiencing profound changes on a scale unseen in a century."[4] The Covid-19 pandemic continues to batter the world, leaving the global economic recovery in the balance. Despite a slump in global trade over the past year, China-EU economic and trade relations have gained ground, becoming one of the rare bright spots of bilateral economic cooperation and development in the dismaying global landscape.

In 2020, China rose to be the EU's top trading partner in goods for the first time. Bilateral trade in goods grew for 15 consecutive months from April 2020 to June 2021, with eight months registering double-digit growth. The *Bilateral Agreement between China and the EU on Geographical Indications,* concluded in September 2020, entered into force in March 2021, raising to 244 the number of geographical indications to be mutually recognised and protected by July 2021. High-level dialogue mechanisms on green and digital issues were also established in 2020 amid exploration of new cooperative approaches, establishing a green partnership and a digital partnership between China and the EU. At the same time, the 7-year negotiations on the *China-EU Comprehensive Agreement on Investment (CAI)* were completed at the end of 2020, drawing much international attention and signalling that China-EU cooperation has moved into a new phase with higher openness and lower entry thresholds.[5].

China-EU relations faced some new challenges in 2021. In March, the Chinese Ministry of Foreign Affairs announced sanctions on EU individuals and entities in retaliation for unilateral actions taken by the EU earlier.In May, the European Parliament adopted a resolution to "freeze" talks on ratifying the CAI. In August, China recalled its ambassador to Lithuania and demanded the country recall its envoy. At the same time, **new unilateral initiatives launched by the EU Commission, such as the White Paper on Levelling the Playing Field as regards Foreign Subsidies, the supply chain due diligence review, and the revamped International Procurement Instrument,** showed their potentially far-reaching effects on the long-term development of China-EU economic and trade cooperation. In terms of international geopolitics, now characterised by intensifying confrontation and competition among major powers, Sino-U.S. relations and transatlantic relations have become important external variables in the development of Sino-European relations. However, as the EU High Representative for Foreign Affairs and Security Policy Josep Borrell noted, decoupling from the Chinese economy would neither be in alignment with the EU's intentions, nor in its best interest.[6]

China and the EU are becoming increasingly interdependent, and the evolving global economic and trade patterns and accelerating industrial changes not only present new opportunities, but also pose unprecedented challenges to both China and the EU. Navigating uncertainties, identifying opportunities amid crises, and turning crises into opportunities are likely to become a high priority for Chinese companies in the EU for a long time to come.

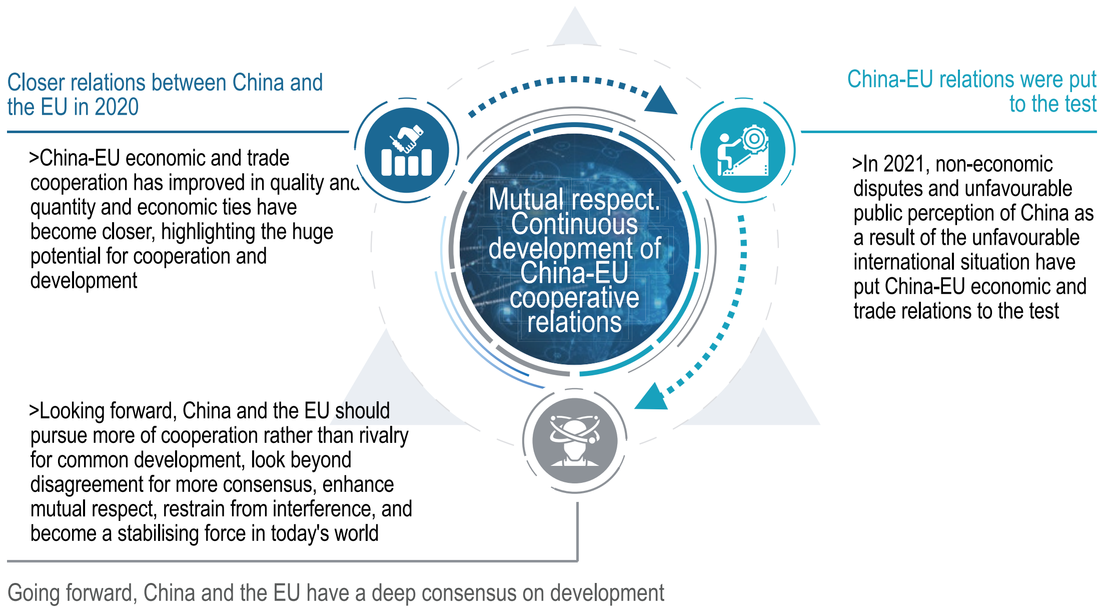


Figure 1: China-EU economic and trade relations move forward amid uncertainties

1.China and the EU have cooperated closely in various economic and trade areas in 2020-2021

Looking back at the 2020-2021 period, it is evident that China and the EU have seen increased cooperation in various economic and trade areas, both in quality and quantity, forging closer economic ties, and revealing the huge potential of their cooperation, as well as room for further development.

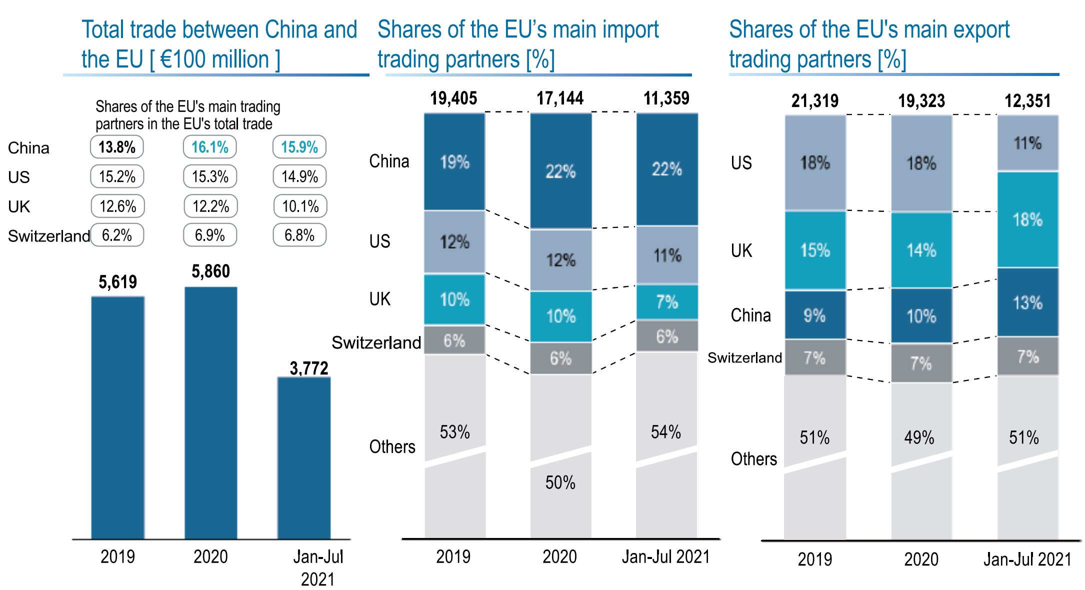
Figure 2: China and the EU have cooperated in various economic and trade areas

1.1 China rose to be the EU's top trading partner in goods, with immense potential for further growth

1.1.1 As highly complementary economies, China and the EU saw their total trade in goods maintain relatively rapid growth

• **China rose to be the EU's top trading partner in goods in 2020, with bilateral trade growing by 4.4% (sliding by 10.5% year on year for the EU).** In 2020, the EU's total trade in goods stood at EUR3.65 trillion (2.2 times its total trade in services), down 10.5% from 2019. Its total imports from and exports to China amounted to EUR586 billion, representing about 16% of the EU's total trade in goods, up 4.4% from 2019.[7] Between January and July 2021, the EU's trade volume with China totalled EUR377.2 billion, consolidating China's position as the EU's top trading partner in goods.

• **China was the only major EU partner with two-way trade growth in 2020, and it has extended the momentum to 2021.** In 2020, hit by the Covid-19 pandemic, intra-EU imports and exports fell by 7% and 8%, respectively. [8]At the same time, the EU saw its imports from China hit EUR383.4 billion in 2020, an increase of 5.7% on the 2019 figures (compared with a 14% slide for the U.S.), amounting to a 22% share in the EU's total imports (compared with 12% for the U.S., and 10% for the U.K.). In addition, China's share in the EU's total imports remained unchanged at 22% between January and July 2021, compared with an 11% slide for the U.S., and a 7% slide for the U.K. In 2020, the EU's exports in goods to China hit EUR202.6 billion, with a 2.2% increase on the 2019 figures (compared with an 8% decline for the U.S.), amounting to a share of 10% in the EU's total exports (compared with 18% for the U.S., and 14% for the U.K.). The shares of the EU's three main exports partners remained unchanged between January and July 2021.



Data source: Eurostat's database (updated September 16, 2021)

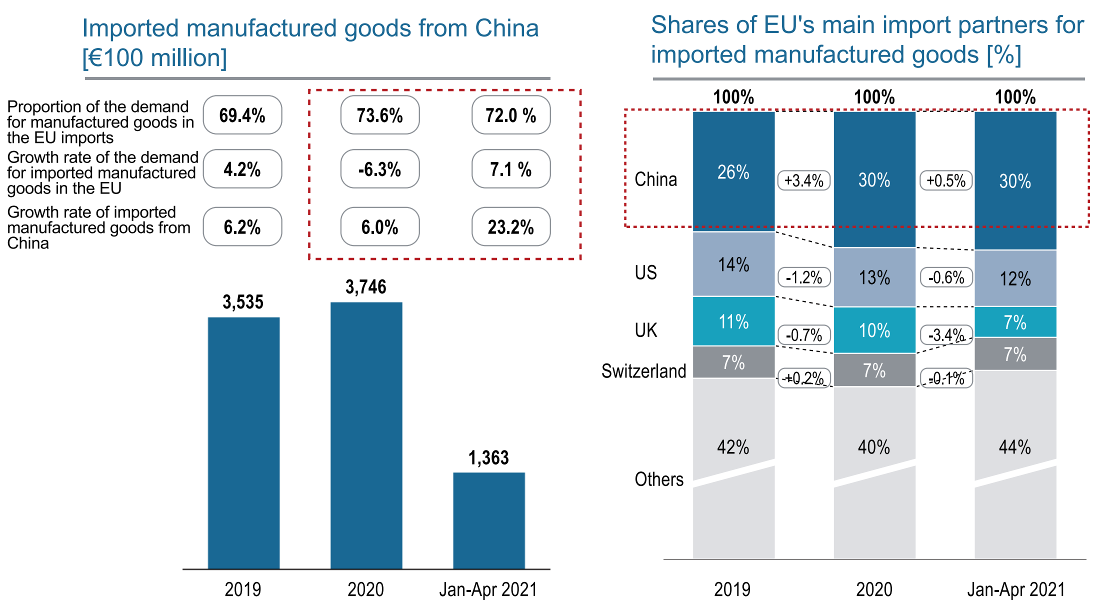
Figure 3: China is the EU's top trading partner in goods

1.1.2 Bilateral trade in goods has been strong and resilient, with the EU's rigid demand for manufactured goods contributing mostly to its growth in imports. China was the top source of manufactured imports for the EU and, as the economic recovery gained ground across the EU, China-EU bilateral trade in manufactured goods has grown steadily.

• **China has been the top source of manufactured imports for the EU:** in the EU's import demand, industrial goods represented the top category (74% of the EU's total imports in goods in 2020, with a 4-percentage point increase compared to 2019) and, within this category, machinery and vehicles topped the list (46% of the EU's manufactured imports). **In 2020, the EU's manufactured imports from China made up 30% of its total imports;** and its imports of machinery and vehicles from China accounted for 36% total imports in machinery and vehicles.[9]

• **China's exports of manufactured goods have boosted the EU's economic recovery, and will continue to grow.** From January to April 2021, the EU's total imports of manufactured goods grew by 7.1% year on year. China's share of exports in manufactured goods hit 30.2% in the EU's total import demand for manufactured goods, with a 0.5 percentage point increase from 2020. In comparison, the U.S. took second place, registering a 12% share and a 0.6 percentage point decline, and the UK reached third place, with a 7% share and a 3 percentage point decline. With the implementation of the EU updated industrial strategy, and with intelligentization and digitalisation gaining ground, the demand for manufactured goods in the EU is going to increase rapidly: as a result, China's industrial exports to the EU will also witness further growth.[10]

• **China's exports of Covid-19 related products to the EU have grown steadily:** China's share in the EU's total imports of Covid-19 related products rose to 20% between January and April 2021[11] from 15% in 2020, with Covid-19 test kits and medical supplies witnessing the most significant growth.



Data source: Eurostat's database (updated July 16, 2021)

Figure 4: During the pandemic, the EU imported more manufactured goods, with an increased share of these imports coming from China

1.1.3 Services show potential to become a growing area in bilateral trade

• **China's trade in services with the EU was at a low level, and its structure remains to be improved.** In 2020, the EU's trade in services totalled EUR1.7 trillion and was mostly clustered in a few areas: intellectual property (IP), transportation, telecommunications, and finance. With the U.S. – its top partner – the EU trade in services was EUR246.7 billion, dominated by "other business services" (EUR87 billion, 35%) and "Charges for the use of intellectual property" (EUR83 billion, 34%). In contrast, the EU's import of services from China amounted to only EUR30 billion, mainly were transport services.[12]

• **As producer services in China develop rapidly, telecommunications and financial services promise to be new growing areas of China-EU bilateral trade in services.** China set a clear development goal in its 14th Five-Year Plan: "...developing high-quality manufacturing, we will promote the specialization of producer services and their movement towards the high-end of the value chain", and proposed innovative development priorities, such as prioritising the development of high-end producer services with high added value and strong industrial driving forces. Against this backdrop, in the first half of 2021 China witnessed a significant year-on-year growth of 20.3% in the added value of domestic information transmission, software services, and ICT services.[13] In addition, China registered a positive reversal in the growth rate of domestic trade in services since the Covid-19 pandemic. In response to the EU's brisk demand for trade in services in areas such as financial, telecommunications, computers and information, China's exports in major categories experienced rapid growth and the quality of exports also improved significantly.[14]

1.1.4 Overall, China's trade with EU Member States has improved[15]

• **Pragmatic cooperation among China, France, and Germany maintained good momentum.** Germany and France continue to be China's first and third largest trading partners among the EU Member States. In the 2020-2021 period, the leaders from the three countries held several rounds of dialogues, and pragmatic cooperation and concerted efforts in the economic and trade sector among the three countries also contributed to their economic recovery. In 2020, Sino-Germany and Sino-France trade went up by 3.0% and 0.8%, respectively. In particular, German and French imports from China increased by 6.6% and 12.1%. In addition, the Netherlands remained China's second-largest trading partner in 2020, seeing a 4% rise in trade with China, compared with 2019[16].

• **China-Central and Eastern European Countries (CEEC) cooperation contributed to booming economic and trade relations.** Data from the Ministry of Commerce of China shows that China-CEEC trade amounted to USD 103.45 billion in 2020, an 8.4% increase, dwarfing the 100-billion-dollar threshold for the first time. By the end of 2020, Chinese FDI in CEE countries amounted to USD 3.14 billion, whereas the cumulative FDI from

CEE countries in China totalled USD 1.72 billion. Since the establishment of the China-CEEC cooperation mechanism in 2012, their trade has grown by nearly 85%, with an average annual growth rate of 8%. It is expected that trade between China-CEEC trade will continue to grow, while areas of investment will continue to diversify.[17]

• **Chinese enterprises have built trust with southern European countries, such as Greece and Portugal, and won local recognition for their investments in infrastructure development and industrial park construction.** Chinese enterprises, especially China Three Gorges (Europe) Co., Ltd. - which acquired a photovoltaic project in Spain - and Wonderful Technology Development (TianJin) Group,Ltd., have built mutual trust with local enterprises and governments in southern European countries.

• **Exports from northern European countries to China maintained good momentum during the pandemic.** In 2020, Finland, Denmark and Sweden's exports to China maintained double-digit shares in their respective total exports: 11.6%, 12.2% and 11.5%.[18]The recent surge in new-energy-based public transport in these countries also became a magnet for greenfield investments from Chinese new-energy automobile companies, such as BYD and Geely.

Voices of Chinese enterprises: China Three Gorges (Europe) Co., Ltd

An investor and a contributor in promoting energy development in China and the EU

Meerwind Sud Offshore windfarm project of China Three Gorges (Europe) S.A./German WindMW Service Gmbh. (Photo source：China Three Gorges (Europe) S.A.)

"Three Gorges Corporation (CTG) is the largest hydropower and new-energy enterprise in China. CTG manages its international business through one of its overseas entities: China Three Gorges (Europe) Co., Ltd (hereinafter referred to as "Three Gorges"). The company mainly focuses on overseas investment, integrated hydropower, and project contracting. Three Gorges started to develop its business in Europe by acquiring the

EDP Group of Portugal in 2011. Through extensive strategic cooperation with EDP, it has invested in a number of large renewable energy projects in Italy and Poland. Currently, Three Gorges is also working independently on projects in Greece and Germany.

Through its strategic partnership with EDP, Three Gorges has gained valuable market experience, enhanced its understanding of the European energy market, and helped build a solid foundation for communication and trust with governments and partners in the region. It has helped EDP obtain funding, and played an instrumental role in promoting EDP's corporate value. The two sides have transferred their experience in cooperation and capabilities to third-party markets, and jointly developed projects in Brazil, Peru and other countries. Supported by the rapid development of the European energy industry, many Chinese companies in the industrial chain have set up representative offices in the EU. With Chinese companies participating in the local market, the EU can gain access to more supply chain resources and enhance the integration of local industrial chains, which in turn will also benefit the development of the energy industry on both sides.

To adapt to the EU energy market structure, Three Gorges continues to diversify its equity structure, and enriches its foreign and private capital structure by issuing offshore bonds to finance its operations and attract more investors. The complementary advantages of the Chinese and EU industrial chains can also spur greater potential for cooperation. For instance, China can share with the EU Member States the experience it has learnt in overcoming geographical difficulties and cross-regional complexities in power transmission. China and the EU can also cooperate more on the digitisation of power management... Chinese enterprises are not only investors but also contributors. "

1.2 Chinese private capital was invested actively and widely in the EU digital economy and other sectors.

Chinese outward investment to the EU amounted to USD 10.099 billion in 2020, up 5.2% year-on-year.[19] Between January and July 2021, Chinese FDI to the EU increased 86.1% year-on-year.[20]

• **Private sector investments and strategic M&As contributed to the growth of China and the EU:** In 2020, private sector-funded projects - mostly strategic investments and business integration transactions - were responsible for 82% of Chinese FDI in the EU (compared with 60% in 2018). For example, in its EUR3-billion acquisition of a 10% stake in Universal Music France, Tencent leveraged its high-quality digital capabilities to help the French media company navigate its digital transformation and strengthen its position in the local market, while the French company helped Tencent expand its business presence in international streaming media markets.[21]

• **In response to the EU's transformation, China mainly invested in transportation and infrastructure.** In 2020, Chinese investment in transportation and infrastructure made up 25% of the total Chinese FDI in the EU, while investment in ICT-related sectors accounted for 18%. In 2021, the automotive industry was the most favoured sector for Chinese enterprises, garnering a total investment of USD 410 million in the first half, and making up approximately 40% of total Chinese FDI in the EU.[22] Biomedical and health sectors saw a significant rise in the second quarter of 2021, with a cumulative investment of USD 100 million, rising to second position with a 20% share. ICT attracted a total investment of USD 70 million in the second quarter, ranking third with a 13% share. These investments have effectively filled the EU's funding gaps, providing a strong boost to its economic recovery and growth.[23]

1.3 Infrastructure improvements supported the long-term development of China-

EU economic and trade exchanges

1.3.1 China-Europe freight train services surged by 50% in 2020,[24] unleashing the potential of the Belt and Road Initiative and boosting the development of local industries

• **Both freight volume and value surged, and transportation capacity increased significantly.**

• **China-Europe freight train services covered a wider area:** by June 2021, the China–Europe freight trains completed more than 40,000 trips on 73 lines, providing goods to 168 cities in 23 European countries[25].

• **Strong support for China-EU trade:** In 2020, China-Europe freight trains made 12,406 trips, a 50% year-on-year increase. Cumulative freight volume was 1.135 million TEUs (up by 56%) and freight **value amounted to USD 50 billion (approximately EUR42.1 billion),**[26] accounting for 7.1% of China-EU trade volume - 6.3 times the value of 2016. The growth of China-Europe freight train services also benefited from EU regulations that encourage EU Member States to reduce or waive track access charges for rail freight during the pandemic.[27]

• **Significant growth in eastbound (Europe to China) transportation balanced the traditional dominance of westbound transportation:** In 2020, China-Europe freight trains made 5,424 return trips, accounting for 44% of the total train trips, a substantial increase of 102%[28] compared to 2018. Some favourable factors bolstered this trend, in particular: the quick resumption of the production of machinery and other necessary products by the Chinese manufacturing industry during the pandemic; the rapid development of cross-border e-commerce in China; and the promotion of cold chain transport equipment for China-Europe freight train services.

Figure 5: The number of China-Europe freight train trips increased by more than 50% in 2020

• **China-Europe freight train services boosted the development of modern logistics industry locally:**

• **Since they are a cost-effective** (at around 1/5 of the cost of air freight, and around 1/3 of the time taken compared with sea freight), **reliable, and uninterrupted transportation method,** China-Europe freight train services allowed European customers to experience China's e-commerce services. According to external survey statistics, EU cross-border e-commerce grew by 35% in 2020, accounting for 25.5%[29] of total e-commerce in the EU. A special China Railway Express (CRE) train service for cross-border e-commerce is developing rapidly: the CRE on the Chongqing-Xinjiang-Europe line, which made its debut in September 2020, is dedicated to cross-border e-commerce B2B exports. In February 2021, in conjunction with the Chinese New Year, the special cross-border e-commerce CRE on the "Chang'an" line left for its first trip loaded with accessories, bags, clothing, cell phone accessories and other daily goods, roared to Neuss (Germany) and distributed goods to Belgium, Italy and other places via overseas warehouses[30]. Meanwhile, the first cross-border e-commerce CRE train full of New Year goods set off from the Greater Bay Area for Budapest (Hungary) and Duisburg (Germany). In June 2021, east China's Anhui Province launched a cross-border e-commerce export special train. In the same month, Chengdu, capital of southwest China's Sichuan Province, saw the departure of its first CRE cross-border e-commerce B2B export train.

• **Improved trade infrastructure in node cities fuelled business development.** Node cities along the railways gather overseas warehousing services, logistics service providers, and digital start-ups. In 2020, the vacancy rate of European warehouses dropped to 5%, and the number of parcel collection and delivery points increased by 40% between June 2019 and March 2021.[31] Employment rates in cities along the railways – such as Hamburg, Budapest and Madrid – rose by 4.1% on average.[32]

1.3.2 Chinese enterprises have enhanced maritime transport connectivity in the EU

• Chinese enterprises helped upgrade the infrastructure and operational capacity of European ports, opening several new trade gateways in Europe. For example, Shanghai Lingang Economic Development (Group) Co., Ltd. restarted work on a modern industrial park at the Port of Zeebrugge (Belgium), attracting large shipping companies, such as COSCO Shipping, to provide comprehensive onshore logistics services. The park will gather advanced technologies and industrial resources from Lingang and many other Chinese enterprises, integrating various services, e.g. for finance, exhibition and training. This will further highlight the position of the Port of Zeebrugge as a gateway to the EU and the world.

• **Chinese enterprises help complete the "last mile" in intra-regional maritime transportation:** COSCO Shipping continued to expand and strengthen the main shipping routes from Europe to America and Asia. In addition, it started intra-EU shipping routes in 2015, having increased them from 3 to 26 by 2021: this effectively enhanced freight transit capabilities between base ports and secondary ports, driving the development of nearby cities and countries.

1.4 Bilateral agreement took effect

The China-EU Bilateral Agreement on Geographical Indications (GIs) came into force in March 2021. By July 2021, 134 European GIs and 110 Chinese GIs were mutually recognised. China and the EU are now making technical preparations to include 175 additional GI names from each side. Within four years from the Agreement coming into force, they will further broaden the protected categories and the number of protected products. The agreement is of great significance.

• **Providing higher protection to high-quality GI.** The Agreement provides higher protection to GIs from both sides, preventing the counterfeiting of GI products and allowing consumers in both markets to enjoy authentic, high-quality delicacies.[33]

• **Enriching the lives of both consumers and promoting cultural exchanges.** Bavarian beer, Danish blue cheese, and Kalamata black olives are grasping the attention of Chinese buyers. At the same time, an array of products with Chinese geographical indications, including Nanjing saltwater duck, Gannan navel orange, Qianjiang crayfish, and Shaoxing rice wine, are entering Europe. In May 2021, SIAL China set up an exhibition area for GI products from China and the EU. In addition, a short film on China-EU GI products will be broadcast through TV5 MONDE over the next three years.

1.5 China and the EU shored up cooperation on climate, science and technology, tackling the pandemic, aerospace, and finance

1.5.1 Climate change and environmental protection

China aims to have CO2 emissions peak before 2030 and achieve carbon neutrality before 2060, as Chinese President Xi Jinping announced at the general debate of the 75th session of the United Nations General Assembly via video in September last year. China and the EU have established a green partnership and launched a mechanism for high-level dialogues on environment and climate. Green cooperation is key to the two side and beyond.

China and the EU have maintained dialogues and communications on climate change. In February 2021, they held the first High-level Dialogue on Environment and Climate, agreeing to confer a leading role to their high-level dialogue, to deepen China-EU concrete cooperation on the environment and climate, and to bring multilateral mechanisms into full play. In April 2021, Chinese Premier Li Keqiang and German Chancellor Angela Merkel co-chaired the sixth round of Sino-German government consultations and signed a joint declaration of intent on strengthening cooperation in climate change research and development. Moreover, addressing global climate challenge has been a recurring hot topic in high-level bilateral meetings between Beijing and Brussels, as well as other European capitals.

1.5.2 Science and technology

The two sides set up a digital partnership last year. On 10 September, Vice Premier Liu He and European Commission Executive Vice-President Margrethe Vestager co-chaired a high-level dialogue on digital cooperation, discussing various topics including ICT standards and AI.

In October 2020, the Sino-German Sub-Working Group on Industry 4.0 / Intelligent Manufacturing held its 10th plenary meeting, exchanging views on digital twin technology, AI applications, information security, edge computing, etc. releasing three reports including the Examples for Business Scenarios in Manufacturing Industry, and the second Guidance "Use Cases and Applications".

In April 2021, the China-Europe Association for Technical and Economic Cooperation (CEATEC) signed a Memorandum of Understanding (MoU) with the EU SME Centre, committing to establishing a joint working mechanism to promote technology development and innovation cooperation between Chinese and European enterprises. In June 2021, the China Academy of Information and Communication Technology (CAICT) signed a MoU with Euro Data Council (EDC), a German issuer of identification codes, to jointly explore mutual recognition and interoperability of identification systems, cross-border identification business models, and other related issues.

1.5.3 Fighting the pandemic

China and the EU **worked together to cope with Covid-19 pandemic and support the global fight against the spread of the disease.** In October 2020, China joined COVAX, a global Covid-19 vaccine distribution scheme co-led by the WHO and its partners. In July 2021, China' Sinopharm and Sinovac, of which vaccines have been approved for emergency use by the WHO, announced to provide 110 million doses of vaccines to COVAX. In September 2021, Chinese President Xi Jinping announced that "China will donate 100 million more doses of vaccines to developing countries within this year on top of a donation of USD100 million to COVAX"[34].

The leaders of China, France and Germany met virtually in July 2021 and expressed their desire to support Africa in the fight against the pandemic. In the same month, China's State Councillor and Foreign Minister Wang Yi held separate talks with his Portuguese and

Finnish counterparts. Portuguese Foreign Minister Augusto Santos Silva said that studies of the origins of COVID-19 should be carried out by upholding the spirit of science and professionalism, and anything that politicizes the origin-tracing work or the WHO should be opposed. Finnish Foreign Minister Pekka Haavisto said Finland fully understands China's concerns over the COVID-19 origin-tracing issue and advocates that origin-tracing should be conducted scientifically.

Chinese biotech companies also strengthened cooperation with Europe. In 2020, BGI Group helped Serbia build two state-of-the-art high-throughput "Huo-Yan (Fire-Eye) Laboratories" for COVID-19 PCR (polymerase chain reaction) testing. In May 2021, Shanghai Fosun Pharmaceutical Group announced it will establish a joint venture with the German pharmaceutical company BioNTech SE for the local production and commercialization of mRNA vaccines.

1.5.4 Aerospace

China and the EU have great prospects for aerospace cooperation. In 2020, the European Space Agency supported the moon landing of China's Chang'e-5 and the Tianwen-1 probe through cooperation in data transmission, critical data support, remote sensing exploration and orbital tracking. Logos of both the European Space Agency and the CNES appeared on the Long March-5 rocket carrying Tianwen-1. Meanwhile, as the world's only space station in service after 2024, China's space station was selected as the base for various scientific experiments, with nine projects to be carried out by 23 entities from 17 countries, including Switzerland, Poland, Germany, Italy, Norway, France, the Netherlands and Belgium. Many astronauts in Germany, France and Italy are learning Chinese in preparation for working on China's space station in 2022.

1.5.5 Finance

China and the EU continued to explore innovation. China intends to further expand and open its financial sector, and this could also become a key area also for China-EU cooperation. In October 2020, the China-Europe International Exchange (CEINEX) and the Sino-German Centre of Finance and Economics (SGC) jointly hosted the first China-Europe Financial Summit. In January 2021, Shanghai Clearing House and Euroclear Bank cooperated to issue the "Yulan Bond", which enables Chinese issues to gain exposure to a wider foreign investor base.

In April 2021, both China and the EU released their green finance standards, taking a step closer to the harmonization of their classification standards. During the first half of 2021, the Bank of China issued green bonds for EUR500 million and for USD 500 million. In May 2021, China Construction Bank issued green bonds of USD 800 million in Luxembourg[35] and, in July 2021, the China-EU green investment and financing demonstration zone was initiated in Qingdao, east China's Shandong Province[36].

Voices of Chinese enterprises: Bank of China-Luxembourg

Connecting the Chinese and European financial markets to provide "fresh water" for green and low-carbon industries

On June 3rd, 2021, Bank of China (Luxembourg) S.A. and Luxembourg Stock Exchange jointly held a bell ring ceremony to celebrate the listing of the green bonds. (Photo source： Bank of China (Luxembourg) S.A.)

"As the most internationalised Chinese bank, Bank of China has been deeply involved in the European markets for a long time. Since the establishment of its first overseas branch in 1929, Bank of China has experienced a development history of nearly a century. Established in 1979, the Luxembourg branch was the first ever to be set up overseas by a Chinese bank since the founding of the People's Republic of China. At present, Bank of China has become a key financial bridge between China and Europe for economic and trade exchanges. Thanks to its strong emphasis on the development of green finance, Bank of China was clearly identified as a first-choice bank for establishing green financial services. At the end of 2020, the balance of Bank of China's domestic and foreign currency green credit amounted to RMB 896.8 billion, up by 21.6% year-on-year. In 2020, Bank of China ranked first among Chinese banks in terms of volume of underwritten domestic and overseas green bonds; it led the industry in green insurance, green leasing, and the use of carbon quotas as loan collateral; it actively joined international organisations working on green finance, signed the Green Investment Principles (GIP) for the Belt and Road, and became a supporting organisation of the Task Force on Climate-related Financial Disclosure (TCFD). From the end of the third quarter of 2021, Bank of China stopped financing new coal mining and coal power projects outside of the Chinese mainland or in Hong Kong, Macau and Taiwan, and retained only the projects contracted earlier, thereby gradually aligning with the financing practices of its international peers. Bank of China is also driving the creation of a corporate alliance for green development, which will unite more local European and Chinese companies to form a green development platform and share opportunities for green development.

At the same time, Bank of China is preparing to issue a green ESG fund. Chinese assets have two main advantages: a high guaranteed value and a stable exchange rate in the international market. Therefore, global investors are willing to invest in China-related financial assets. Establishing an ESG market through Luxembourg will create a good investment channel, which will favourably bridge bilateral financial markets.

In the future, Bank of China aims to serve as a source "fresh water" to inject dynamism and to re-energise green and low-carbon sectors. By making good use of its international advantages, Bank of China will continue to work towards the strategic goal of carbon neutrality, to actively connect clients, markets, and financial resources between China and the EU, and to help interconnect carbon markets between the two sides. Bank of China will make its best efforts to support green economy cooperation between China and the EU, and to contribute to global green governance with high-quality financial services and openness in the financial sector."

2. Difficulties put bilateral relations to the test

Since the start of 2021, China-EU relations have been put to the test. Although China and the EU are still conducting technical work on CAI – e.g. translation and legal scrubbing – and parts of the agreement are covered by the existing treaties between China and the EU member states, **the business confidence of Chinese companies in the EU received a blow due to worsened ties and the politicization of business itself. In addition, unilateral measures adopted by the EU have increased their concerns.**

A series of unilateral instruments in the trade sector have been introduced, with more in making. These tools include – but not limit to – the following:

• In June 2020, the European Commission released a White Paper on foreign subsidies; in May 2021, it published its proposal for a Regulation on foreign subsidies distorting the internal market.

• In October 2020, the EU FDI Screening Regulation came into force, tightening screening regime, followed by Some EU member states adopted stricter rules.

• In June 2021, the EU Member States reached agreement for a mandate to negotiate with the European Parliament on the IPI.

• In 2021, the EU also plans to introduce an "anti-coercion instrument," empowering "the Commission, in specific situations of coercion, to take trade, investment or other restrictive measures towards the non-EU country exerting the pressure."

Besides EU unilateral instruments, Chinese enterprises in the EU and their business development were also hit by disinformation and misinformation. Falsehoods such as "cooperation with Chinese enterprises may lead to the loss of some key technological capabilities in the EU" and "Chinese telecom companies may leak consumers' personal data on travel, diet, weight, etc" were spread. According to some enterprises and institutions interviewed, their cooperation with local partners was affected under the pressure of untrue and negative public opinion, resulting in the loss of consumers and higher business operation costs, thus making the EU business environment less attractive and profitable for Chinese companies.

To some extent, the untrue and negative public opinion is related to mutual trust between countries and similar factors. "Although it seems to be a problem for just one company in one specific country, negative public opinion can become a problem for all companies in that country if we fail to call for the creation of common mechanisms of mutual trust at bilateral level and for the establishment of uniform guidelines with international-wide application," said one of the interviewees.

3.Looking ahead, China-EU relations are more about cooperation and consensus

China has reiterated that "China and the EU are partners rather than rivals, and the cooperation between the two sides is far greater than any competition."[37]. Following the European Parliament voted in favour of "freezing" of debates on ratifying CAI, many positive voices have emerged in support of the treaty. In May, the Polish and Hungarian foreign ministers visited China and stressed the important role of the CAI for bilateral economic and trade interests, expressing their positive intention to overcome the difficulties through sincere dialogue.

In July, the leaders of China, France and Germany held video conference. French President Emmanuel Macron voiced his support for the conclusion of the CAI, and German Chancellor Angela Merkel expressed her hope that the CAI would be ratified as soon as possible. Also in July, China launched dialogues with the leaders of several other EU

Member States. In particular, Chinese President Xi Jinping's talked with Czech President Miloš Zeman, Greek Prime Minister Kyriakos Mitsotakis, conveying positive aspirations and their consensus on upholding mutual respect and open dialogues.

China and the EU should look at the development direction of their relations from a strategic perspective.[38]

In concrete terms, China-EU cooperation in 2021 should focus on the following four points. **Firstly, they should take stock of their development experience, consolidate it, and carry it forward.** They should uphold mutual respect and seek common ground while understanding their differences. This results from their experience since the establishment of China-EU diplomatic relations, including the ups and downs therein, as well as from the EU's experience in creating harmony, peace and solidarity among 27 Member States and 24 languages.

Secondly, they should promote practical cooperation in areas of common interests. The pandemic is far from being over, and many countries are still facing big challenges in their fight. China and the EU should coordinate and cooperate in vaccine production, prevention and disease control, while adhering to a scientific approach and jointly rejecting the politicization of Covid-19 origin-tracing. Both sides should also provide substantial support to Africa and other developing countries to accelerate the common battle against the pandemic. At the same time, China and the EU share common interest in addressing climate challenge.

Thirdly, they should uphold multilateralism. Both sides should persist in jointly maintaining a rules-based and widely accepted international order, in jointly formulating common international rules, and in cooperating to tackle more complex global challenges.

Fourth, they should maintain dialogue and communication. Constructive dialogue will enhance mutual trust and bridge differences. China is willing to convene the 23rd China-EU leaders' meeting with the European side at an early date.[39] Meanwhile, opportunities are provided by international conferences such as UN Biodiversity Conference (COP 15) first part of meeting in October and second part in 2022, Glasgow Climate Change Conference (UNFCCC COP 26), and the G20 Summit in Italy.[40]

Voices of Chinese enterprises: COSCO Shipping

Be a long-termist: grasp market changes and plan ahead to “ride the wind”

COSCO SHIPPING (Europe) GmbH, Zeebrugge Port. (Photo source： COSCO SHIPPING (Europe) GmbH.)

China COSCO Shipping Corporation Limited (hereinafter referred to as “COSCO Shipping”) has been engaged in Europe for nearly 60 years, employing 5,000 people and carrying out business in more than 25 countries in Europe and the Mediterranean. Over the past decades, COSCO Shipping has been forging ahead amid the changes of global industrial chains and the maritime transport.

Recent years have witnessed the continuous and sound development of its business in Europe, and even a rise during the pandemic. First of all, COSCO Shipping has responded to the regionalisation of the global industry chain and laid out regional sub-lines in Europe in advance; second, it has shared development with the China-Europe freight trains, and created an efficient land-sea interconnected transport channel from Central and Eastern Europe to the hub port of Piraeus in Greece. Moreover, COSCO Shipping has seized the cross-border e-commerce opportunities arising from the pandemic, and actively explored the construction of warehouses overseas. In decades of uninterrupted development, COSCO Shipping has adhered to the view of seeking long-term development as the most critical guideline.

"COSCO Shipping has seen many difficulties, but we think most of them are temporary. The first and most important thing is that COSCO Shipping **predicted the changes in the industry and industrial chains and planned ahead.** In 2014, COSCO Shipping started to prepare for regionalisation, giving up on the expansion and strengthening of big trunk lines, but developed regional markets. Before 2014, COSCO had essentially no market share in the European regional sub-lines but, after 6-7 years of efforts, it now ranks fourth in the market.

Second, COSCO Shipping focused on long-term investment and returns. When bidding for the construction of Piraeus Port in Greece, competitors were not optimistic about the project because of the large investment and long payback time, but COSCO Shipping evaluated from a long-term perspective and invested in building the port infrastructure, optimizing the layout of the lines, and introducing more routes and corporate resources. Piraeus Port has now turned into the main transit port in the Mediterranean. This is due to the long-term value and mutually beneficial development can COSCO Shipping build trust with the local community.

Third, COSCO Shipping respected the local culture and various development

stages. COSCO Shipping followed the market forces when establishing routes. The levels of digitalisation varied in Europe. COSCO Shipping carried out its business in a phased and step-by-step manner.

Fourth, COSCO Shipping believes we should win together through cooperation. Following the development opportunities of cross-border e-commerce, COSCO Shipping improved the overseas warehouse link with its port nodes. It improved the efficiency of the chain and provided the connecting "last mile" for transit in each country, bring win-win to the whole industry chain. COSCO Shipping stands ready to work with partners to find more business opportunities."

Chapter II

Chinese enterprises in the EU in 2021: cautiously optimistic, development-oriented, and seeking common growth

In April 2021, the CCCEU conducted a *Spring Business Environment Survey* of more than 100 Chinese enterprises in the EU, including its members, and received 73 responses in total. In June, together with Roland Berger, it conducted another survey of about 130 Chinese organizations and enterprises in the EU in preparation for the 2021 CCCEU Report, collecting a total of 55 responses. In addition, the CCCEU and Roland Berger conducted in-depth interviews with 15 Chinese enterprises and organizations to obtain further feedback.

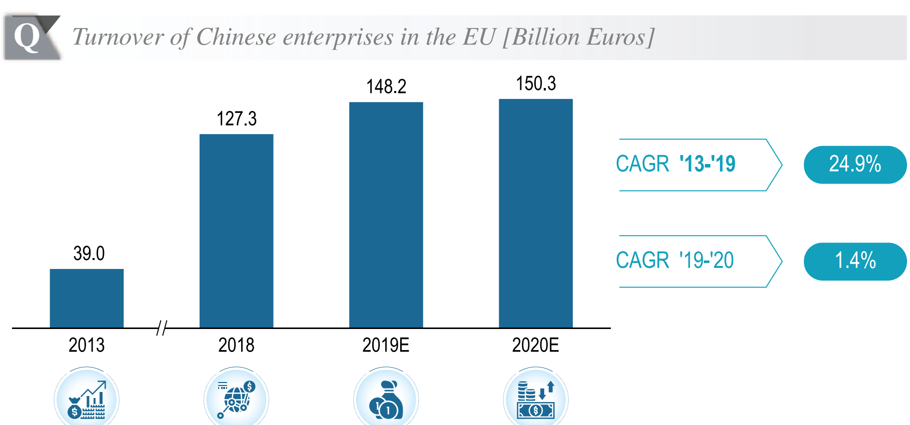
The 73 respondents to the *Spring Business Environment Survey* are enterprises from a wide range of industries, including financial services, ICT, aerospace, automotive, consumer goods and services, and infrastructure. They vary in size – from small, to medium and large – and in duration of operation in Europe: some have been operating in the EU for more than 10 years, some for a medium-length period (5-10 years), and others for a short time (less than 5 years). The respondents to the survey in June 2021 include 42 enterprises and 13 organizations in the ICT, manufacturing, automotive, energy, finance, high-tech, biomedical and infrastructure construction sectors. The survey covered private, state-owned and other types of enterprises, which ensures that the final results are science-based and well-represented.

1. Chinese enterprises increased their presence in overseas markets in 2020, bringing economic value, tax revenue, jobs and innovative technologies to the EU

By the end of 2020, Chinese investors had set up 2,800 enterprises in the EU, covering its all 27 member states, and employed some 250,000 foreign employees.[41] Despite the impact of the pandemic and a more challenging political and economic environment, Chinese enterprises managed to overcome the adversities and made a series of substantial contributions to the EU. **Setting up production and R&D centres in the EU has gradually become a predominant approach for Chinese enterprises to do business in the EU**[42], accounting for over 50%[43] of Chinese enterprises' direct investment in the EU from the fourth quarter of 2020 to the first quarter of 2021.

1.1 Chinese enterprises continue to contribute to the EU's economic development

Chinese enterprises recorded modest growth in 2020 with total turnover of EUR 150.3 billion[44] in the 27 EU Member States, up 1.4% year-on-year. Transportation and biomedical industries had opportunities to grow during the pandemic, and their revenue rose against the trend. Machinery and related sectors also benefited from some development opportunities, and their revenue went up moderately.



Data source: forecast based on data disclosed by Eurostat

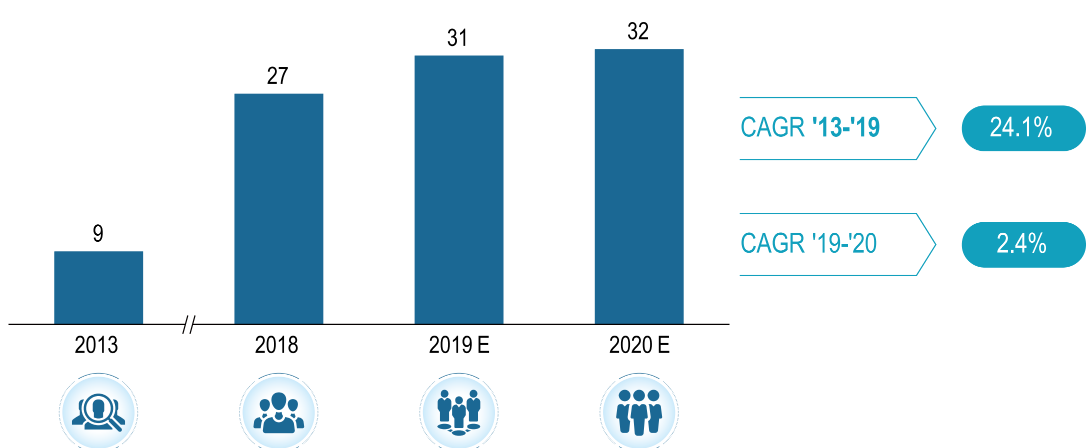
Figure 6: Turnover of Chinese enterprises in the EU

Chinese enterprises continue to generate stable fiscal revenues for the EU. For example, in 2019, Huawei's operations in Europe generated EUR 16.4 billion of economic benefits for Europe and contributed EUR 6.6 billion in tax revenues.[45]

1.2 Chinese enterprises create more jobs for Europe, and continue to strengthen talent training locally

Chinese enterprises in the EU provide an increasing number of jobs. In 2020, Chinese-invested enterprises in the EU provided about 320,000 local jobs (including Chinese and foreign employees)[46]. Due to the pandemic, a limited number of new enterprises entered the EU in 2020, but the vast majority of Chinese enterprises in the EU did not lay off employees despite difficulties. New jobs were created mainly to meet the increasing demand for manpower, as enterprises continued to grow.

Employees of Chinese enterprises in the EU [10,000 people]



Data source: forecast based on data disclosed by Eurosta

Figure 7: The Number of employees of Chinese enterprises in the EU

Chinese enterprises hire more local employees in the EU. According to comprehensive research, in 2020, 79% of the employees of Chinese enterprises in the EU were citizens of an EU Member State, an increase of 7 percentage points compared to 2019. Among the employees, 49% were in middle and senior management, e.g. general managers, deputy general managers, and first- and second-level heads of department.

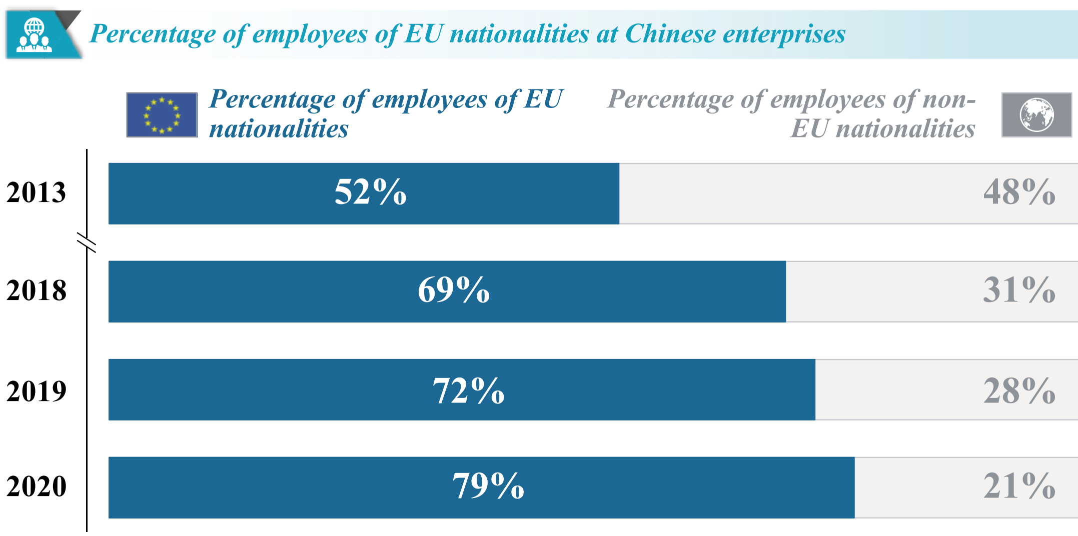


Figure 8: Percentage of employees of EU nationalities at Chinese enterprises in the EU

In addition, **30% of surveyed enterprises affirmed that they intend to hire more European employees in 2021. Among them,** 14% expect the number of EU employees to increase by more than 10%, and 50% expect the hiring of EU employees to grow by 6-10%.

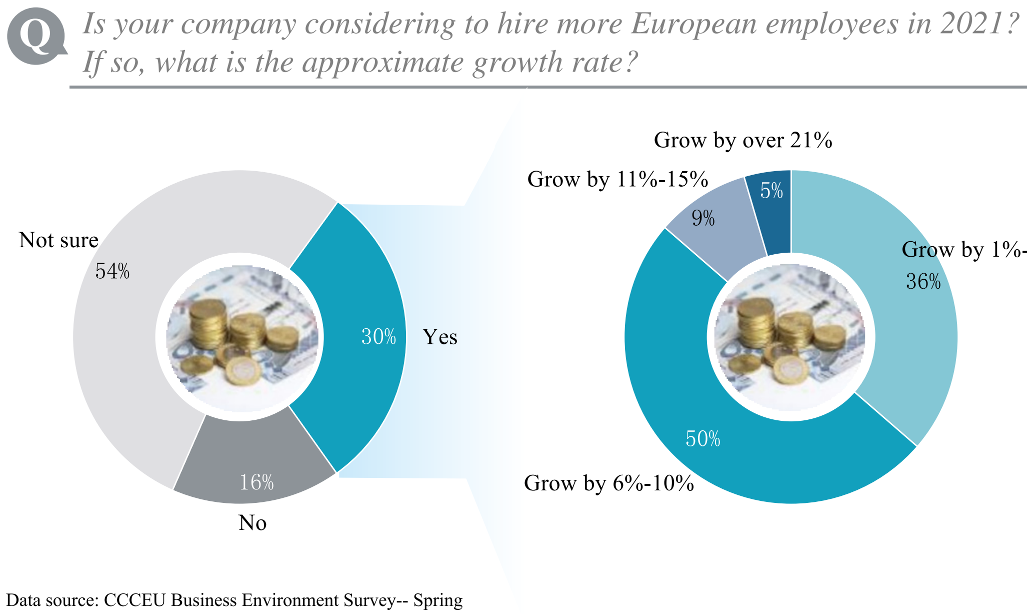


Figure 9: Response from Chinese enterprises in the EU on whether they consider hiring more European employees

Chinese enterprises cultivate local talents for the EU. For example, through the "Seeds for the Future" program, Huawei organizes company visits for university students in the EU Member States where it operates, and provides internships for them on a yearly basis, which has helped the EU's younger generation to improve their understanding of the telecommunications industry and has enhanced the cultivation of local talents.

1.3 Chinese enterprises continue to bring technological innovation to the EU

By setting up laboratories in EU sectors such as automotive manufacturing, life sciences and information technology, Chinese enterprises have deepened technological cooperation between the two sides. In 2020, Chinese enterprises filed 13,000 patents with the EU Patent Office (EPO), up 10% year on year, and ranked fifth in terms of total applications among all countries. The top three areas for patent applications by Chinese enterprises are digital communications (accounting for 26.5% of the total patent applications submitted to the EPO in this field, and ranking first among all countries), computer technology (11.6%) and electrical machinery/instruments/energy (9.1%), with Huawei, Xiaomi, and BOE as leading representatives. The export of quality technologies, coupled with local production and R&D, helps support the digital upgrading of European manufacturing industries.[47]

1.4 Chinese enterprises facilitate bilateral economic and trade cooperation

Chinese enterprises actively help European enterprises build a bridge for bilateral trade through resource sharing and cooperation in technological R&D. For example, they have invested in the winemaking industry of Bordeaux (France) to introduce French wines to China. The China-Belgium Technology Center (CBTC) serves as a green channel for high-tech industries from China and the EU for technical cooperation, strategic investment, and other related activities. The Sino-Hungarian Borsod Industrial Zone has effectively formed an industrial cluster and created a globally competitive and integrated industrial zone.

2. According to the overall evaluation by Chinese enterprises, the ease of doing business in the EU in 2021 declined for the second consecutive year, with significantly lower scores for the political climate and the business environment in comparison to the past

The overall score for the ease of doing business in the EU has decreased from 73 in 2019 to 70 in 2020, and to 68 this year. 45% of the surveyed enterprises and organisations believe that, in comparison to 2020, the ease of doing business across the bloc has slightly worsened in 2021, while only 17% see a slight improvement.

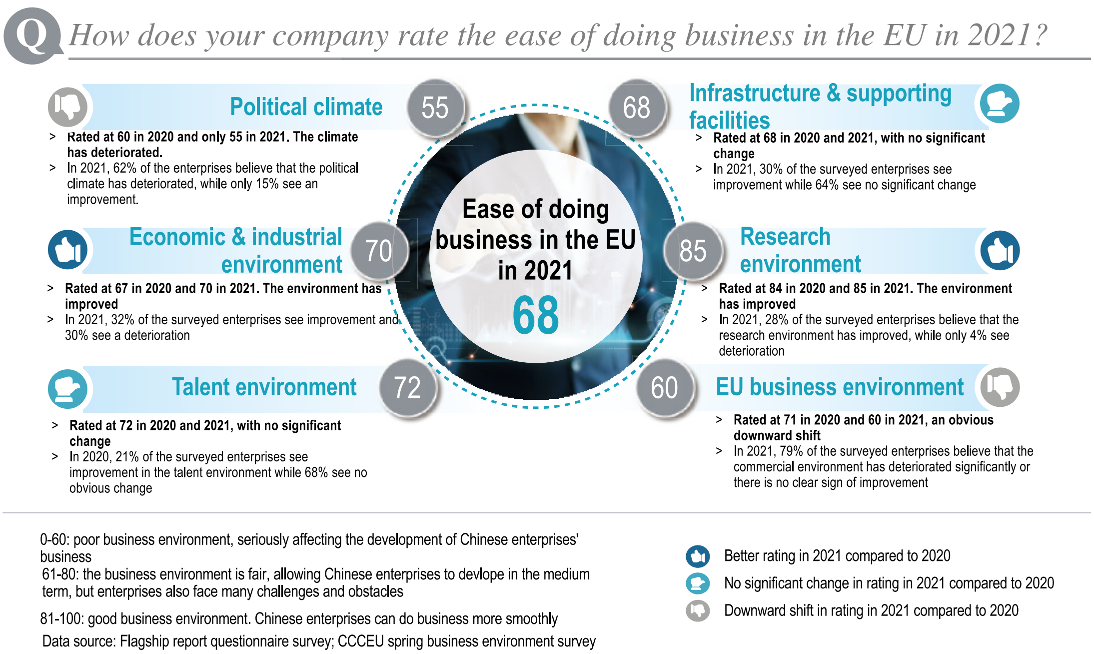


Figure 10: Quantitative Evaluation of EU business environment by Chinese enterprises in 2020/2021

The overall score for the EU business environment is lower mainly due to the decreased scores for the political climate and the business environment.

• **Affected by a number of events, including the "freezing" of debates on ratifying CAI in 2021 and the proposal for a screening mechanism for foreign subsidies, the score for political climate in the EU continues on a downward trend started in 2019** (down to 60 points in 2020, and 55 in 2021). The EU has taken a series of trade and economic policies, such as the foreign investment screening mechanism, the White Paper on Foreign Subsidies, the proposal for an International Procurement Instrument, and new rules on supply chain due diligence. The surveyed enterprises and organizations believe that the EU is tightening policies towards Chinese enterprises, and that the stability of the EU's economic and trade policies has declined significantly. In parallel, the trend of politicising commercial activities is on the rise.

• **The score for the business environment went down drastically this year** (from 71 points in 2020 to 60 in 2021). The EU institutional environment has witnessed rising complexity and decreasing stability, which has resulted in higher operating costs and greater uncertainties for Chinese enterprises. Faced with mounting time and costs incurred to conform with new processes, document approvals, and due diligence, Chinese enterprise also encounter difficulties in doing business due to the impact of Covid-19 on the EU's capability to provide public services.

In other dimensions:

• **The research environment in the EU remains highly attractive, and the score in 2021 sees modest increases since 2019** (up to 84 points in 2020, and 85 in 2021). In 2021, the EU launched the first four-year strategic plan under the "Horizon Europe" framework programme, the funding instrument called “Connecting Europe Facility”, and several other R&D and innovation initiatives to advance technologies in key areas like sustainable transportation, telecommunication, connectivity, and the transition to a green economy. The EU boasts outstanding research institutions and a sound system for protecting intellectual property rights, which remain highly attractive for enterprises. Meanwhile, the surveyed enterprises indicate that their evaluation of the EU's research environment is mainly constrained by the fact that the mechanism of bilateral dialogue on technology and the platform for R&D between China and the EU are inadequate. Therefore, they expect both sides to strengthen cooperation in science and technology, and to create more bilateral channels for R&D exchanges and industrial applications.

• **The score for the economic and industrial environment improved considerably, compared to 2020** (from 67 in 2020 to 70 in 2021). The surveyed enterprises and organisations recognize the EU's short-term assistance programmes (e.g., work allowances, tax deferral and preferential loans) introduced after the outbreak of the pandemic as timely and effective in supporting the resumption of work and production.

Meanwhile, the EU launched its NextGenerationEU programme this year[48].

• **The score for infrastructure and supporting facilities remained stable** (at 68 points in both 2020 and 2021). During the pandemic, the China-Europe freight trains have played a powerful role in transportation and enhanced China-EU connectivity. On the other hand, some negative comments point at the division between the EU and China in regard to telecommunications connectivity, and at a slight lag in the EU's deployment of telecommunication infrastructure.

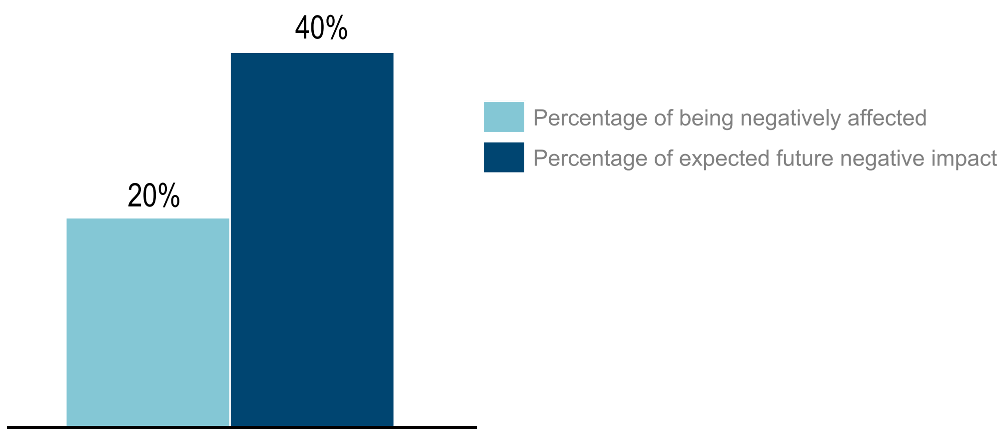
• **The score for the talent environment has seen polarized evaluation in terms of talent development and turnover, leading to a medium final score** (72 in both 2020 and 2021). High-calibre personnel with technical know-how in the EU are continuously sought after by Chinese enterprises. The surveyed enterprises say they are benefiting from the EU's initiatives to improve the digital skills of Europeans, especially in terms of intensive skill training. However, some Chinese employees in some EU Member States have reported some difficulties in returning to work, which has been affecting business operations to some extent.

2.1 Chinese enterprises are concerned that part of the EU's strategic autonomy policies may tilt towards protectionism

2.1.1 Potential barriers to entry into the EU are rising in the medium term

The FDI screening mechanism has been expanded to many areas. 20% of the surveyed enterprises indicate that the mechanism has negatively affected their operations, well exemplified by the fact that the review process becomes longer and the documents issued by the authorities are now more complicated. 42% of the surveyed enterprises and organizations believe that the mechanism may have more negative impact in the future as the scope of review is extended from investments in defence and military security to issues related to economic security. From the results of the in-depth interviews and surveys, it emerges that enterprises are worried about the fact that the expanded scope of review may lead to the adoption of other EU toolboxes in more areas, similar to the one adopted for cybersecurity, thus posing greater business risks for Chinese enterprises.

Q *What impact does your company think the investment screening mechanism has?*

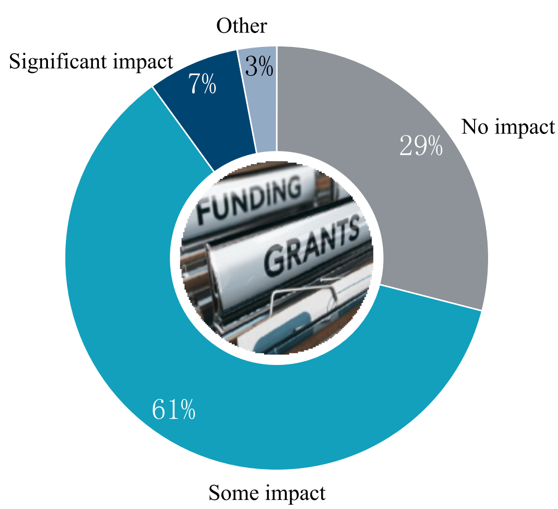


Data source: in-depth interviews; CCCEU business environment survey-- Spring

Figure 11: Feedback from Chinese enterprises in the EU on the impact of the foreign investment screening mechanism

The White Paper on Foreign Subsidies should avoid setting up new discriminatory barriers. 68% of the surveyed enterprises expect the implementation of the White Paper to have significant or somewhat negative impact on their day-to-day operations and bidding activities. In May 2021, the European Commission put forward a draft for a Regulation on foreign subsidies. Firstly, the surveyed enterprises think that legal certainty is not ensured adequately, and that the proposed retroactive period for identifying the bodies giving out subsidies is too long. The scope of subsidy providers is extended to include foreign public and private entities, and state-owned enterprises may be directly identified as subsidy granting entities. In addition, allowing a ten-year retroactive period for foreign subsidies may violate the basic principle of non-retroactivity. Secondly, foreign enterprises bidding for public procurement contracts in the EU are required to declare all government subsidies they may receive, regardless of the amount, but EU enterprises are not required to do so. Therefore, foreign enterprises are put at an unfair disadvantage. The CCCEU submitted a Feedback on the Foreign Subsidy Rules to the European Commission in July 2021, hoping that the EU institutions will exert prudence in legislation and policy making.

Q What impact does your company think the EU Draft Legislation on Foreign Subsidies will have on its business?



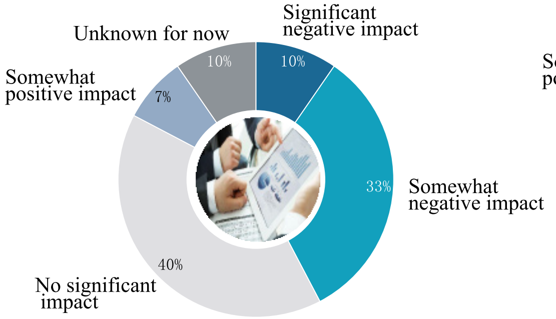
Data source: in-depth interviews; CCCEU business environment survey-- Spring

Figure 12: Feedback from Chinese enterprises in the EU on the impact of the White Paper on Foreign Subsidies

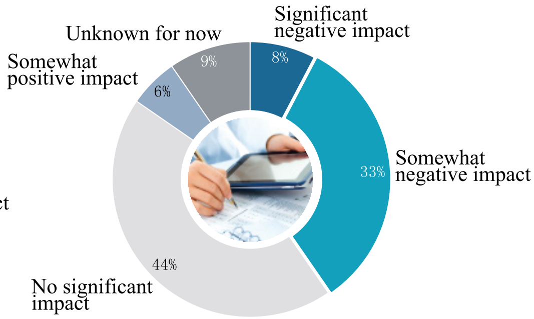
2.1.2 The EU's offensive trade instruments aimed at competitive reciprocity raise concerns among enterprises

With the aim of opening up more third-country markets, **the EU plans to introduce an International Procurement Instrument and an anti-coercion mechanism, which pose potential compliance risks and negative factors.** 43% of the surveyed enterprises believe that the EU's International Procurement Instrument will have a "significant negative impact" and "somewhat negative impact" on their businesses. 41% believe that the EU's anti-coercion mechanism will have a "significant negative impact" on their businesses, and that the risks of uncertain sanctions may rise. In addition, to avoid being affected by uncertain sanctions, they hope that trade reciprocity instruments can be deployed to a greater extent in compliance with unified international policy standards, rather than introducing similar instruments in more areas. In terms of government procurement, China and the EU are currently in different agreement frameworks. In March 2021, China's Ministry of Finance participated in the first round of WTO negotiations on the 2021 *Government Procurement Agreement* (GPA) and started consultations on China's accession to the Agreement.

Q *What impact does your company think that the EU international procurement instrument will have on its business?*



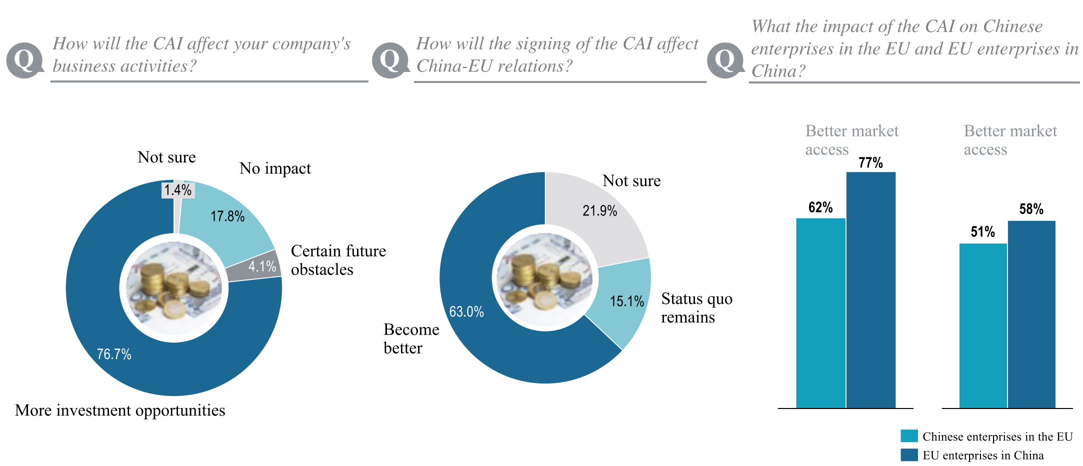
Q *What impact does your company think that the EU anti-coercion mechanism will have on its business?*



Data source: Flagship report questionnaire survey

Figure 13: Feedback by Chinese enterprises and organisations in the EU on the EU international procurement instrument and anti-coercion mechanism

The surveyed enterprises expect the China-EU Comprehensive Agreement on Investment (CAI) to create a fair and optimized environment for bilateral economic and trade cooperation. 77% of the surveyed enterprises think they will benefit from the CAI, and 63% say the Agreement will have a positive impact on economic and trade relations between China and the EU. The vast majority of enterprises believe that the CAI will facilitate the convergence of their respective competition regimes and will be more beneficial for EU enterprises in China than vice versa. In particular, 62% of the surveyed enterprises consider that the CAI will help Chinese enterprises gain market access to more areas in the EU, while 77% think that the Agreement will enable EU enterprises to gain more opportunities for market access in China. Similarly, 51% of the respondents believe that the CAI will consolidate the level playing field for Chinese enterprises in the EU, while 58% think the Agreement will deliver more benefits to EU enterprises in China.



Data source: CCCEU business environment survey-- Spring

Figure 14: Responses from Chinese enterprises in the EU on the impact of the China-EU *Comprehensive Agreement on Investment*

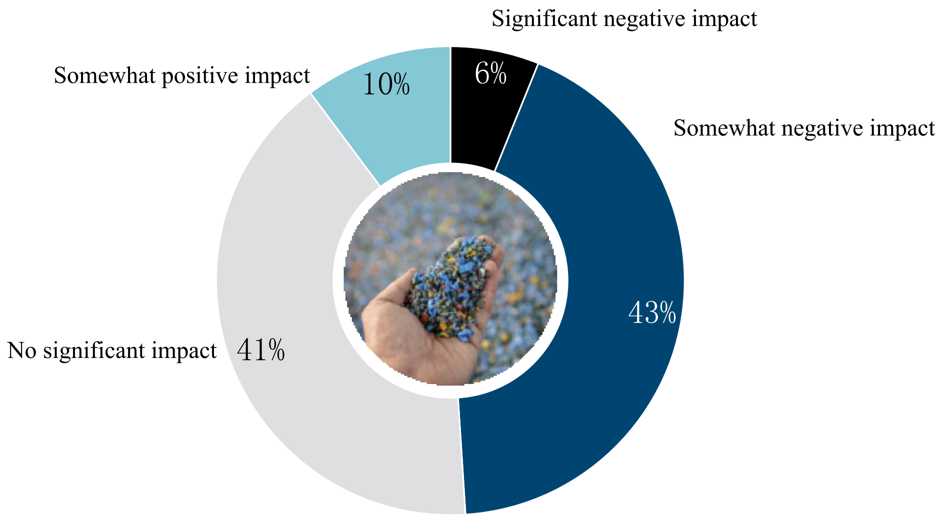
2.1.3 The EU's reduced dependence on products and services from Chinese supply chains in key sectors may take a toll

The EU is seeking dependence in a number of key areas, which may shake the

structure of industrial chains and affect the interdependence between China and the EU in trade. In May 2021, the EU released an updated version of its New Industrial Strategy, including a part on the need to review its dependency on foreign countries in key sectors; 137 products were identified as dependencies in the sensitive ecosystems. In particular, there are areas–such as raw materials and rare earth elements–in which the EU is solely dependent on China, and thus it considers its existing supply chain as unsustainable.

In addition, the EU is also doubling down on building alliances for semiconductors and for batteries to strengthen its technological capabilities and capacity in core areas. 49% of Chinese enterprises believe that the EU's initiatives to reduce its dependence on Chinese products and services in supply chains have had a negative impact. They also think that access restrictions in specific areas, as well as the EU's industrial subsidies and tax policies, have led to unfair treatment against Chinese enterprises. The surveyed enterprises perceive that the one-way assessment of the EU's dependence on China does not consider China's dependence on the EU market in areas like equipment manufacturing, instruments, and automobiles. In addition, it should be noted that Chinese enterprises have played a positive role in EU industrial supply chains during the pandemic.

What impact does your company see on its business as a result of reduced dependence on China in key areas of the EU supply chain?



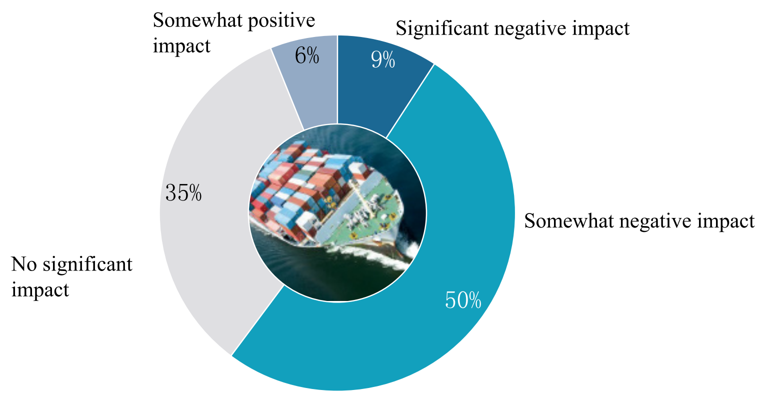
Data source: Flagship report questionnaire survey

Figure 15: Feedback from Chinese enterprises in the EU on the impact of reduced dependence on China in key areas of the EU supply chain

2.2 Chinese enterprises are concerned about possible non-commercial impact and risks when doing business in the EU

59% of the surveyed enterprises believe that closer transatlantic relations and its indirect impact on China-EU economic and trade cooperation will have a negative impact on their companies. The U.S. and the EU have jointly launched the Trade and Technology Council (TTC) to strengthen cooperation in areas such as supply chains, telecommunications, and investment screening. This may divide the existing economic and industrial structure and lead to much more fragmented global standards in key areas due to the absence of China in setting these standards.

To what extent has the indirect impact of the upturn in transatlantic relations on China-EU economic and trade relations?

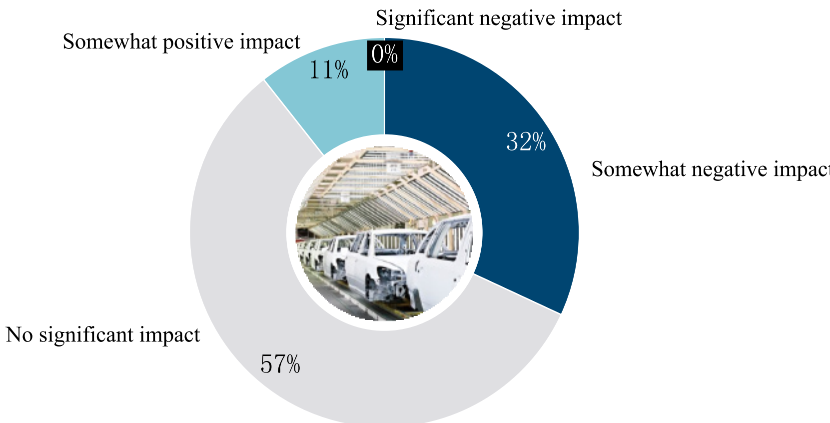


Data source: in-depth interviews; CCCEU business environment survey-- Spring

Figure 16: Feedback from Chinese enterprises in the EU on the impact of the upturn in transatlantic relations (US-EU) on their business

Companies are concerned that the scope of due diligence for supply chains may be extended to non-trade sectors. 32% of the surveyed enterprises believe that the EU rules on Sustainable Corporate Governance, including due diligence for supply chains, will create new and indirect barriers to market access and will increase the impact of "non-technical factors" on companies' participation in the EU market and on cooperation opportunities. At the same time, given that it is difficult to clearly define the standards of due diligence, companies will need to spend more time and money to verify their compliance status, further increasing their operational costs.

What impact does your company believe EU due diligence for supply chain will have on its business?



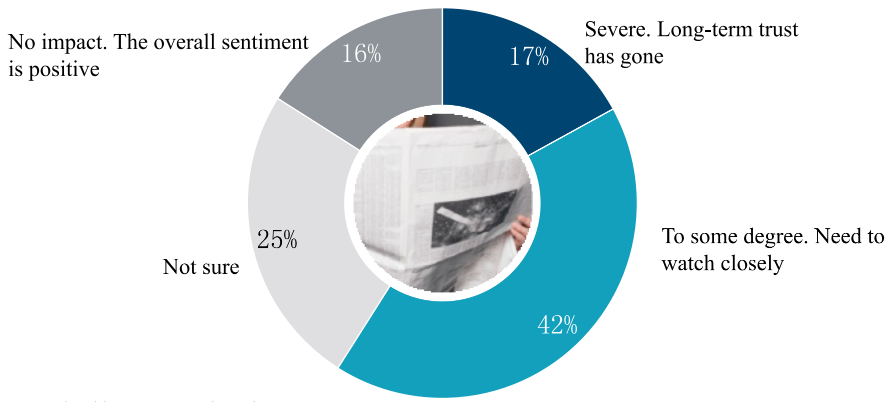
Data source: Flagship report questionnaire survey

Figure 17: Feedback from Chinese enterprises in the EU on the impact of EU due diligence for supply chain on their business

2.3 Chinese enterprises feel the impact of negative public opinion, including misinformation and disinformation. It is necessary to pursue long-term development on the basis of deeper understanding and mutual trust between China and the EU

Negative public opinion within the EU has a significant impact on Chinese enterprises. 59% of them believe that negative public opinion within the EU has adversely impacted their business operations to some degree.

Q *What impact does your company think negative public opinion has had on the company?*

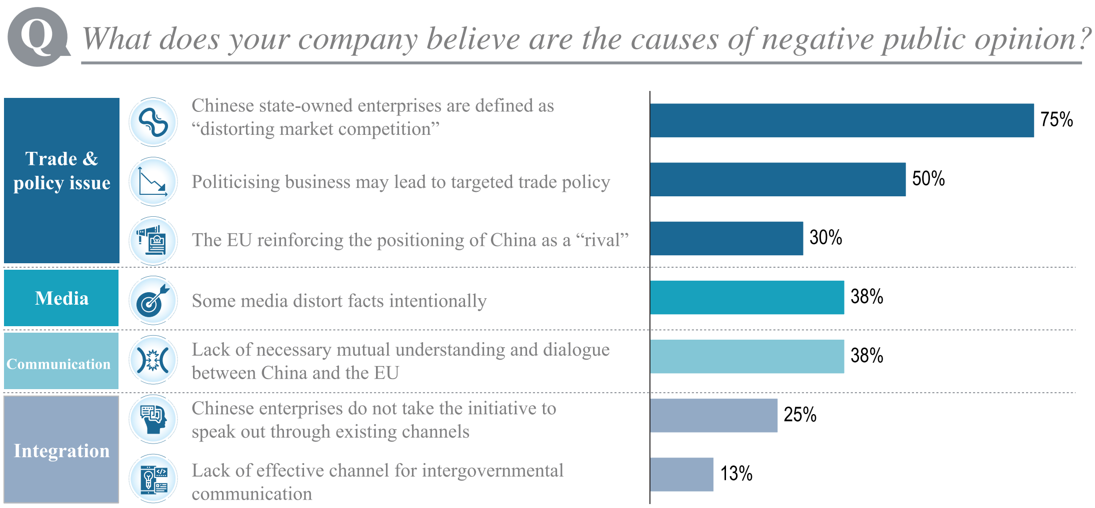


Data source: Flagship report questionnaire survey

Figure 18: Feedback from Chinese enterprises in the EU on the impact of negative public opinion on their businesses

In terms of negative public opinion, 75% of Chinese enterprises believe that they are directly or indirectly influenced by the argument that Chinese state-owned capital and subsidies are "distorting market competition". 50% of the surveyed enterprises think that extension of the EU's strategic autonomy to economic and trade security has to some degree given rise to the accusation that "Chinese companies may cause technological leaks in key areas", affecting a growing number of companies. In 2020, it was mainly companies in the telecommunications sector that gave some feedback on the EU 5G security toolbox targeting "high-risk suppliers". This year, companies in biomedicine and energy are also feeling the rising negative impact of that EU policy move.

At the same time, 38% of the surveyed enterprises believe that exchanges between China and the EU in social, educational and people-to-people fields are insufficient: this makes it difficult for both sides to understand each other, and makes it easy to foster negative and rigid public opinion. 25% of the surveyed enterprises think that Chinese enterprises in the EU also need to be more proactive in making their voices heard, building their image, and telling a good China story.



Date source: Flagship report questionnaire survey; in-depth interviews

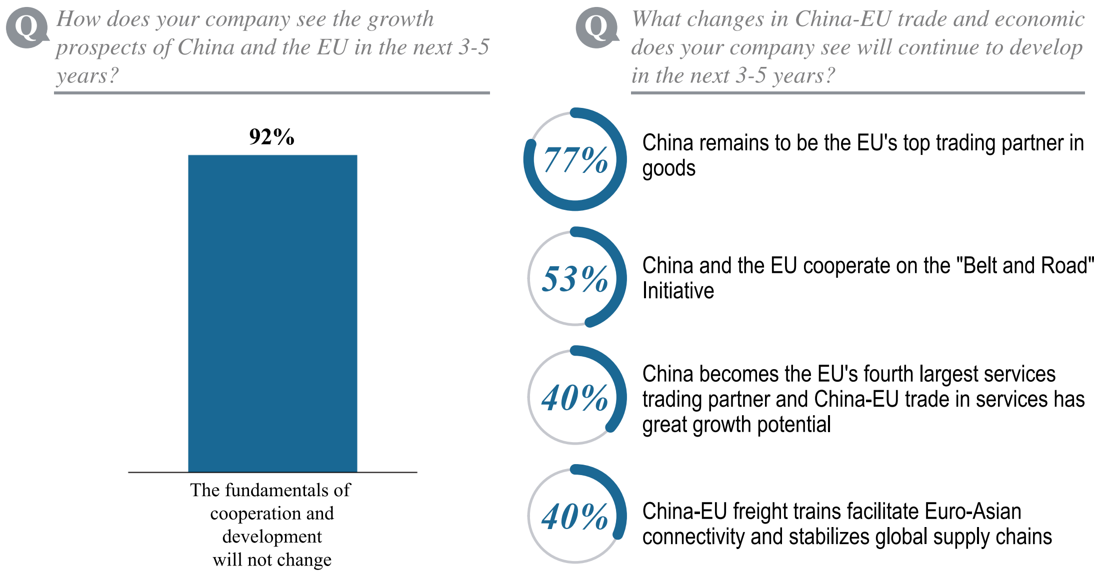
Figure 19: Feedback from Chinese enterprises in the EU on the reasons for negative public opinion

3. Chinese enterprises have confidence in the long-term development of China-EU trade and economic cooperation, and most of them are willing to expand their business in Europe

3.1 Most Chinese enterprises in the EU are confident that China and the EU will maintain long-term cooperation and development in economic and trade relations

From the in-depth interviews and surveys, it emerges that 92% of the surveyed Chinese enterprises believe that the China-EU economic and trade relations will keep going. Among them, 77% think that China will remain the EU's top trading partner in goods in the long run; 40% think that China-EU trade in services has great growth potential; 53% think that there are opportunities for China and the EU to cooperate on the Belt and Road Initiative, especially in developing countries; and 40% of Chinese enterprises recognize that the China-Europe freight trains play an important role.

Sino-Europe freight train (from Yiwu to Madrid)（Photo source：Chinese Chamber of Commerce in Spain）



Data source: Flagship report questionnaire survey

Figure 20: Forecast of Chinese enterprises in the EU on the prospects of China and the EU maintaining cooperation and development in trade and economy

Most of Chinese enterprises in the EU stay positive on bilateral economic and trade ties. Some Chinese enterprises have successfully built trust with local enterprises and governments:

• 68% of the enterprises think that both China and the EU strive for cooperation and can achieve mutual benefits.

• 58% of the enterprises have been operating in the EU for many years. They have built mutual trust and maintained cooperation with local communities. Among them, 42% indicate that they have perceived the goodwill of local governments and enterprises when cooperating and communicating with them.

• Some surveyed enterprises in the shipping sector consider that they have already established a certain competitive edge in the industry and are therefore not affected by relevant policies and politicized elements.

• 33% of enterprises are keeping a close watch on the actual impact of the EU trade policy. They believe that businesses are indeed faced with rising costs in operation and compliance, but as long as they comply with the rules and operate legally, they can still conduct business normally in the EU and there will be no actual disruption to existing cooperation.

Q *What are the main reasons for your company to believe that China and the EU will sustain cooperation and development?*

Data source: Flagship report questionnaire survey; in-depth interviews

Figure 21: Comments from Chinese enterprises in the EU on the main reasons for China and the EU to maintain cooperation and development

3.2 The importance of the EU as an overseas investment destination continues to grow

86% of the surveyed Chinese companies think that the EU has become significantly more important for Chinese companies:

• 74% of the surveyed enterprises believe that establishing a presence in the EU can help them build a global brand;

• 62% of the enterprises value the vast European market and 30% say they keep a close eye on opportunities in newly emerging sectors brought about by the EU's economic transformation. Such views are in line with the score given by enterprises on the EU's economic and industrial environment;

• 42% of the enterprises focus on the high-quality industrial factors and solid foundations of the EU, and 38% believe that China and the EU are positively complementary with each other in areas like market space and labour costs.

• Strategic deployment in overseas markets is also one of the key priorities of the surveyed enterprises. 28% of them regard the EU as a key region where they can diversify their global business risks, while 25% focus on improving their overall competitiveness in international value chains through M&As and investment.

Q *Are EU countries becoming more important in your company's overseas business development plan?*

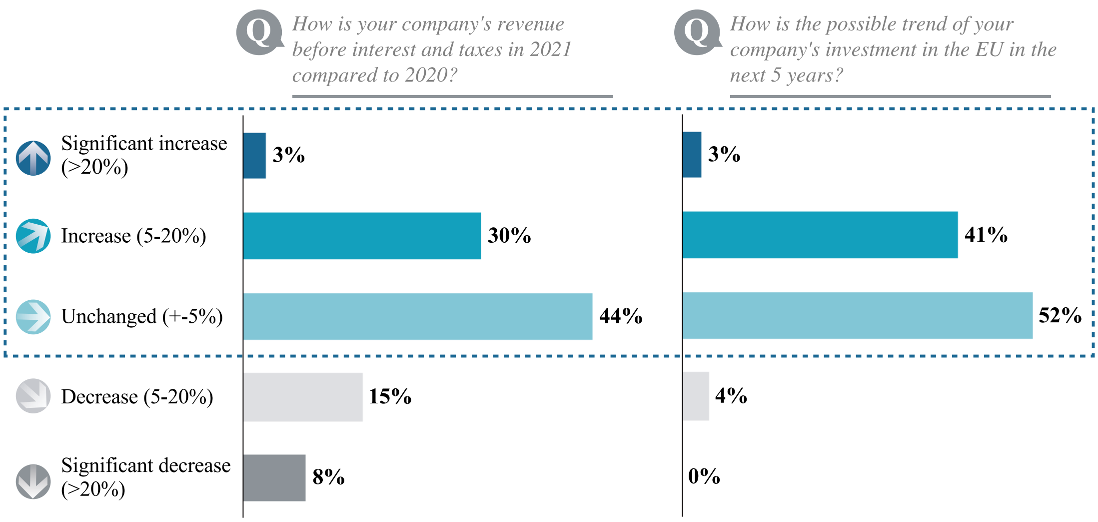
Q *What are the main opportunities that your company is looking for in the EU market?*

Data source: Flagship report questionnaire survey; in-depth interviews

Figure 22: Comments of Chinese enterprises in the EU on their interest in the EU as an overseas investment destination

3.3 Chinese enterprises have strong willingness to continue investing in the EU market

44% of the surveyed enterprises report that their revenues in the EU remained unchanged in 2020, while 33% saw an increase in revenues. 52% of the surveyed enterprises are willing to continue their operations in the EU as they are now, and 44% intend to expand their investments in the EU.



Date source: Flaship report questionnaire survey; CCCEU business environment survey-- spring

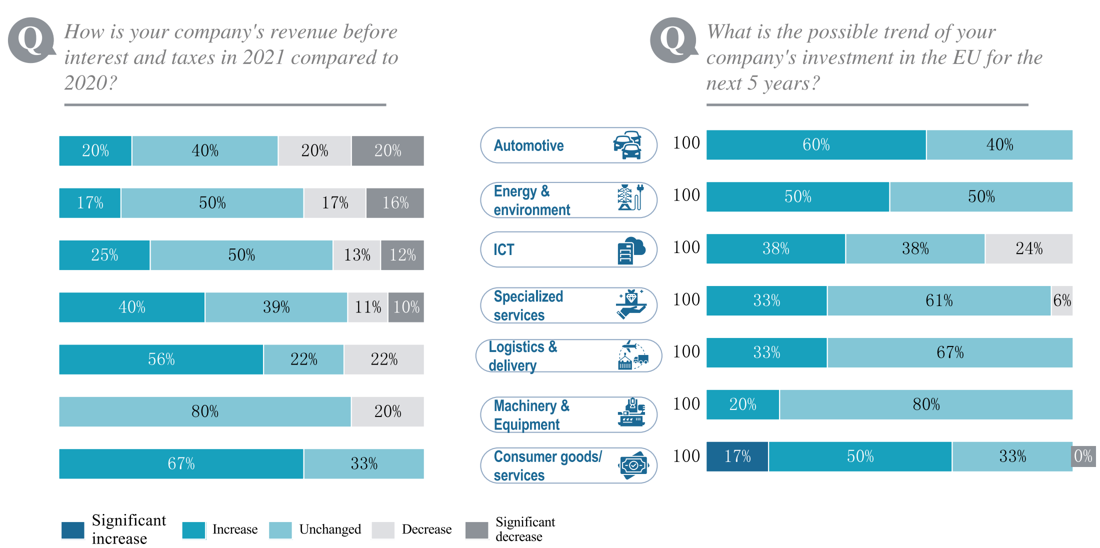
Figure 23: Willingness of Chinese enterprises to expand business and investment in the EU

A breakdown of the responses from the surveyed enterprises by industry:

• Affected by the pandemic, some interviewees in the automotive, energy, logistics, transportation and delivery, and machinery and equipment sectors saw a decline in revenue. Yet, due to the recovering economy and the EU's financial inputs in the green industry, 60% of the surveyed enterprises in the automotive sector said that they are willing to increase investment, and 50% of the enterprises active in energy and environment are optimistic about future development opportunities.

• Revenues in the telecommunications industry have dropped significantly, but companies have not scaled back their investment in the EU market drastically. Subject to access restrictions by the EU, manufacturers of telecommunication equipment such as Huawei and ZTE have suffered damage to their main business but are also actively seeking to diversify their activities and looking for opportunities in smart travel and smart photovoltaics. On the other hand, the industrial chain of the EU's telecommunication infrastructure has seen rising demand in non-critical areas. Small and medium-sized telecommunication companies in the supply chain are seizing industrial opportunities to enter the EU market and increase their overseas revenue.

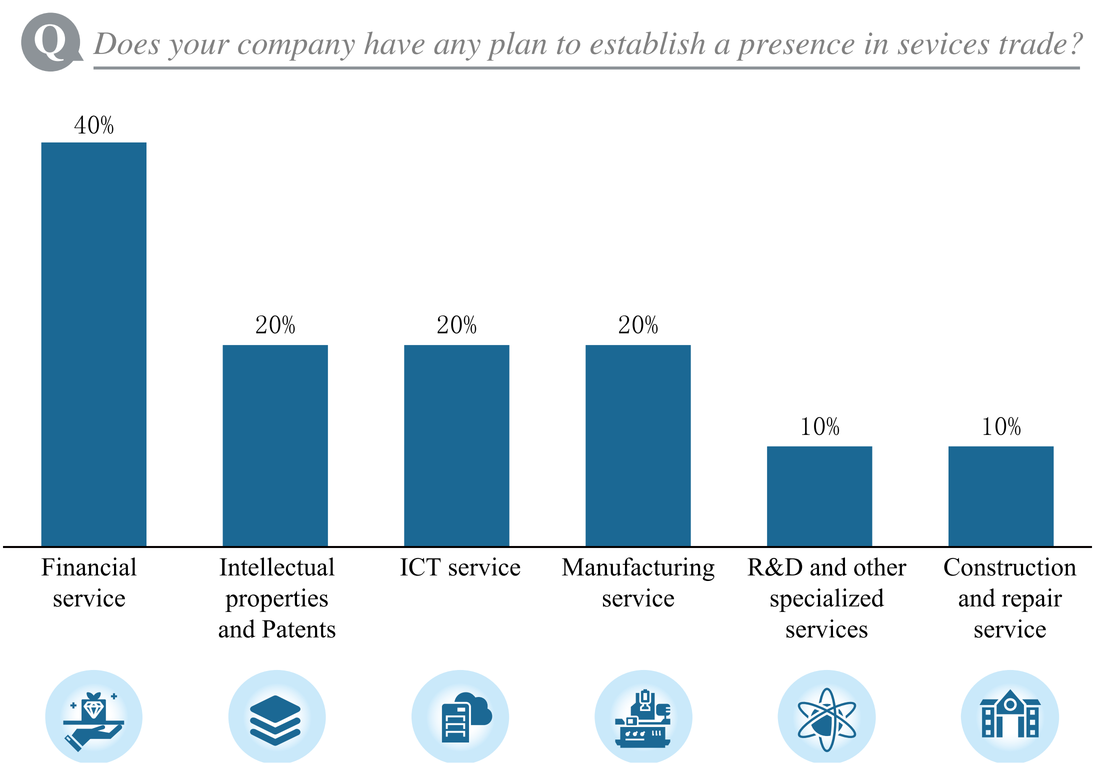
• The consumer goods market is on an upward trajectory, with the surveyed enterprises demonstrating a strong willingness to invest 17% of the enterprises are considering a significant increase in their investments in Europe, while 50% are considering a moderate increase.



Date source: Flaship report questionnaire survey; CCCEU business environment survey-- spring

Figure 24: Willingness of Chinese enterprises in the EU to scale up their investments in the EU by industry

Chinese enterprises, especially those providing financial, telecommunication and manufacturing services, have started to think about making overall arrangements for exporting services to the EU. 40% of the surveyed banks and financial companies are considering extending their financial services to the EU, and large banks are stepping up the construction of branches and representative offices in Europe. ESG investment, green finance and funding for the Belt and Road Initiative have become the key focus points for these enterprises. In addition, 20% of the surveyed enterprises are concentrating on the deployment of telecommunication services, intellectual property rights and services. Platform companies are also expediting their efforts to go global, with Alibaba eWTP, AliExpress and other large e-commerce and logistics platforms actively expanding in Europe and promoting the development of cross-border trade between China and the EU.



Data source: Flagship report questionnaire survey

Note: The number of surveyed enterprises with development plans in the EU is used as the base

Figure 25: Planning of Chinese enterprises in the EU on the presence in services trade

Voices of Chinese enterprises: China Soft Capital

Looking forward to investing in outstanding European start-ups

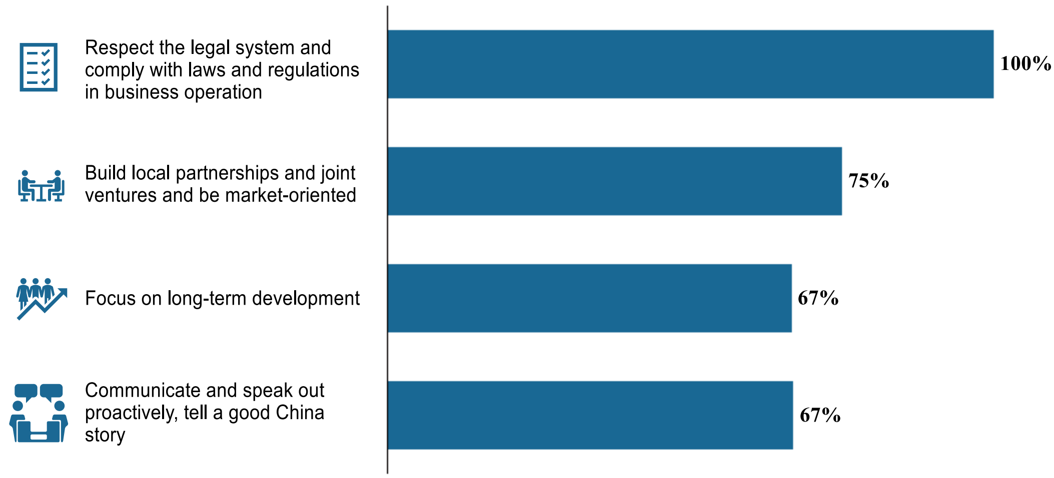
China "Carbon Neutral" Forum of 50 People (Photo source: China Soft Capital)

"China Soft Capital" is one of the leading investment institutions in China, with a fund size of RMB30 billion, and its three core businesses are asset management, financial technology and next-generation information technology investments. Particularly in the information technology sector, China Soft Capital, in line with the development of the national digital economy, has cultivated a number of businesses in open-source software in the Chinese market. In the European market, China Soft Capital sees the huge opportunities brought by the rise of information technology and has plans and actions in the digital economy. For example, China Soft Capital has invested in a new media company in Spain that has SaaS software development capability. It has participated in the development of Harmony OS technology. In addition, China Soft Capital is a gold sponsor of the China Open Atom Foundation and is committed to developing China's first international open-source ecological model, with the hope of helping European game developers in the future.

In Europe, China Soft Capital's digital business is currently focused on SaaS, which continues to develop appropriate language and architecture services for local enterprises to support them in information construction. China Soft Capital looks forward to investing in many more outstanding start-ups in the European market and supporting their development. It believes Chinese private capital and international capital can inject new impetus into outstanding local start-ups in Europe."

3.4 Chinese enterprises in the EU market are eyeing the future and pursuing win-win cooperation

What do you consider to be your main recommendations for Chinese enterprises in the EU to integrate into the EU market and meet the economic and trade challenges?



Data source: Flagship report questionnaire survey; in-depth interviews

Figure 26: Suggestions from Chinese enterprises in the EU on integrating into the EU market and addressing economic and trade challenges

3.4.1 Strengthening local development and market-oriented operations on the basis of mutual trust and shared benefits

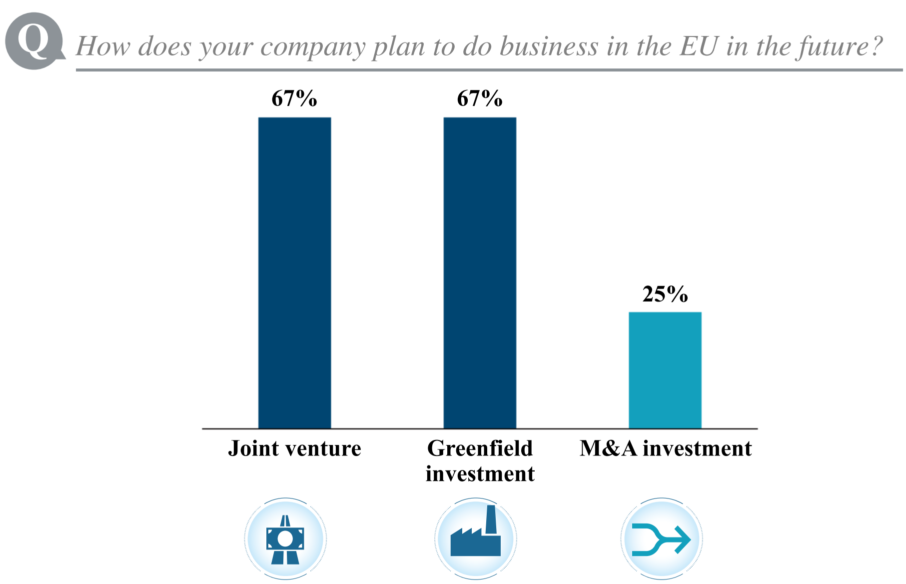
Partnerships and joint ventures are the key approaches for Chinese enterprises to expand their business. 67% of the surveyed enterprises affirmed that, in 2021, they plan to establish production and R&D centres in the EU through joint ventures. They think that building partnerships in the form of joint ventures can offer the following major advantages:

• Local procurement helps shorten the supply chain and reduce production costs, and allows companies to conduct their business more cost-effectively. It also helps to improve industrial chains, boost local employment and promote exchange of talents in the EU so that the strengths of local talents with technical skills can be harnessed.

• Local partners are more capable of understanding the local market. Chinese enterprises need local service teams to help them with the management, for consolidating their position in local markets, and localizing their operations.

• Local partners can become important endorsers for Chinese enterprises to enter the European market and gain trust from all local actors.

• Local joint ventures and partnerships can help dispel the concerns of local governments with regard to Chinese companies' access to EU-patented technologies and competition with EU industrial capabilities.



Data source: Flagship report questionnaire survey; in-depth interviews

Figure 27: How Chinese enterprises plan to do business in the EU in the future

Voices of Chinese enterprises: BGI Group

Deepening Local Development and Building a Global Supply Chain

The Global Product Showcase Center of MGI in Latvia Base (Photo source： BGI Group)

As a global pioneer in life sciences, the BGI Group (BGI) entered the EU in 2010 with Denmark as its starting point, and has long been focusing on the European market. With the surge in demand for testing equipment and services due to the pandemic, BGI has been actively expanding its business in the EU regarding Covid-19 testing and health-related services. In April 2020, BGI built the Huo-Yan (Fire Eye) laboratories in Belgrade and Nis, Serbia. In November 2019, BGI officially opened its base in Latvia and obtained the ISO13485 and other related standards in 2021. While building and growing its business in Europe, BGI attaches great importance to delving into local markets and relying on local partners to build bridges between China and the EU in life science research and industrial collaboration. BGI is also dedicated to strengthening innovative cooperation in life science research, industrial application and standard development, and to promoting cooperation on large-scale international genomics projects. All these efforts have galvanized exchanges between Chinese and European enterprises. Through its localised market expansion, BGI offers numerous lessons for Chinese companies on entering the EU market.

"Despite the pandemic, BGI has increased its investment in the EU. Covid-19 has severely impacted cross-border trade, but it also serves as a wake-up call for us to understand the importance of localized development in the EU. Based on our experience, localisation can deliver multiple advantages.

Firstly, a global supply chain and a strong local team are important prerequisites for companies to scale up overseas business. Confronted with the shock to global supply chains (including the Suez Canal blockage), companies need to build overseas supply chains and recognize the EU as a node of overseas supply chains. With the help of the China-Europe freight trains and shipping routes, the EU can play an essential role in securing a global supply chain for the Group. In order to establish a global supply chain, BGI has set up factories in the EU, and is gradually increasing the proportion of local supply chains to enhance local cooperation and promote local economic development. **Meanwhile, local talents are required to develop local business.** As BGI diverts its business to more sophisticated instruments and supporting facilities, and more demand for after-sales service sprouts up in the EU, only a competent local team can understand local needs more profoundly and professionally. To this end, BGI has built a highly localised team to provide services, with two-thirds of the team members recruited in the EU.

Secondly, finding local partners and fostering mutual trust in the long term is necessary for enterprises to penetrate deeper into local markets. BGI refers to these partners as 'key opinion leaders'. The first step is to establish long-term and stable communication and cooperation in the scientific community while focusing on the company's brand building. Over the past decade, BGI has invested in laboratories in Denmark and other EU countries, established platforms for long-term communication and cooperation with local research institutions and universities, and built a professional image and good reputation in the industry. The second step is to build key partnerships in the industry. To do well in promoting its products and services, BGI has proactively reached out to large private service companies and third-party diagnostic companies, and cooperated with them to get feedback on its testing products in the local market. It is through localised development that we can better serve the local market and achieve brand influence."

To better adapt to and integrate into the EU market, Chinese companies seek to adopt a market-based approach to their business operations. Firstly, they want to be market-oriented in terms of financing by tapping into more local and global funds. Secondly, they want to be market-oriented in terms of operations by experimenting with the separation of investment and management in China-EU project-based cooperation.

Voices of Chinese enterprises: Lingang Group

Mutual trust and shared benefits: Access, Entry, Penetration and Integration into EU Development

Lingang Overseas Zeebrugge Modern Industrial Park.
(Photo source： Shanghai Lingang Economic Development (Group) Co Ltd)

Lingang Group is the only state-owned enterprise under the Shanghai Municipal State-owned Assets Supervision and Administration Commission that focuses on the development of industrial parks and support services. The Group has experience in the development and operationalization of national economic and technological development zones, large-scale equipment manufacturing industrial zones, special customs supervision zones, and other support services for industrial parks. It embarked on the journey of global expansion and international development in 2016, and established Lingang Overseas Innovation Centres in San Francisco (U.S.), Helsinki (Finland) and Stockholm (Sweden). On 30 June 2021, the Group officially started the construction of Zeebrugge Modern Industrial Park in Belgium. The goal is to build an international base for trade cooperation along the pattern "one park, two centres". The project has been highly praised and well received by all parties. As a leading resource-based enterprise, Lingang Group summarizes the most valuable experience of Chinese enterprises going global: building a mutually beneficial partnership, which provides useful references and inspiration for the development of Chinese enterprises. Meanwhile, Lingang also became aware that Chinese enterprises are equipped with an international perspective and can shoulder greater responsibilities in going global, and in developing the local industries and value chains.

"What Lingang mostly wants to highlight for Chinese enterprises going global is that they should act on the basis of insights into the essence of business. When expanding overseas, enterprises should not simply copy existing business models, but should build concrete, mutually beneficial partnerships. They need to realise that China and other overseas regions and countries are different in terms of legal relationship, legal environment, culture, customs and other business elements. As our practices show, four key words can best encapsulate Lingang's experience in overseas business development.

The first word is "access". Enterprises should make a timely, reasonable judgment about the region they intend to go to. To put it simply, at Lingang we ask ourselves what our company is and what others could want from us. By combining our advantages with the actual local needs, we can make more objective decisions on the timing, the region and the industrial model for going global.

The second word is "integration". Lingang has always stressed the principle of concrete, mutually beneficial partnerships. To be specific, when Lingang negotiates with its partners, it asks two straightforward questions: first, what benefits Lingang can bring to local economic development; second, what benefits Lingang can get from that cooperation. If we cannot answer the first question, there will be no foundation for cooperation in our global business development. And if we are unable to answer the second question, the partnership is not reciprocal and it is impossible to build genuine, mutual trust.

The third word is "entry", with exchangeable resources at its core – meaning that after the cooperation agreement is reached, the next step is to bring the essence of market resources allocation into play. This is conducive to opening up markets and promoting further extension and expansion of the business environment and of business fields for both sides.

The last word is "penetration". Based on access, integration and entry, we have truly developed the concept of mutual trust and shared business benefits. As a result, our partners have invited us to jointly explore more areas of development and cooperation.

Lingang goes out and establishes a bridgehead first, and then builds a bridge together with all parties. By exerting influence on EU policy institutions, including local governments, we aim to promote a cooperative alliance with endogenous drive for economic development. We also work to exchange the value resources that Lingang seeks by creating business models with the help of the invisible hand of the market, promote business development, and extend the cooperation among all parties in the industrial chains to build a comprehensive industrial ecosystem. Currently, Lingang is still at the second stage of its overseas business development strategy, namely integration. The Group is actively learning to adapt to the local business environment with a firm belief in the value of mutually beneficial cooperation. If we do well in this market, we will be able to demonstrate that domestic and foreign markets can effectively boost each other and engage well with each other in industrial development."

> Chinese enterprises actively support the global expansion of EU new-energy power projects through strategic cooperation and investments.

3.4.2 Adhering to a long-term development strategy and growing together with the EU market

67% of the surveyed enterprises propose that, amid market fluctuations and changes, enterprises adopt a strategic perspective, and be forward-looking and patient enough to see the long-term development gains.

3.4.3 Telling a good China story and building a positive image of Chinese enterprises in the EU

China and many EU Member States differ from each other in language, culture, business practices, corporate organization, and so forth. Building concrete, long-term mutual trust requires candid dialogue in more aspects and from various perspectives. It is also necessary to understand each other well to achieve mutual respect. According to the survey, 67% of Chinese enterprises believe that communication is an important way to resolve many issues. At the same time, 44% believe that, compared with the past, this year Chinese companies have made progress in proactively integrating into the EU environment.

Voices of Chinese enterprises: Wonderful Technology

Playing to its strengths and actively boosting China-EU cooperation

Wonderful Technology Development (TianJin) Group, Ltd. (hereinafter referred to as "Wonderful Technology") is a private enterprise that has long been engaged in the China-EU import and export business. The Group finds that small and medium-sized enterprises (SMEs) fall short of financing guarantees and frequently have to borrow funds in the import and export business, which imposes great economic pressure on them. In addition, as China and the EU are far apart, it takes a lot of time and effort for the Group to communicate with its European partners and exchange samples. These issues are not only troubling Wonderful Technology, but also common among e-commerce SMEs in China and the EU.

The construction of overseas warehouses is beneficial to empowering e-commerce SMEs in China and the EU. Firstly, with an overseas warehouse in the EU, companies can store goods exported to/imported from the EU in bulk and in a centralized manner, accelerate order turnover, and reduce capital being stuck. Secondly, overseas warehouses can be used as a physical platform to display samples and package goods, which also brings about opportunities for developing business services such as logistics and finance and brings business opportunities to EU partners. Wonderful Technology believes that it has unique advantages in building overseas warehouses. On the one hand, the Group has long engaged in trade in goods; it has **a deep understanding on how to operate overseas warehouses, and what functions SMEs require from overseas warehouses. On the other hand, the Group has accumulated a wealth of service resources in the EU,** such as law firms and customs agents, which can be opened to more e-commerce SMEs in China and the EU to achieve multiple wins.

Despite causing uncertainties, **the pandemic has highlighted the value of the overseas warehouse business.** At present, with overseas warehouses at the core of its business, Wonderful Technology is actively preparing for China-EU cross-border e-commerce industrial parks in Greece and Hungary. The Group will leverage its experience and resource advantages to actively attract numerous partners from manufacturing and transportation at home and abroad to move into the industrial parks, so as to actively promote the development of China-EU cross-border e-commerce.

Voices of Chinese enterprises: China Chamber of Commerce in Germany (CHKD)

Telling a good China story: an objective approach to helping Germany understand China

European Forum activities in BMW Welt, Munich (Photo source： German Chamber of Commerce)

The China Chamber of Commerce in Germany (CHKD) currently has nearly 350 member companies, covering more than 90% of the Chinese enterprises in Germany. In recent years, CHKD has established a system for monitoring public opinion and found that German public opinion on Chinese enterprises has been deteriorating. From a long-term perspective, the fundamentals of Sino-German cooperation and joint development remain positive. Yet, faced with an increasing number of uncertainties, both Chinese companies and Germany need to improve the understanding of each other. In this sense, CHKD encourages Chinese companies to become "good storytellers of China".

"CHKD has done a lot to promote mutual understanding between China and Europe. **Firstly, it regularly conducts interviews with the German media and hosts periodical breakfast meetings with them.** Despite hearing "unfriendly" voices at times, CHKD firmly believes that it is important to share the views of Chinese enterprises with local media. It also conveys mainstream German voices and views to Chinese companies. **Secondly, CHKD organizes the Best Investment Award for Chinese enterprises in Germany to share outstanding cases with the German community** and help Chinese enterprises build a positive reputation. **Thirdly, CHKD has set up a social responsibility fund for Chinese enterprises in Germany to record their achievements in fulfilling social responsibilities and to help foreigners and enterprises better understand** and appreciate China and Chinese enterprises. CHKD believes that it is also crucial to deepen mutual trust. We want to help Germany get to know the real China, and in turn, we also hope to help Chinese companies understand the real Germany."

Chapter III

Green Economy: Work together to build a China-EU green partnership

Overview

In recent years, extreme weather and natural disasters have become more frequent and intense worldwide, highlighting the risks posed by climate change, and sounding alarm bells for all humanity. Addressing climate change is crucial for the well-being of all humankind, and the upcoming 26th UN Climate Change Conference of the Parties (COP26) to be held in November 2021 will propel the world to take action under the objectives of the Paris Agreement.

China and the EU are highly congruent in their green development philosophy, and both sides adhere to a green, low-carbon and circular development path. Both China and the EU have set specific targets to reduce greenhouse gas emissions. In September 2020, Chinese President Xi Jinping made a solemn commitment at the plenary session of the UN General Assembly that China will strive to peak its carbon emissions before 2030 and achieve carbon neutrality by 2060. In 2021, "slashing carbon emission intensity, supporting areas with favourable conditions to peak emissions ahead of schedule, and formulating an action plan to peak carbon emissions before 2030" were officially incorporated into China's 14th Five-Year Plan.

The EU aims to create the first "climate-neutral continent" by 2050. In September 2020, as part of the EU's new Green Deal, the bloc pledged to reduce emissions by at least 55% by 2030, compared to 1990 levels. In July 2021, the European Climate Law officially entered into force, which codifies the EU's commitment to become carbon neutral by 2050 as a legally binding obligation.

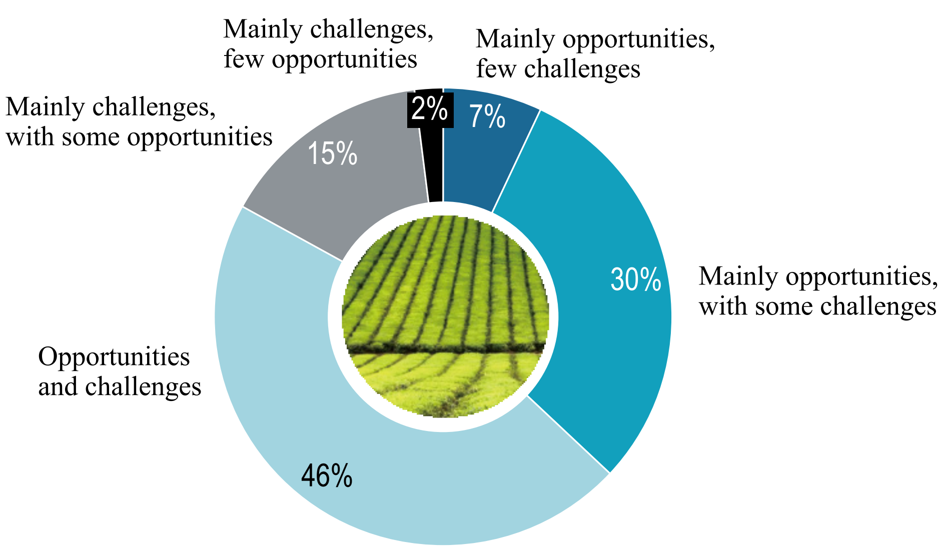
In 2020/2021, China and the EU have **maintained dialogue and deepened consensus in the field of green economic development, and green cooperation is expected to become a new highlight and engine of the China-EU comprehensive strategic partnership.** In September 2020, President Xi Jinping held a video meeting with German Chancellor and chair of the rotating Presidency of the Council of the EU Angela Merkel, European Council President Charles Michel and European Commission President Ursula von der Leyen. During the meeting, leaders from both sides decided to establish a High-Level Dialogue on Environment and Climate and **build a China-EU Green Partnership.** In February 2021, Han Zheng, Member of the Standing Committee of the Political Bureau of the CPC Central Committee and Vice Premier of the State Council, held the first China-EU High-Level Dialogue on Environment and Climate with Executive Vice President of the European Commission Frans Timmermans online in Beijing, and the second High Level Dialogue in September 2021. In addition, the Sino-European consensus on green cooperation has been repeatedly mentioned in other dialogues and meetings between the leaders of China, of the EU and of the EU Member States.

2021 is a landmark year for the EU's green development. As the European Climate Law was adopted and took effect, the EU's pledges of "55% reduction" and "carbon neutrality" have become legally binding. In the EU's economic recovery, 37% of the funds will be invested in areas related to the green transition In July 2021, the European Commission proposed a package of legislative proposals called "Fit for 55" to tackle climate change, which includes the creation of a Carbon Border Adjustment Mechanism, the revision of the carbon Emissions Trading System, the increased use of renewable energy, the introduction of low-carbon transport modes, and support to infrastructure and fuels as soon as possible.

The EU's green transition **provides opportunities for foreign companies, including Chinese ones, to participate in the development of the green economy.** It is imperative for China and the EU to increase synergies in new energy, carbon markets, carbon pricing, green finance and global biodiversity frameworks, and to step up cooperation in third-party markets. Together, they can support the world in emerging from the pandemic as early as possible, bridge global inequalities, and enable cooperation and development.

Most Chinese enterprises regard their participation in the EU's green economy as a development responsibility and an opportunity in the EU.

Q *What impact do you think the EU's green economy will have?*



Data source: Flagship report questionnaire survey

Figure 28: Estimation of the impact of the EU's green economy on Chinese enterprises

Voices of Chinese enterprises:BYD

Making breakthroughs in green development, and leading the whole industry to advance together

The first batch of BYD pure-electric articulated Bus for Europe has put into operation in Oslo Norway.
(Photo source：BYD Company Ltd.)

"Established in 1998 in Rotterdam (the Netherlands), BYD Europe is the first overseas subsidiary of BYD Company Limited. At present, a team of over 600 employees are working for BYD Europe in the Netherlands, Hungary, the U.K., France, Sweden and Italy, and more than half have been hired from local markets. After more than 20 years of hard work and development, BYD has grown from an unknown brand in Europe to a notable pioneer in the new-energy vehicle industry.

In the field of **pure electric buses, BYD has set its footprint in more than 100 cities across 20 plus European countries, reducing carbon emissions of over 100,000 tons**

in total. To meet the increasing business needs in Europe, BYD is actively exploring its new-energy development strategy on the European continent.

In April 2017, **BYD's electric bus factory in Hungary** was officially inaugurated and put into operation, which offers job opportunities for local people and facilitates the integration of upstream and downstream supporting industries in Europe. The technical achievements from the Hungarian factory have in turn been transferred to China and have become an indispensable part of BYD's global "wisdom". This also allows BYD to deliver its electric buses to more European countries such as the Netherlands, Norway and Belgium. At the same time, BYD set up a **R&D centre** in Europe to customize buses to meet the needs of the European market. It also took the initiative to work with more local suppliers.

In the U.K. (which left the EU), BYD formed a strategic partnership with Alexander Dennis Ltd. (ADL), a leading British bus manufacturer. With its own bus chassis, battery and core transmission technology, coupled with ADL's strengths in bodywork and lightweight manufacturing, BYD will launch a revolutionary product in the region.

Local authorities, such as the Netherlands Foreign Investment Agency, have long encouraged BYD's development. The Hungarian government has also given strong support to BYD in setting up a local factory. Currently, BYD is making further investments in the Hungarian factory for its expansion to meet the growing demand for new-energy vehicles in Europe.

Green development is a universal language for China and the EU, and their shared goals of emissions reductions have created more opportunities for the two sides to engage in practical business cooperation. Guided by this reality, BYD brings its leading technology and experience in electric vehicles to Europe; it seeks collaboration with local partners in the entire industrial chain related to new energy, and it leads the new energy and transportation industries to advance in tandem."

1.Adhering to open cooperation in key areas and industrial chains, promoting the commercialisation and large-scale development of the new-energy industry in China and the EU, and helping the two sides and rest of the world achieve climate goals

In 2020, a series of measures, including purchase subsidies and policy-based financial support for new-energy vehicles, were adopted by countries like Germany, France and Sweden. As a result, Europe witnessed a year-on-year growth of 142% in the sales of new-energy vehicles[49], becoming the world's largest market for electric cars. Electric vehicles hit a 54.3% market share in Norway, with the overall cost already lower than that of petrol-powered vehicles[50].

However, on the whole, the EU still has a long way to go before electric cars see large-scale development. There is still huge room for improvement in Europe's new-energy vehicle market. Some EU countries still have an electric car market share lower than 5%, and the average prices of electric vehicles are more than 22% higher than the ones of internal combustion engine vehicles of the same kind.[51] There's an absence of comprehensive supporting infrastructure, for instance with regard to charging points. The ratio of total electric vehicles to available public charging points in Norway is only 24:1[52](compared to 5:1 in China), while it is around 39:1 in other European countries like Iceland[53]. In addition, according to the EU's 2020 Report on Progress of Clean Energy Competitiveness, marine energy, hydrogen energy and smart grids are also at a critical stage where technologies need to be quickly developed on a large scale.

The EU is closely coordinating its Member States to implement a series of internal measures, which will bring opportunities for China-EU green cooperation. These measures include but are not limited to: the revision of the Renewable Energy Directive (RED-II)[54]; the creation of the European Clean Hydrogen Alliance and the European Battery Alliance to promote joint actions in specific key areas; the establishment of Inter-regional

Innovation Investments to provide financial support for joint innovation projects; and the delivery of Important Projects of Common European Interest (IPCEI) to support Member States to work on inter-regional projects and achieve technological breakthroughs.

In the context of the global "chip shortage" and "battery shortage", China and the EU should enhance cooperation in key areas. Chinese enterprises can serve as a complement to the EU in these areas, and can support the region in better responding to the rapidly growing market. According to the EU's new Industrial Strategy, the region is highly dependent on other countries when it comes to raw materials for battery manufacturing, battery cells and other components. Therefore, the EU set up the European Battery Alliance, with the aim to beef up investment in related fields, so that it can achieve strategic autonomy in battery production. The global market in lithium batteries has witnessed exponential growth, while the current production capacity is far from being able to meet the actual demand.

Chinese enterprises can help promote the development of the battery industrial chain in the EU through exports and local factories to meet the needs of downstream industries. In addition, in terms of solar cell and module manufacturing, the EU's cumulative photovoltaic installed capacity amounted to 134 GW in 2019, and is projected to grow to 370 GW by 2030 and to 1051 GW by 2050[55]. After more than a decade of development, China's photovoltaic cells and modules industry, featuring good performance and affordable prices, has gained advantages of scale, making Chinese enterprises the best choice to complement the EU industrial chain and support the EU in meeting its growing demand for photovoltaic products.

The CCCEU's Spring Business Environment Survey shows that **53% of the respondents appreciate the European Green Deal,** while 17% expressed concerns over barriers and restrictions in green industries.

Among the measures the EU has taken to provide support for businesses operating in green industries, the top 8 that Chinese enterprises are most concerned about or looking forward to are listed below.

Better incentivizing mechanisms for technical personnel and researchers in the green economy, which equally applies to foreign-funded enterprises and foreign employees (44%);

Enhancing the strategic importance of the green economy and promoting policy coordination on the EU's policy agenda, including the European Green Deal and the 55% emissions reduction target (38%);

Ensuring equal enforcement of environmental laws (36%);

Establishing effective multilateral mechanisms in the green economy, including multilateral implementation mechanisms and accountability mechanisms (31%);

Continuing to promote China-EU special dialogue mechanisms and technology exchange platforms in related fields (31%);

Expanding subsidies and tax reduction policies for the purchase of new-energy vehicles (26%);

Continuing to promote the development of a green financial market, and encouraging financial institutions, multilateral funds, foreign private funds, public banks and related institutions to enter the market through the provision of hybrid financing products (23%);

Continuing to increase policy-based financial support that covers the green economy, which is equally applicable to foreign-funded enterprises (21%)[56].

After conducting two rounds of surveys and in-depth interviews, the following measures were identified as most conducive to the rapid development of the EU's green economy market and new-energy industry:

• Encouraging Chinese energy companies to enter the European market quickly and help the EU accelerate the commercialization of new-energy technologies;

> 100% of the new-energy companies interviewed believe that they see huge development opportunities in the EU's transition towards a green economy. For example, in the field of new-energy vehicles, since 2020 Chinese passenger car manufacturers – such as Aiways, Xpeng, Weltmester, NIO, and Lynk&Co – have launched their businesses in Europe, offering more options for European consumers and driving the development of the region's new-energy vehicle market. Northern Europe is accelerating the transition to all-electric buses, and BYD electric buses have been operating in many Nordic cities. At the same time, BYD plans to launch a number of new pure-electric trucks in Norway and the Netherlands. Geely has acquired London Electric Vehicle Company to manufacture zero-emission electric taxis and develop new models to be launched in multiple EU Member States, which has enriched the portfolio of new-energy vehicles in the market.

> Among the interviewees, 54% of non-new-energy companies indicated that they are taking the initiative to develop green products and upgrade existing ones. Following the EU's agenda for green transition, Shanghai Lingang Economic Development (Group) Co., Ltd. used green building materials and ensured solar power supply by installing rooftop photovoltaic systems during the construction of the Zeebrugge Modern Industrial Park.[57]

• Encouraging cooperation between Chinese and European enterprises to complement each other. Making use of Chinese companies' technological and cost advantages and the EU's strong manufacturing capabilities, research environment, and technical professionals to drive the transition towards advanced green products

and their application on a large scale.

> Chinese companies are committed to working with the EU to develop alternative and innovative technologies through research efforts, with a strong focus on promoting the application and commercialisation of their technological achievements;

> Chinese companies promote application models, scenario innovation, and integration in Europe; they create potential markets, and provide practical experiences for the world.

Voices of Chinese enterprises:Geely

Leading technological changes, promoting large-scale development

Geely R&D Center located in Gothenburg, Sweden. (Photo source： Geely Auto Group)

As the beneficiary of trade liberalisation in the EU's automotive industry, Geely Holding Group (Geely) entered the European market quite early, and now has a solid business presence in the region. At present, a number of large-scale Geely projects are under way in related areas of the industrial chain, promoting the development of electric and intelligent vehicles, leading technological changes in the electric car ecosystem, and pushing large-scale application of advanced technologies.

Geely is committed to working with its European partners for better development and transformation, and providing two-way development channels. Geely acquired Volvo Cars in 2010, and is now working with Volvo to update its development strategy to support Volvo's transition towards a fully electric car maker. Meanwhile, Geely is also actively promoting Volvo's independent listing in the European market.

In addition, Geely has acquired a stake in Daimler, and the two parties are actively exploring synergies in multiple fields. Firstly, a 50:50 joint venture has been set up to drive the electrification of the Smart brand: in the joint venture, Geely focuses on the R&D, engineering and manufacturing, and sales in the Asia-Pacific region; Mercedes-Benz takes care of the branding in the European and American markets. Secondly, Geely and Daimler jointly established Cao Cao Mobility, a premium mobility service brand, to enter the rapidly growing ride sharing market. The brand has now developed on a significant scale. Thirdly, the two companies have joined hands in investing in emerging areas. Geely took the lead in investing in Volocopter, a Germany-based global pioneer in urban air mobility, with Daimler following suit. In the future, Geely will be committed to promoting localized manufacturing and commercial operation of air mobility services in China.

Geely is exploring more innovative business models in the European market. In 2019 it launched the Cao Cao Mobility app in Paris, and its main models in the European market adopt the TX model of London electric cars. During the Covid-19 pandemic, Cao Cao offers safe mobility solutions for Parisians with its "disinfection and ventilation between rides" approach, which has been praised by many French media outlets. Meanwhile, Geely made an innovative move in promoting the Lynk&Co subscription model, which allows European car buyers to use a Lynk&Co model through a membership community without having to purchase the car. This model turned out to be very popular in Europe.

> Chinese companies are accelerating their local production and R&D in the EU, which will effectively drive procurement, employment, and training of skilled workers in the region. The interviewed new-energy companies indicated that their production and R&D bases will be mainly staffed with local workers. Also, they will source local suppliers due to financial factors, since localized production can help them provide better services. Chinese enterprises have long been attracted to EU manufacturing professionals, quality local supplier resources, and universities and research institutes. Companies like CATL, BYD, and Aiways have accelerated their establishment of production and R&D bases in Europe[58].

Voices of Chinese enterprises: Beijing Enterprises buys Germany's EEW Group

Respect, trust, and growth with partner

EEW Hanover Factory generates renewable energy from solid waste to provide heating to the local community. (Photo source：EEW Energy from Waste GmbH)

Founded 148 years ago, EEW is an energy-from-waste company based in Germany with state-of-the-art technology and management capabilities in the field of waste-to-energy incineration. Beijing Enterprises is a Beijing-based public utilities company that provides gas, water and other basic necessities. The connection between the two companies began in 2016, when Beijing Enterprises, an enterprise with extensive experience in the energy industry, acquired EEW from its former financial investor as a strategic investor; it **has become a close partner of EEW ever since.** Even as a shareholder, Beijing Enterprises has always been committed to **ensuring strategic stability and providing strategic support to EEW** based on equality and mutual trust.

Right after the acquisition, **Beijing Enterprises injected strategic stability into EEW to enhance mutual trust.** Beijing Enterprises highly respects EEW's management team and corporate culture. The CEO, CFO, and CTO – all of whom are EU nationals – stayed in their roles after the acquisition. On the basis of equality and respect, EEW and Beijing Enterprises have organized multiple mutual visits and exchanges for employees at all levels to promote cultural exchanges between Chinese and European companies.

When the acquisition and integration were completed, Beijing Enterprises **provided key strategic support for EEW's continued expansion in Europe,** providing funds and other forms of support in helping EEW build more factories in Europe. With the support of Beijing Enterprises, EEW's installed waste capacity increased from 4.4 million tons before 2015 to 4.76 million tons in 2020, and the electricity generated from waste now serves approximately 700,000 European households.

2. China and the EU will further coordinate on the development of advanced mechanisms in the green sector and play a leading role worldwide

2.1 Facilitating China-EU cooperation in green finance, including green bonds, and promoting sustainable development

Reaching the goal of energy saving and carbon reduction will accelerate the transformation of the energy industry and generate huge demand for funding. The International Energy Agency (IEA) estimates that **investment in clean energy will need to triple by 2030 in order to achieve the global emission reduction target** at the current growth rate of carbon emissions[59]. The EU has set ambitious goals in the field of green finance. According to the EIB Group Climate Bank Roadmap 2021-2025 released in 2020, the European Investment Bank (EIB) plans to use 50% of its total financing loans to support climate action and environmental sustainability. In 2020, the share of EIB investments that went to climate action and environmental sustainability projects rose from 34% to 40%.[60]The EU also dedicated 37% of its recovery plan – named "NextGenerationEU" and amounting to EUR 806.9 billion – to investment in the form of green bond financing to support the EU's green transition. At the same time, China's green bond market is also developing rapidly. According to the People's Bank of China, at the end of 2020 China's green bonds stock reached RMB 813.2 billion, ranking second in the world.[61] In the second quarter of 2021, 84 Chinese issuers issued a total of RMB 99.5 billion of green bonds[62].

China and the EU can join hands to promote financial cooperation in green bonds and other areas, mobilize more funds, conduct multilateral dialogues through the International Platform on Sustainable Finance (IPSF), build a global green financial system, promote long-term international capital flows, and ensure the sharing of benefits for all. 38.5% of the surveyed enterprises regard the EU's policy-based financial support and the development of the green financial market as the most important guarantee for effectively promoting cross-border capital flows between China and the EU, supporting the issuance of bonds in the EU market, and encouraging EU companies to invest in the Chinese market[63].

• **It is of great significance to set coordinated China-EU green finance standards. The common taxonomy catalogue is expected to be released by the end of the year, which marks the start of a new stage of green finance development in China, the EU, and even worldwide.** In 2019, China and the EU set up a Technical Expert Group on Sustainable Finance under the EU Platform on Sustainable Finance to jointly discuss and prepare the China-EU Common Green Taxonomy Catalogue. As of April 2021, the EU had promulgated the EU Taxonomy Climate Delegated Act, and China had launched the Green Bond Endorsed Project Catalogue (2021 Edition). In June, Yi Gang, the Governor of the People's Bank of China, attended the "Green Swan Conference - Coordinating finance on climate", which was jointly organized by the Bank for International Settlements, the Bank of France, the International Monetary Fund and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). He mentioned in the video conference that "China shares about 80% of its green taxonomy standards with the EU". The preparation of the common taxonomy catalogue is near completion, and it is expected to be officially announced by the end of 2021.

• **China and the EU continue to improve the alignment of other green standards, definitions, and policies, which helps guide practices in the global green economy**

> Firstly, China and the EU reached consensus on limiting fossil fuel subsidies, which will accelerate the shift from fossil fuels to clean energy worldwide. The World Bank has specified that only power plants with carbon emissions at less than 250 grams per kilowatt-hour qualify for subsidies. The EU has even stricter conditions than the World Bank, as it set the cap at 100 grams per kilowatt-hour. Meanwhile, the EU is speeding up the phase-out of all fossil fuel investments to obtain more resources for the development of green hydrogen-based renewable energy.[64] In its Green Bond Endorsed Project Catalogue, which was launched in April 2021, China also excluded coal and other high-emission projects from the scope of support.

> Secondly, to effectively tackle green washing, both China and the EU have set stricter standards for access, information disclosure, review and regulations to promote the orderly expansion of the global green finance market. In April 2021, the *ChinaBond Green Bond Environmental Benefit Disclosure Indicator System (Exposure Draft)* was released to improve China's green bond information disclosure system. In July 2021, the EU proposed a regulation on the European Green Bond Standard (EUGBS) to ensure that the right green financial regulatory framework is in place to fully allocate funds raised through bond issuance to projects that qualify for the EU Taxonomy Climate Delegated Act.

> China and the EU have built a regional/global investment principle under common classification standards. In 2018, the China Green Finance Committee and the City of London jointly initiated the Green Investment Principle (GIP) for the Belt and Road Initiative, with an aim of supporting global financial institutions in investing in green and low-carbon projects, in contributing to environmental risk assessment, in supervising information disclosure, and in promoting financial innovation.[65] As of December 2020, the membership of the GIP for the Belt and Road Initiative had expanded to cover 37 signatories and 12 supporters from 14 countries and regions.

2.2 Promoting China-EU carbon market dialogue and cooperation

The carbon market is a cornerstone for achieving climate goals and cutting carbon emissions. The EU is a pioneer in the global emissions trading market. In 2005, a carbon trading system was established in the EU. Operating in thirty countries, carbon quotas, carbon emission rights, certified emission reduction futures, forwards, options, swaps, and carbon futures trading cover 40% of the EU's greenhouse gas emissions.[66] At the same time, with the goal of cutting CO2 emissions by 55%, the EU is launching a large-scale carbon market reform, which will further the development of the EU's carbon market by cutting free carbon quotas, and by extending carbon trading to the more challenging areas of maritime transport, road transport (large and scattered), and construction. However, the EU's introduction of a Carbon Border Adjustment Mechanism to prevent "carbon leakage" and ensure industrial competitiveness has been widely questioned.

China and the EU are working together on carbon market practices, which will promote the development of the global carbon market. In 2013, China launched eight pilot carbon markets, and by 2020 reached a total of over RMB 10 billion in quota transaction.[67] In July 2021, the national carbon market was formally established: it is the largest carbon market in the world by volume with more than 2,000 power plants in phase 1, responsible for more than 4 billion tons of carbon emissions. **China and the EU can seek more cooperation in the following areas:**

• **Deepening China-EU dialogue and cooperation on carbon markets.** In particular, while the EU Carbon Border Adjustment Mechanism is under discussion, the two parties can conduct a dialogue on its effectiveness, technical operability, and compatibility with multilateral frameworks such as the Paris Agreement, to make a rational evaluation of the necessity and effectiveness of the mechanism. At the same time, China and the EU can actively promote investment in specific countries and specific areas under the International Platform on Sustainable Finance to help third countries with their restructuring and industrial upgrading, while maintaining the "Principle of Common but Differentiated Responsibilities" of the UNFCCC, and effectively promoting global climate transformation[68];

• **Hold discussions on carbon pricing mechanisms.** Both China and the EU are major carbon emitters. Research on the carbon trading price mechanisms in China and the EU, and the estimated marginal costs of carbon emissions have great referential value and guidance significance for global carbon pricing, as this can effectively mitigate the lack of reference standards for carbon emissions and carbon pricing across the globe due to complex technology, thereby stabilizing global carbon prices in the trading market;

• **Developing technical cooperation** in carbon footprint calculation and carbon production monitoring to provide experience for other countries to start establishing effective carbon assessment systems, and **taking the lead in promoting the setting of common and fair standards;**

• Advancing the alignment of rules, service standards, and prices **in the two carbon markets,** building more financial functions into the carbon markets, enhancing the development of financing models and instruments in carbon markets, and promoting China-EU cross-border carbon trading and global carbon market liquidity to set a good example for global carbon market connectivity.

2.3 Enhancing biodiversity cooperation

In October 2021, China will host the first session of the 15th Conference of the Parties (COP15) of the UN Convention on Biological Diversity (CBD) via video conference.

China and the EU share the same views on biodiversity conservation and jointly promote the establishment of a global biodiversity framework. China is one of the first countries to ratify the Convention on Biological Diversity. At the same time, the *China National Biodiversity Conservation Strategy and Action Plan (2011-2030)* also proposes that "a complete policy and legal system on biodiversity conservation and a sound mechanism for sustainable use of biological resources will be established. The public will participate voluntarily in biodiversity conservation". Biodiversity conservation is also a 2021 priority of the EU's transition towards a green economy. In May 2020, the EU released its Biodiversity Strategy for 2030, which contains a number of specific initiatives including enhancing the existing legal framework, conserving agricultural ecosystems, restoring soil ecosystems, increasing forest area, restoring oceans and fresh waters, ensuring urban greening, and preventing pollution.

In July 2021, the Secretariat of the UN Convention on Biological Diversity released the first official draft of the Global Biodiversity Framework, which includes four goals for humanity to live in harmony with nature by 2050 and 21 targets for 2030 calling for, among other things: the conservation of 30% of global land and sea areas; a 50% greater reduction in the rate of introduction of invasive alien species; and the reduction in the use of pesticides by at least two-thirds.

In the future, China and the EU can develop cooperation in various fields of biodiversity:

• Jointly building **wildlife-friendly infrastructure** in biodiversity-rich countries in Africa and South America to ensure a sound environment for local biodiversity conservation;[69]

• **Sharing technology, enhancing the co-development of ecosystem models, and promoting the role of technology in protecting biodiversity.** The combination of various monitoring systems is highly encouraged to share practices, databases and platforms. China and the EU can create more powerful and detailed ecosystem models to facilitate policy makers in setting more specific and effective goals. Once monitoring systems, models and policies are in place, technology can help evaluate and implement these policies, and provide evidence for appropriate policy adjustments or extension;[70]

• **Working together to establish a biodiversity conservation fund.** With reference to the Green Climate Fund, China and the EU can jointly establish a biodiversity fund to address the needs of biodiversity conservation. Other countries can make a donation voluntarily or in the form of Official Development Aid (ODA);[71]

• **Jointly participating in the global assessment of biodiversity loss, and other international laws and regulations.** China and the EU can enhance cooperation in improving sustainable taxonomy and biodiversity-related laws and regulations, and join hands to promote the preparation and implementation of the Global Biodiversity Framework.

3. Enhancing green cooperation in third-party markets, helping with the fight against the pandemic, supporting the recovery and reconstruction of local economies, and improving the well-being of humankind

The topic of cooperation in third markets, particularly in developing countries, is of rising importance. [72]At the China-Germany-France summit in July 2021, President Xi Jinping exchanged views with the German and French leaders on supporting the fight against the pandemic and on development in Africa. China welcomes the two countries to join the Initiative on Partnership for Africa's Development, jointly launched by China and Africa for three-party, four-party or multi-party cooperation. The pandemic is exacerbating the imbalances between developed and developing countries. The least developed regions, most of which are in Africa, are still facing a dire situation as the pandemic lingers on, and need a large amount of vaccines, pandemic prevention supplies, and financial support for the ongoing fight. Their post-pandemic recovery will also bring about needs for infrastructure development, health system building, and climate change response. **China and the EU can beef up cooperation to jointly improve industrial development, infrastructure, and people's livelihood in third countries.**

China and the EU share broad consensus on supporting developing countries. Take Africa as an example: in March 2020, the European Commission released the communication "Towards a Comprehensive Strategy with Africa" to build strategic partnerships in various fields such as green transition, digital transformation, sustainable growth, and employment. In November 2020, the China-Africa Environmental Cooperation Centre launched the China-Africa Green Envoy Plan, which is dedicated to joint, high-quality development of the Belt and Road Initiative. In May 2021, China, which held the rotating presidency of the UN Security Council, held a high-level meeting on "Peace and Security in Africa: Addressing root causes of conflict while promoting post-pandemic recovery in Africa" and proposed the Initiative on Partnership for Africa's Development. Since the pandemic outbreak, both China and the EU have played an active role in supporting developing countries to fight the pandemic. As of early September 2021, China had provided more than 1 billion vaccine doses to more than 100 countries and international organizations, and will strive to provide 2 billion Covid-19 vaccine doses globally this year.[73] China will donate another 100 million doses of vaccines to developing countries after it pledged USD 100 million to COVAX, to which the EU is also a main donor. From the China-Germany-France virtual summit, China and the EU see promising prospects for cooperation in third countries.

• **Continuous China-EU cooperation on vaccines through international programs like COVAX will effectively support developing countries' fight against the pandemic and accelerate the global fight.** At the Global Health Summit on 21 May 2021, President Xi Jinping said that China would provide another USD 3 billion in international aid over the next three years to support the Covid-19 response, and economic and social recovery in developing countries. The EU has also pledged to support developing countries suffering from the pandemic and climate change;

• The construction of infrastructure and energy facilities in developing countries by China and the EU will help **support local economic development and reduce global** imbalances. Firstly, supporting the green transition of Third World economies (mainly in Africa) can help developing countries participate in fair trade and avoid falling behind in ow-carbon competition. Secondly, capital from China and the EU in the construction of public facilities in Africa can help developing countries enjoy financing from international green finance platforms, support the industrial development and economic recovery of developing countries, and achieve green and high-quality development, which will advance global efforts to reduce emissions;[74]

• Cooperation between China and the EU in third-party markets can **give full play to each side's strengths in the industrial chain** and achieve the “1+1+1>3” [75]synergy.The EU has advanced technologies and management systems, while Chinese enterprises provide low-cost and high-efficiency products and services and have accumulated extensive experiences in project development and construction in Belt and Road projects. By learning from each other and by achieving mutual benefit and win-win results, China and the EU can drive third countries to accelerate industrial development, and to boost local employment and the training of professional workers through infrastructure construction.

Chapter IV

Digital Economy: Improve market access, enhance cooperation and build a China-EU digital partnership

Overview

A new wave of technological breakthroughs such as 5G, artificial intelligence (AI), and big data have been revolutionizing industries and manufacturing the world over. The ongoing coronavirus pandemic has disrupted the global value chain but speeded up the development of the digital economy, which drives the transformation of traditional industries and supports the sustainable recovery of the global economy.

Viewing the digital economy as an important strategic opportunity, countries are racing for a competitive edge in the growing digitalised world. In the meantime, the awareness of "digital sovereignty" has further increased, taking global digital competition and cooperation into a new phase.

China’s digital economy is booming. In 2020, China's digital economy grew to RMB39.2 trillion (about USD 6.07 trillion), accounting for 38.6 percent of the country's total GDP and up 9.7 percent year-on-year.[76] China has built the world's largest optical fibre network, 4G and 5G independent networking networks. As of mid-July, China had built 916,000 5G base stations, accounting for about 70% of the world’s total; the number of 5G connections has exceeded 365 million, accounting for about 80% of the world's total.[77] Its cloud computing market has expanded explosively, with year-on-year growth of 56.6% in 2020 and a scale of RMB209.1 billion.[78]The number of IoT connections in China had reached 30% of the global share in 2019.[79]By the end of 2020, China had 989 million internet users and the internet penetration rate reached 70.4%. In particular, the total number of mobile internet users exceeded 1.6 billion, and 5G users topped 160 million people, accounting for 89 percent of the total number of 5G users worldwide last year.[80]

The EU sees digital transformation as one of the central pillars to modernise the economy and support economic recovery after the pandemic, and in recent years it has raised its claim for digital sovereignty under the cornerstone of its "strategic autonomy" policy. Since 2020, the EU has published a slew of documents on digital development, such as "Shaping Europe's Digital Future" and "2030 Digital Compass: the European way fo r the Digital Decade", in which it was mentioned that "the EU aims to protect and reinforce its digital sovereignty". The bloc has also released a series of action plans in the areas of digitisation of industries including manufacturing, semiconductors, cloud computing, AI, Internet of Things, and cybersecurity.

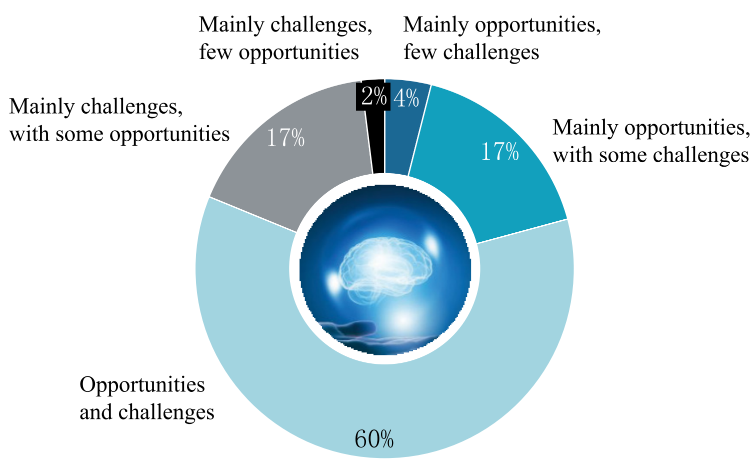
The digital economy is a good fit for global cooperation, and the future of China-EU collaboration in the digital sector is promising. In September 2020, Chinese Vice Premier Liu He and European Commission Executive Vice President Margrethe Vestager co-chaired the first China-EU high-level dialogue in the digital area by video conference, calling on the two sides to grasp the opportunities and seek common ground while reserving differences to promote practical cooperation in the digital arena. Shortly after, China and the EU announced that they would build a digital partnership.

Chinese enterprises have contributed to the development of the EU digital economy. Chinese enterprises in Europe, such as BYD and Huawei, develop intelligent transportation and smart photovoltaics. Enterprises subject to the EU General Data

Protection Regulation (GDPR) store data locally and take other measures to comply with the relevant regulations. Tik-Tok has introduced the multi-platform business model of content creation + e-commerce into Europe and set up a European Transparency Centre in Ireland to enhance mutual trust.

Chinese enterprises stay positive and cooperative towards participating in the development of the EU digital economy. According to two surveys and in-depth interviews with enterprises, the majority of Chinese companies believe that there are both opportunities and challenges in the EU digital economy domain.

Q What kind of impacts do you think EU digital economy will bring about?



Data source: flagship report questionnaire survey, spring business environment survey

Figure 29: Chinese companies in the EU evaluate the impact of the bloc's digital economy

Among the EU's business support measures in the digital economy, the top eight that Chinese enterprises are most concerned about and expect from are as follows: increasing incentives for high-tech and highly skilled personnel and researchers, which shall apply equally to foreign companies and foreign employees (54%); ensuring technology neutrality (44%); updating infrastructure such as EU big data centres, data storage centres, 5G fibre optic networks, future communication technologies, and industrial internet etc. (41%); enhancing coordination between policy-making and industrial development in the digital economy, promoting the acceleration of the Digital Economy and Society Index (DESI) of Member States (38%); reinforcing the transition to a digital, intelligent and sustainable supply chain (38%); ensuring fair and transparent access rules for suppliers of new digital infrastructure and electronic information equipment, including 5G (36%); expecting China and the EU to put in place a mechanism for digital and tech exchanges, leveraging their complementary strengths in R&D (33%); and enhancing the digital transformation of enterprises and the public sector (26%).[81]

This chapter explores the areas of cooperation between China and the EU in the digital economy and proposes needed solutions to help enable the business community contribute to the EU's ambitions in digital infrastructure, talents, and services, and facilitate China and the EU to build a digital partnership.

1. Fair and non-discriminatory market access to EU digital infrastructure, such as the ICT sector and semiconductors, will help shape the bloc's digital future

It has been worrisome that some EU Member States rule out the participation of Chinese enterprises, such as Huawei and ZTE, in the construction of their 5G networks. In January 2020, the EU unveiled its toolbox on 5G Cybersecurity, in which the definition of "high-risk" suppliers has significant impact on the business of Chinese telecommunications companies in the EU. In July 2020, the EU Network and Information Systems (NIS) Strategic Cooperation Organization, with the support of the EU Commission and the European Union Agency for Cybersecurity (ENISA), published the "Report on Member States' progress in implementing the EU Toolbox on 5G Cybersecurity", urging more Member States to implement FDI screening and **reduce their reliance on "high-risk" suppliers,** which led to restrictions on purchases from Huawei in a number of countries including Sweden and France. In March 2021, after the UK, France decided to dismantle all Huawei wireless facilities except those in remote areas, which is expected to take eight years and significantly slow down the country's development in the ICT sector. **The existing Huawei and ZTE equipment has been dismantled forcefully, strangling the actual layout progress of the EU 5G network and wasting a lot of resources, which is against the EU digital and green development principles.**

The access restrictions on Chinese companies are at odds with the EU's rapidly growing market demand for 5G and communications infrastructure. The EU's Digital Compass plans to have all EU households with gigabit connectivity and all populated areas covered by 5G by 2030.

Chinese companies can contribute to the EU's upgrading of digital infrastructure and realizing its 5G development goals:

First, they help effectively accelerate the process of 5G construction in the EU. In the key field of telecommunication equipment, Huawei and ZTE are global leaders with powerful technological skills (Huawei ranked second among the 3,113 patent technology applications issued by the European Patent Office in 2020), and have been cultivating the EU market for as long as 20 years, and have good localisation capabilities and unique advantages in 4G and 5G maintenance services. The Chinese mid-band equipment can effectively reduce the construction costs of 5G networks and support downstream applications of higher quality, such as augmented reality (AR). The global ICT industry boasts a complex supply chain with Chinese companies having built great advantages in scale, their products of reputable performance, reasonable prices, and giant supply volumes, which can timely meet the rapidly growing demand for infrastructure in the EU.

Second, they can share successful application practices at a time when the digital transformation brings opportunities for downstream industry chains and the EU

needs to scale up the 5G rollout. By March, 24 members in the EU had launched 5G[82], but the bloc's overall 5G deployment is still far from sufficient. In surveys and in-depth interviews, 26%[83] of Chinese enterprises believe that insufficient 5G deployment in the EU poses a limitation to their business development. And the latest report released by the China Academy of Information and Communication Technology in July showed that the 5G industry in China has entered the stage of integration, innovation, and applications. Chinese companies are willing to share successful practices to fuel the EU's digital transformation.

Third, they help promote the integration and interoperability of 5G standards. Excluding Chinese companies from the formulation of rules will accelerate the fragmentation of global standards. It is foreseeable that this would also make it difficult for EU companies in the Chinese market, and weigh on the EU's tech leadership in the ICT sector.

What is encouraging is that there have been some rational voices within the EU recently: in June 2021, Austria said that it would not exclude Huawei's entry in its latest public procurement, and French telecom operator Orange also expressed willingness at the Mobile World Congress to actively cooperate with Huawei in African markets.

Voices of Chinese enterprises:Huawei

Facing Challenges, Calling for Fairness, and Continuing to Move Forward

Huawei New Year Campaign (Photo source： Huawei)

Huawei has encountered many difficulties in the past year. First of all, from the aspect of policies, due to restrictions placed by the 5G cybersecurity toolbox and some entry rules, telecommunications equipment, which is Huawei's main business, has been excluded by several EU countries, and the willingness of many stakeholders and partners to cooperate has weakened as a result. At the same time, there has been more and more negative public opinion about possible data leakage by Huawei, and whether cooperation with Huawei would lead to constraints on their technological development. Huawei's business in the EU declined significantly in 2020, and the number of new employees has decreased. Politicising the 5G issue not only hinders the process of 5G deployment in the EU, but also puts many of Huawei's EU employees at the risk of losing their jobs.

While facing tough challenges, Huawei insists on acting as a responsible enterprise. For its existing customers, Huawei continues to provide high-quality services and support. In addition, Huawei is making some business adjustments to proactively adapt to changes, looking for development opportunities in other areas such as software and cloud business. Huawei is willing to grow together with many SMEs in the EU in the digital industry chain and help enterprises improve their digital skills. Huawei also pays great attention to the technical transformation of the existing network, adopting cleaner energy for Huawei's equipment to effectively reduce energy consumption, all of which fit well with the EU development theme.

Huawei continues to be optimistic about development opportunities in the European market in some green areas; **however, access restrictions and influences of politicisation have not been eliminated. Huawei believes that long-term cooperation should rely on the following points: First, fairness and non-discrimination.** Chinese enterprises should be allowed to fairly compete in the European market. Non-technical factors should not play a role in the development of one of the most important sectors in Europe. **Second,** we agree that cybersecurity matters, but **the origins of parent companies of enterprises should not be used as a basis for judgment.** All cybersecurity issues should be judged based on facts, verification, and standards. **Third, many enterprises, including Huawei, have become more cautious about their development and investment in Europe.** If companies are not firm and determined while formulating long-term strategic plans, it will not bring benefits to the stability and long-term development of the European business environment.

Huawei has been calling for a fair and non-discriminatory business environment and believes in the necessity of adhering to two major principles: **First, always rely on laws, verification and standards to resolve differences.** Huawei is working with its customers to establish a cybersecurity verification centre, and adopt objective verification and standards that everyone agrees on to deal with misunderstandings and prejudices arising from business development. **Second,** set up a mutual trust mechanism on data and cybersecurity between the two sides.

Chinese companies in Europe should also take the initiative to participate in local public welfare, adhere to sustainable development, and conduct more cultural and business exchanges to promote more friendly communications between Chinese and European partners, and promote cooperation and development on mutual benefit and win-win principles."

2. Properly regulate downstream application areas such as cloud computing, Internet of Things, AI, etc.; bolster innovation in the digital field

In 2018, the EU General Data Protection Regulation (GDPR), known as one of the most stringent data protection acts in the world, was implemented. In December 2020, the EU proposed two draft acts, Digital Markets Act and Digital Services Act, requiring large enterprises who act as "gatekeepers" to take more responsibility.

From this year, China has explored ways to strengthen regulation over the technology and internet sectors. Recently, China has promoted campaigns against platforms forcing merchants to "choose one over the other," strengthened regulation on tech giants' commission fees, cracked down on online counterfeit products, and adopted a new law on personal information protection.

There is some consensus between China and the EU on strengthening tech regulation, which will help them jointly address issues such as how to regulate tech giants and shore up innovation.

The EU has taken a different path concerning digital regulations. Many countries take a measure of "prioritizing development over regulation", namely loosening controls at the early development stage of innovative enterprises to motivate competition and development, and subsequently, exert control over problems and establish regulations. The EU, however, prioritizes regulation formulation.

The bloc tends to achieve "digital sovereignty" by enhancing regulation. Protected by a series of EU digital and cybersecurity acts, Gaia-X, a cloud computing system co-founded by Germany and France, is breaking the powerful monopoly in cloud computing, making them more localized, which brings more development room for local EU companies in downstream cloud applications.

However, EU digital regulation should take into account the current situation and meet development needs.

First, there is an urgency to develop downstream applications. During the pandemic, numerous users turned to online services, including e-commerce, online education, remote working, and digital entertainment, which potentially tends to last for a long time. This demand combined with advances in AI, cloud services, and IoT-based wearable devices is creating tremendous opportunities. According to the surveys, 64% of Chinese companies interviewed expect to accelerate their business development in multiple application areas of digitalisation and intellectualisation in the EU[84].

Second, as data production grows exponentially, an overly strict regulatory regime may result in a large number of digital resources being left idle.

The EU should strike a balance between regulation and development. 41% of the companies interviewed claimed that EU regulatory restrictions have increased enterprises' compliance costs and operational difficulties[85].

For example, with regard to GDPR, Chinese enterprises believe that there are three issues that need to be addressed:

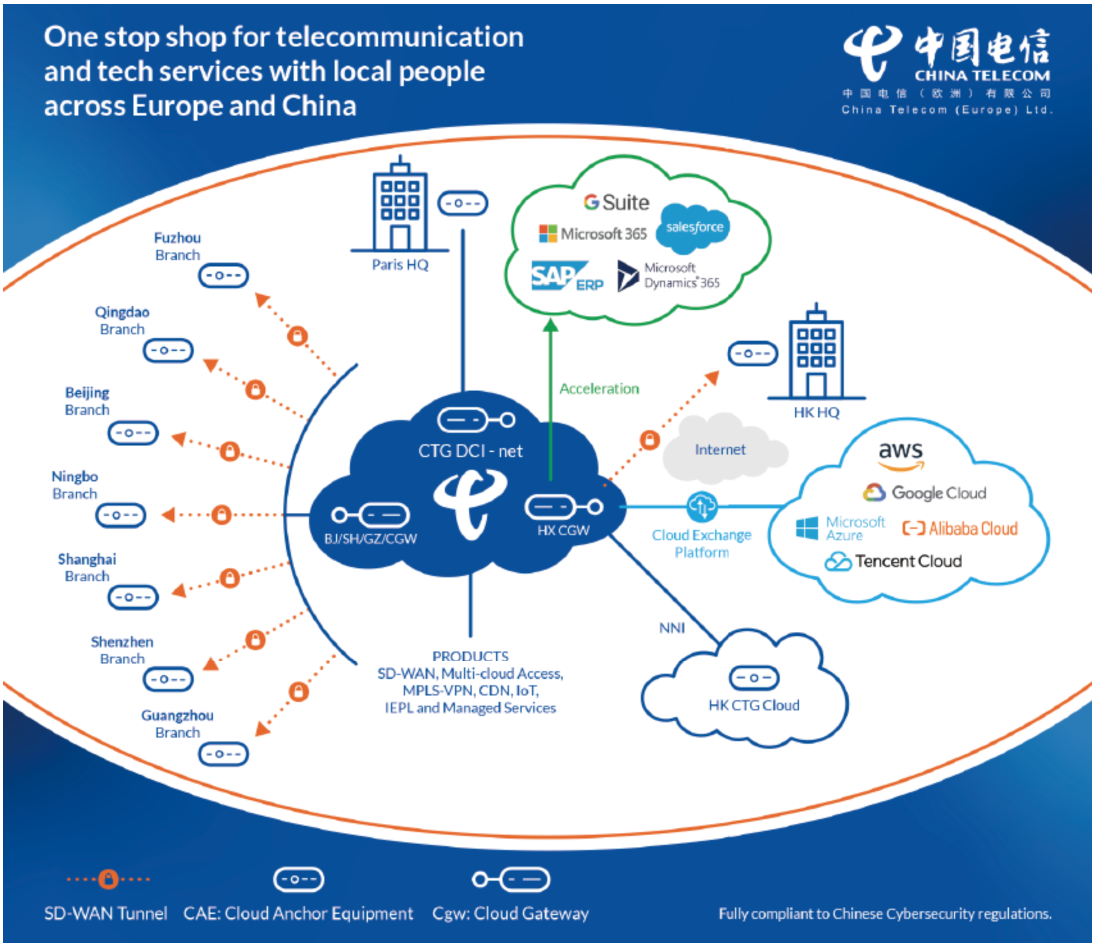
• **The EU needs to evolve definitions of scenarios** to avoid generalisation. Companies interviewed reflect that the GDPR involves a wide range of sectors even as internet application scenarios are changing rapidly; thus the GDPR definition of application scenarios needs to be constantly updated. The EU has acted in this regard; for instance, it released the latest legal framework for AI in April 2021, which takes different control initiatives according to different risk levels, but overall more work to **evolve legal definitions of scenarios needs to be done.**

• **Clear boundaries should be set for data protection regulation and intellectual property protection:** to protect users' privacy and data, some argue that internet companies' algorithms should be made public. Algorithms are usually a core value of enterprises, and disclosing them may interfere with the privacy of businesses. The EU has tried to introduce "interpretability" to address the issue, but the definition of interpretability is still vague and may grant EU regulators much discretion.

• **Avoid the "one-size-fits-all" approach:** EU member states have different languages, needs, preferences, and definitions of sensitive content. Regulation based on the same standard may inhibit the dynamism and flexibility of enterprises in different EU markets.

Voices of Chinese enterprises: China Telecom

Bring more opportunities and stoke vitality in the digital sector



One-stop global communication and ICT solution provider covering Eurasia (Photo source： China Telecom)

"There have been many new opportunities in Europe in recent years. The first is about the development of cloud reform and digital transformation of each telecom group. Now, enterprises including Amazon AWS and Microsoft have completed the construction of the underlying architecture for public domain cloud development, so the future business of telecommunications, including communications, transmission bandwidth and digital solutions should all be put together with cloud solutions, and be integrated with the big data centre, which is a predictable development direction for China Telecom Corporation Limited (hereinafter referred to as "China Telecom"). Second, **IoT applications.** For example, take the chips installed on wire racks in France, they monitor the overall transportation situation in real time; another is the internet of vehicles, which enables insurance companies to learn about driving and energy consumption data through car chips to work better on insurance policies and damage determination, etc. Along with the deployment of 5G networks in EU countries, development of applications will be accelerated, which are key areas that China Telecom will focus on in the EU market.

However, Europe has always been worried about foreign companies in the digital domain in terms of cybersecurity and data protection, and this is one of the problems that constitute a certain soft barrier. For example, the EU has opened the construction of big data centre to Chinese enterprises, but when the EU exerts the management and regulation in the digital field on the project, foreign companies find it difficult to make a profit, which thus objectively restricted the development of China Telecom in applications of downstream cloud and IoT. The EU is currently popularizing mobile applications, digital payments etc. At the 5G level, the overall environment may be lagging compared to China. **China Telecom hopes that the EU can see the opportunities and dynamism that Chinese technology companies can bring in the digital sector.**

At the same time, Chinese companies should respect and comply with the relevant regulations in the EU digital field. China Telecom is helping its partners in the industry chain and supply chain to understand GDPR and other related laws and policies and run their business in compliance with regulations. China Telecom believes that the EU's policy of classifying different application scenarios in areas of AI etc. somehow optimized the business environment and can help promote the performing of actual business, and it looks forward to the continuous improvement and refinement of the policy."

• Reduce the Uncertainty of Digital Policy and Drive the Development of Digital Industry

The formulation of the EU regulatory regime is affected by various factors such as geopolitics and imbalance of internal development. In some cases deliberations are prolonged, policy signals repeated, and uncertainty increased, which makes it difficult for enterprises to make strategic decisions in time. For example, the media reported that the EU put digital taxes on ice under pressure by the U.S. government and tech giants, and consequently some EU Member States where a large number of tech giants are headquartered have to weigh the impact of these regimes on their economies and business environment. The EU should reduce uncertainties in digital policies so that the enterprises can make timely and effective decisions to promote the digital industry development in the rapidly evolving digital era.

3. Maintain technology neutrality and avoid fragmentation of global standards

The EU's dialogue with China on standard-setting and development in the digital economy is insufficient, and 26% of Chinese companies think that this is a "pain point" for cooperation[86]. In "Europe's Digital Decade: digital targets for 2030", the EU said Europe will be linked to its partners in the neighbourhood and Africa, including via terrestrial and submarine cables and a secure constellation of satellites; For India and the ASEAN, it will step up implementation of the EUAsia Connectivity Strategy via new Connectivity Partnerships; and for Latin America and the Caribbean, it plans to set up a digital partnership which complements the launch of the connectivity component of their digital alliance, building on the BELLA Cable; in June 2021, the EU and the U.S. decided to jointly establish the Trade and Technology Council (TTC) at the EU-US summit, with 10 working groups focusing on technical standards, climate and green technology, secure supply chains, IT security, data governance, investment screening, and so on; the New EU

Cybersecurity Strategy released in 2020 emphasizes the strengthening strategic dialogue, sharing best practices, and enabling more effective cooperation with Africa, the ASEAN, and the United States.

Similar situations exist in cutting-edge development areas such as 6G and quantum. The EU's recently released flagship 6G project, Hexa-X, allows non-EU companies to participate but may exclude Chinese companies from its networks. China has hardly shown its presence in the EU's digital policy documents and cooperation dialogues, which has raised concerns among Chinese enterprises about the "fragmentation" of standards in the digital sector.

The challenges faced in the technology sector cannot be solved in an isolated or closed environment, and the fragmentation of digital standards undermines the process of global connectivity. China is a crucial force in the development of the global digital market and technology. Allowing Chinese companies to participate in technology development and standard-setting will play a positive role in the process of global technological development. For example, in the field of quantum technology and 6G, China has experience in quantum communication, quantum computing, quantum simulation, etc. Moreover, China has sufficient 5G experience and is now researching 6G. China-EU cooperation in quantum technology, 6G and other frontier areas of innovation will benefit global digital governance.

4. Improve people's livelihood by leveraging the platform economy and empower the business sector by digitalisation

In January 2021, the EU Observatory on the Online Platform Economy issued an analytical paper “Structure of the online platform economy post COVID-19 outbreak”, stating that **the influence of the platform economy on people and businesses is on the rise.** It noted that with the lockdowns and social distancing measures, most activities (work, communication, education, and entertainment) had to move online, increasing the use of online services and the breadth of users.

A large number of enterprises have tried to start their online business on more platforms, and Chinese platform enterprises are entering the EU market to help reduce the impact of the epidemic. For example, Geely-backed Cao Cao Mobility, a ride-hailing platform, played an important role in sustaining urban travel during the pandemic in Paris, France. In addition, industrial park projects being built under cooperation between China and the EU have been restarted at full speed. Companies such as Shanghai Lingang Economic Development (Group) Co., Ltd. and Wonderful Technology Development (TianJin) Group, Ltd. are seizing the opportunity of cross-border e-commerce generated by the epidemic and are accelerating the development of industrial platforms in port or transport node cities, which are well recognized locally.

Chinese Internet platforms have grown rapidly over the past two decades, which allows more Chinese platform enterprises to enter the EU market to conduct business and so to attract more investment from offline industry platforms, which will help the EU's overall digital development.

• **Promote cross-border e-commerce through industrial parks and online platforms to facilitate the circulation of more products in the EU and provide convenience to the general public in the EU:** China has abundant internet industrial resources covering various fields such as e-commerce, living & travel and Online-to-Offline (O2O) commerce, which can provide plenty of choices and a good experience for consumers in the EU. Meanwhile, as the China-EU agreement on geographical indications has come into force, high-quality products from both sides such as wine, tea, and food, will be circulated widely in the EU market by taking advantage of the platform, and will provide more choices and convenience to consumers.

• Support SMEs and self-employed workers to gain opportunities through platforms and improve the digitalisation of their businesses:

> EU SMEs and self-employed workers can make use of the platforms, increasing job opportunities and promoting their development: the platform economy efficiently matches supply and demand under high flows, and generates more job positions and opportunities for starting private businesses. For example, drivers working with the Geely-backed Cao Cao Mobility platform are all local residents of France; Tik-Tok creates more opportunities for people to run their own social media account and has become a live online display window for retailers.

> Facilitate digitalisation transformation of enterprises: The EU Digital Economy and Society Index 2020 (DESI) showed that the vast majority of SMEs were not yet using technologies such as advanced cloud services and big data analytics. The platforms could help enterprises increase the demand for new service ports and boost their online business awareness and capabilities.

• Help tackle the digital divide: the 2020 DESI also showed that in 2019, the percentage of people who had at least basic digital skills was 58%. Promoting the utilisation of internet platforms can help improve human-computer interaction, create employment in related areas, and help people improve their digital skills. At the same time, platforms are windows for online vocational education, which can help local residents receive digital skills training.

Chapter V

Recommendations to promote China-EU cooperation and development

Persistent, vigorous cooperation between China and the EU in 2020/2021 has been showing a promising future. They have solid common interests on most pressing priorities, such as green and digital transformation. For the EU, the green economy and the digital economy are expected to drive the bloc's economic recovery. China, meanwhile, has announced its green ambitions and pins great hope on digitalisation and intellectualisation. The two share common goals, interests, and values across a wide range of areas of strategic importance.

To deepen consensus, promote cooperation and facilitate development, this Report proposes around 70 recommendations in ten major fields.

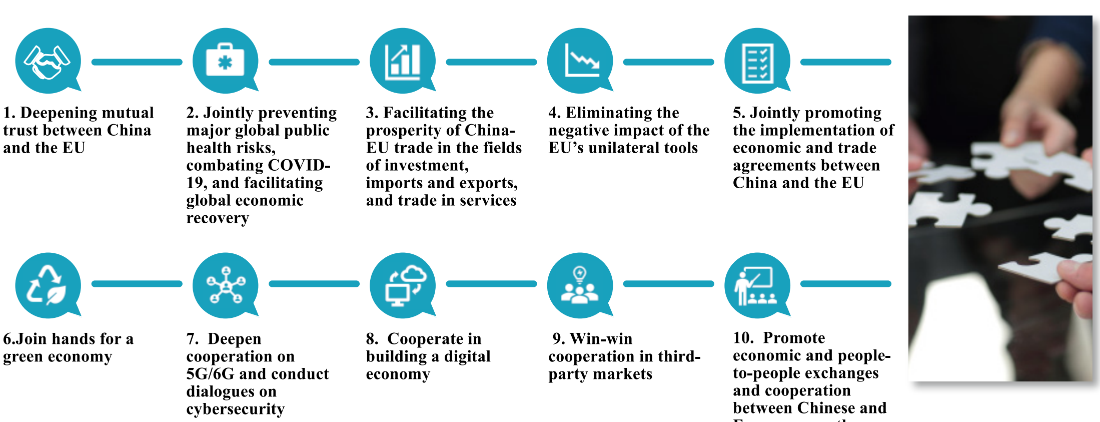


Figure 30. Actions to further advance development and cooperation of China and the EU in ten fields

1.Deepening mutual trust between China and the EU

China and Europe have neither a clash of fundamental interests nor geopolitical conflicts; what they have is a huge need for cooperation.[87] Mutual trust between the two is a major driver for sustainable and healthy bilateral relations and trade ties[88].

The Chinese business community expects the two sides to overcome obstacles, hoping bilateral relations can truly develop into an epitome of friendly coexistence and common development, even with differences in ideologies, social systems, and historical civilizations.

• **Enhancing political mutual trust:** The business community expects China and the EU to have mutual respect on equal grounds, to maintain open communication, and to seek common ground while shelving differences; to join hands in opposing isolation and safeguarding multilateralism; to engage in dialogue on specific issues in troubling fields, such as human rights, trade frictions, and cybersecurity, to contain and resolve their differences; and to deepen cooperation in various areas, including trade, environmental protection, climate change, biodiversity, and international and regional hot issues, thus working together to maintain world peace and stability and to promote common development and prosperity.

• **Intensifying high-level dialogue and exchanges:** The Chinese business community welcomes the positive outcomes from the China-EU leaders' virtual meetings and is looking forward to the 23rd China-EU Summit. They expect the bilateral high-level dialogues on trade, environment, digital cooperation, culture, human rights, and cybersecurity to remain open. The two sides could consider establishing new high-level dialogue mechanisms on innovation, global governance and many more.

• **Formulating the China-EU 2025 Strategic Agenda for Cooperation:** The China-EU

2020 Strategic Agenda for Cooperation jointly formulated by China and the EU in 2013 has expired. In September 2020, Chinese and EU leaders agreed to maintain communication on the China-EU 2025 Strategic Agenda for Cooperation. The business community expects China and the EU to set an ambitious 2025 strategic agenda for cooperation in a timely way, and deepen their comprehensive strategic partnership.

• **Creating synergies between their strategies:** China and the EU should seek synergies between their long-term strategies. In 2020, the EU launched NextGenerationEU, whereas in 2021 China announced its 14th Five-Year Plan. The business community expects China and the EU to strengthen talks and set up synergies between their visionary strategies and fully tap into the potential for bilateral cooperation.

2.Jointly combating Covid-19, preventing future global public health risks and facilitating the global recovery

As two major powers in the world, China and the EU should step up cooperation in public health, and jointly equip the world with better preparedness for the next possible pandemic.

Promoting vaccine recognition and interoperability of digital vaccine certificates: Two vaccines developed by China have been included in the emergency use listing of the World Health Organization (WHO) this year while Sinovac-CoronaVac has been under rolling review of the European Medicines Agency (EMA) since May. It is hoped that the review will be wrapped up soon.

This Report also suggests the two sides seek mutual recognition of vaccines and, on top of that, to work on the interoperability of their various digital vaccine certificates to help resume normal personnel exchanges between China and the EU.

• **Enhancing support for COVAX:** China and the EU should jointly intensify their support for COVAX by providing more funds or vaccine production capacity to improve the accessibility and affordability of vaccines in developing countries that would help put an end to the pandemic sooner.

• **Working on the fight against Covid-19:** China and the EU should strengthen their cooperation in the fight against Covid-19, including prevention and scientific research. They should also work together to better respond to the next possible pandemic.

• **Expanding cooperation on healthcare:** As the EU has advantages in basic research, China and the EU could explore cooperation in fields such as prevention and control of emerging infectious diseases, biomedicine, emergency response management, strategic material reserves, high-end medical devices, and development of advanced medical protective materials. China and the EU could also jointly promote international public health cooperation and help countries in need improve their health systems.[89] Chinese and EU enterprises and universities should be encouraged to jointly establish more public health and medical laboratories. Meanwhile, in view of their aging societies, China and the EU could further bolster their cooperation on nursing care and others in this regard.

3. Facilitating bilateral investment and trade

China-EU trade hit a new high in 2020 and China has since stayed as the bloc's top trading partner in goods. China and the EU should further shore up their economic ties, give full play to their respective complementary advantages, support the China-Europe freight trains in the creation of greater value; and jointly promote the liberalisation and facilitation of global trade and investment.

3.1 Offering comprehensive investment information and services to foreign enterprises

The European Commission has introduced projects such as "InvestEU Portal" and "Access2Markets" to serve as gateways for foreign companies or investors. It is recommended that EU institutions also display an overview of the EU market, foreign capital access conditions, foreign investment review and approval procedures, and other relevant policies through multiple channels, to further improve the information service for foreign enterprises investing in the EU market.

• Improving services for matching project resources: When foreign enterprises intend to expand their investment in the EU and seek to venture into multiple EU Member States, the cost of identifying high-quality projects resources is high. It is recommended that relevant EU departments continue to play their role in attracting investment by promoting investment projects of EU Member States in the form of promotional events or project databases;

• Providing more professional services: The development of foreign enterprises in the EU, especially small and medium-sized enterprises, often needs professional input of services including finance, regulations and human resources. It is recommended that relevant EU departments and the Member States provide more resources for matching professional services and more information on access to the EU market.

3.2 Facilitating the China-Europe freight trains in creating greater value to support logistics

Since 2020, Covid-19 and the congestion in the Suez Canal have taken a toll on global logistics. Against this backdrop, the China-Europe freight trains play an increasingly significant role in ensuring stable transportation between China and Europe. However, the further development of the Express trains has encountered challenges, such as port congestion and low efficiency. Take Małszewicze Transshipment Cargo Station in Poland as an example: about 40% of China-Europe freight trains pass through the port, but the daily capacity of the port has long been only 14 pairs. In 2020, container transit took 4-6 days on average, and sometimes more than 10 days in case of severe congestion. Such low efficiency can hardly meet the growing demand for the China-Europe freight trains[90]. To remove the bottlenecks in development, it is suggested that the EU takes the following measures to support the China-Europe freight trains in creating greater value and in leading the development of the European logistics industry:

• **Increasing investment in ports to promote the development of local economies:** The shortage of funding for infrastructure at the Małszewicze Port and other key ports should be addressed through additional investment. Meanwhile, more supporting infrastructure at the ports, like logistics bases and warehouses, should be built to promote the development of the logistics industry in the EU's port cities.

• **Improving the smartness of port operations:** It is recommended to promote the application of automated container scheduling systems at major ports along the China-Europe freight train routes to improve the processing.

• **Strengthening customs cooperation:** China and the EU should reduce the number of custom declarations and related costs, and support the China-Europe freight trains in expanding its business scope; they should strengthen mutual recognition and cooperation with "authorised economic operators" (AEOs) in countries along the Express routes, support the construction of bonded supervision zones, and strengthen information sharing and interconnection.[91]

• **Increasing investment in railway infrastructure for sea-rail multimodal transport:** It is recommended to increase investment in port-rail links in ports like the Piraeus in

Greece and Zeebrugge in Belgium, electrify existing old rails in Greece and in other countries, build more dedicated freight links, and improve freight turnover efficiency to provide more diversified local transportation means in the EU.

• **From a broader perspective, it is recommended that the EU further step up its infrastructure construction efforts to improve the competitiveness of its logistics industry.** It is recommended to accelerate the EU's progress in implementing the updated "Connecting Europe Facility" program to improve its transportation, energy, and digital infrastructure, and to truly meet the needs in terms of infrastructure development.

• **It is recommended that the EU's "Global Gateway" adheres to the concept of consultation, contribution, and shared benefits,** and that the EU engages in extensive, in-depth policy communication with China and other partners to ensure the convergence of all parties' strategic objectives. It is also recommended to explore convergence and coordination between the EU's Global Gateway and China's Belt and Road Initiative[92].

3.3 Promoting trade in services

As China and the EU strongly complement each other in terms of trade in services, and have considerable potential for development, it is recommended to:

• **Deepen dialogue and cooperation regarding trade in services:** Focusing on the digital economy, China and the EU should facilitate the in-depth integration of their trade in service industries, and promote extensive application and cooperation in services like telemedicine, online education, sharing platforms, collaborative offices, and cross-border e-commerce.

• **Establish diversified partnerships:** China and the EU could establish and develop diversified partnerships among governments, international organizations, business associations, and enterprises, and join hands in supporting the establishment of the Global Trade in Services Alliance. [93]China and the EU could make full use of platforms such as the China International Fair for Trade in Services and the China International Import Expo to develop healthier, more diversified trade relations.

• **Advance the integration of financial supervision within the EU:** Chinese enterprises in the EU welcome the establishment of a unified EU financial market. It is suggested that when foreign banks open branch offices in member states, the approval procedure could be accelerated, with more efficient service.

• **Help Chinese service enterprises better localise in the EU:** It is recommended that the EU provide more information regarding policies on industry supervision, data governance, and others.

4. Eliminating the negative impact of the EU's unilateral tools

Chinese enterprises in Europe have been complying with local rules and regulations when carrying out their operations. The EU's original intention of facilitating a fair, equal trade environment by launching unilateral tools is understandable, but the "inward-oriented" inclination of such tools has raised concerns. It is wished that the European market creates an open, non-discriminatory business environment for foreign enterprises, including Chinese ones.

4.1 The EU's FDI screening efforts should avoid over-regulation

In recent years, the EU's FDI Screening Regulation (hereinafter, the "Regulation") has been extended to an increasingly longer list of industries. For example, some EU Member States have included industries such as medicine, health, and minerals in the review. In addition, the review period is becoming increasingly longer: the time limit has been extended from 2 months in 2018 to 6-8 months in 2020, increasing transaction costs and adversely affecting foreign investment in Europe. It is recommended that the EU and its Member States shorten the review list and set a reasonable review time limit to reduce uncertainties in the transactions of enterprises.

• **Simplifying the list of FDI review:** The simplification of the list is conducive to free flow of factors of production, especially capital and personnel, and to a balanced development of relevant industries in the EU. When it comes to the automobile industry, for example, the Italian government in 2021 listed it as a strategic industry, initiating a review of Chinese company FAW's acquisition of IVECO's commercial vehicle business and eventually rejecting the transaction, which hindered IVECO's restructuring and the development of Italy's automobile industry to some extent. It is recommended that the EU further simplify its list of FDI review and support the enthusiasm of foreign enterprises in investing in Europe.

• **Setting a reasonable review time limit:** It is recommended that the EU reduce the review time limit to a maximum 90 days, that it improves transparency, and that it reduces the duration and costs for both sides of a transaction.

• **Calling on EU Member States to abandon their temporary strict review policies as soon as possible:** In order to prevent predatory acquisitions during the Covid-19 pandemic, some EU Member States introduced a temporary, stricter review system. It is recommended that the EU guide its Member States to withdraw these temporary special-review policies as soon as possible after the pandemic to ensure the stability and consistency of investment review policies and to promote foreign direct investment in Europe.

4.2 Legislation on foreign subsidies should reduce uncertainties, avoid new distortions and discrimination

• **Reducing the legal uncertainty:** It is suggested that the EU advance new legislation regarding foreign subsidies with caution: the new legislation should rightly identify the issuers and recipients of foreign subsidies to minimize the legal uncertainty. It is also recommended to consider the particularities of different industries and transactions, and to raise the threshold for subsidy exemption. Lastly, it is recommended to adhere to the principle of non-retroactivity of the law.

• **Avoiding new distortions and discrimination:** The proposal, once implemented, may create discriminatory treatment against foreign enterprises in Europe, for instance, by imposing additional burden and costs upon them with regard to declaration obligation linked to subsidies; or, for example, too long a review period would put foreign enterprises at a disadvantage in public procurement bidding. Thus, it is recommended that the new legislation eliminate such negative repercussions, and avoid new distortions and discrimination against foreign enterprises.

4.3 Advancing other unilateral tools – e.g. rules on sustainable corporate governance and the international government procurement mechanism – with caution

• **Chinese enterprises take the initiative in practising sustainable development and fulfilling corporate social responsibility.** It is recommended that the EU and China intensify policy dialogue on information disclosure and public procurement, enhance strategic mutual trust and understanding, and resolve disputes in a pragmatic manner under a bilateral or global framework to create a fair business environment for enterprises, avoid undermining the stability of global supply chains and industrial chains, and safeguard the common interests of the international community.

• **Sustainable corporate governance should be pursued with caution.** The European Commission is expected to present a proposal for the Corporate Sustainability Reporting Directive – including due diligence of supply chains – in October 2021. The scope of supply chain due diligence may be expanded to cover non-trade fields, which raises concerns among enterprises. It is recommended that this legislation is pursued with caution to avoid the formation of new indirect barriers to market access and the intensification of the impact of "non-technical factors" on fair market participation and cooperation opportunities for Chinese enterprises in Europe.

5. Jointly promoting the implementation of economic and trade agreements

5.1 Facilitating the timely signing of the EU-China Comprehensive Agreement on Investment

The EU-China Comprehensive Agreement on Investment is about two-way investment. The business community expects China and the EU to adopt measures to promote the signing and implementation of the agreement:

• **Increasing dialogue and mutual trust regarding the Agreement:** Through communication among the Chinese and EU governments, industries and all societal levels, trust and understanding between China and relevant EU institutions and EU Member States should be promoted to eliminate doubts and misunderstandings. It is recommended that the EU sees China's efforts in promoting the signing of relevant conventions, and work with China to establish dialogue and mutual trust.

• **In the long run, China and the EU could explore the possibility of free trade agreement negotiations as early as possible based on the EU-China Comprehensive Agreement on Investment.**

5.2 Offering greater support to trade in agricultural products based on GI agreement

The China-EU Agreement on Geographical Indications offers effective comprehensive protection and promotion for high-quality products of China and the EU: geographical indications will enter each other's markets and provide more choices for Chinese and European customers in their pursuit of a better quality of life. After the Agreement entered officially into force, relevant Chinese ministries and commissions have taken multiple measures to promote European agricultural products. For example, in 2020 the Ministry of Agriculture and Rural Affairs and the Ministry of Foreign Affairs jointly held the first China-CEEC Virtual Expo for Premium Agro-products to promote the sales of special agricultural products – such as Bulgarian yoghurt and Greek olive oil – in China, in the form of live streaming commerce. We call on the EU to step up the promotion of Chinese agricultural products:

- **Providing greater support for the trade of agricultural products between China and the EU:** We hope that the Agreement benefits Chinese and European enterprises and societies as early as possible, and that China and the EU can promote the mutual recognition of more products with geographical indications and include more Geographical Indications from China and the EU in the lists annexed to the Agreement;

- **Stepping up the promotion of Chinese agricultural products in Europe:** As of July 2021, 110 Chinese Geographical Indications have been included in the lists annexed to the China-EU Agreement on Geographical Indications. The EU and its Member States should increase their support for the promotion of Chinese Geographical Indications in the EU market.

6. Joining hands for building the green economy

China and the EU share the same goals and vision with regard to the green economy. As highly complementary partners, both see great potential for cooperation in this field.

6.1. Jointly participating in the development of China-EU green economy and accelerating the green transition

It is recommended that the EU and China adopt active policies to encourage enterprises of both sides to build a green economy:

- **Ensuring stronger policy incentives and transparency, and encouraging Chinese companies to participate in the construction of new-energy infrastructure in the EU.** In order to promote the development of the new-energy industry in Europe, the EU should keep the door open for foreign investors to invest in and operate new-energy infrastructure projects, and encourage more companies to participate in the investment and construction of charging points, battery swapping networks, and distributed energy systems. The EU should also provide financial support to lower the cost of developing charging and battery swapping networks in the EU for new-energy vehicle companies. It should also expand pilot projects for urban electric buses to raise public awareness around green energy, and to help promote its green transition in public transport.

- **Creating a fair policy environment for the new-energy vehicle industry, and providing more support.** When introducing supporting measures such as corporate subsidies and tax reduction, the EU should ensure equal treatment to foreign companies, including Chinese-funded companies, to create a fair policy environment. It is recommended that the EU continues to ease some business policies, such as lowering import tariffs on power batteries, and shortening the waiting time for import clearance and inspection of production materials. Some Chinese companies express their hope to communicate directly with relevant authorities about possible support. Therefore, it is recommended that the EU open an express channel for businesses and production professionals. The market is taking a "wait-and-see" approach since the current initial purchase prices of new-energy buses are higher than those of diesel vehicles. In response, it is desirable that EU countries continue to provide more policy support for all-electric buses.

• **Facilitating the transportation of new-energy vehicles and expanding two-way exports.** Currently, China's new-energy vehicles are exported to Europe mainly through roll-on/roll-off ships, featuring few routes, high costs, long journeys, big uncertainties, and high carbon emissions. Compared with sea and land transportation, rail transport is more economic, stable and less carbon-intensive. However, shipping procedures with container ships and China-Europe Express trains are complicated. In addition, lithium battery-related products may be subject to special controls. It is, therefore, recommended that authorities in charge of customs and quarantine, and other authorities both in China and the EU simplify restrictions on the transportation of new-energy vehicles via container ships to promote the two-way export of new-energy vehicles.

• **Working together to develop new application scenarios and business models for green economy.** In the field of frontier green technologies such as clean energy and carbon-capture technology, it is desirable that the EU develops, under the Horizon Europe framework, a special China-EU program for joint research and for top-talent training in green technologies. The two sides can enhance joint research and development, design innovative models that respond to the needs of the two markets, and accelerate the commercialization of green technologies.

6.2. Jointly setting green finance standards with global influence

The joint development of green finance standards can facilitate China's and the EU's role in setting investment priorities for global green finance, thus enabling the two sides to have a bigger say in international rule-making for financial markets, and to direct green capital towards the EU market. The EU can take the following measures to enhance China-EU cooperation in green finance:

• **Accelerating the mutual recognition of green finance taxonomies between China and the EU.** China and the EU should accelerate cooperation, identify key differences, and achieve mutual recognition of their respective green finance taxonomies.

• **Studying and launching common standards for green bonds and the disclosure of related information.** The two parties should gradually expand the scope of their cooperation in green finance. Their central banks could work together to seek cooperation in developing international standards for green bonds and green ratings, and on compliance rules for the disclosure of relevant information, among other things.

• **Working together to create world-class green finance standards.** China and the EU should adopt common green finance standards for investment and financing launched by international multilateral banks such as the World Bank, the European Investment Bank and the Asian Infrastructure Investment Bank, and turn them into green finance standards with global influence.

6.3. Enhancing carbon-market dialogue and cooperation, and adopting a cautious approach on the Carbon Border Adjustment Mechanism

The EU has proposed a Carbon Border Adjustment Mechanism which may affect negotiations on remaining issues related to market dynamics, and lead to double taxation, causing international concern. It is recommended that the EU take a prudent approach to the development of a unilateral Carbon Border Adjustment Mechanism and enhance its cooperation with China on carbon markets:

• **Deepening China-EU dialogue and cooperation on carbon markets.** The two parties can conduct dialogues on the carbon border adjustment mechanism and discuss its effectiveness, technical operability, and compatibility with multilateral frameworks such as the Paris Agreement, to make a rational evaluation on the necessity and effectiveness of such mechanism;

• Actively promoting **investment in specific countries and specific areas under the International Platform on Sustainable Finance** to help third countries achieve the restructuring and industrial upgrade, safeguard the "Principle of Common but Differentiated Responsibilities" of the UNFCCC, and effectively promote global climate transformation;[94]

• **Conducting discussions on carbon pricing mechanisms.** The research on carbon pricing mechanisms of China and the EU, and the estimated marginal costs of carbon emissions, have great value for global carbon pricing, and can help stabilize the global carbon prices in the trading market;

• **Developing technical cooperation on carbon footprint calculation and carbon production monitoring** to provide experience for other countries seeking to establish effective carbon assessment systems, and to take the lead in promoting the setting of common and fair standards;

• **Advancing the alignment of rules, service standards, and prices in the two carbon markets,** building more financial functions into the carbon markets, enhancing the development of financing models and instruments in carbon markets, and promoting China-EU cross-border carbon trading and global carbon market liquidity to set a good example for global carbon market connectivity.

6.4. Enhancing cooperation on biodiversity conservation

The first and second sessions of the 15th Conference of the Parties (COP15) of the UN Convention on Biological Diversity (CBD) will be held in October 2021 and in the first half of 2022, respectively. They will herald opportunities for China and the EU to deepen cooperation on biodiversity conservation. China and the EU are currently working together to share environmentally friendly development ideas, develop ecosystem models, and set up an international ecosystem fund. With a group of world-leading experts in biodiversity conservation, the two regions can build an official research cooperation framework for further collaboration on biodiversity conservation.

• **Jointly** building **wildlife-friendly infrastructure** in biodiversity-rich countries in Africa and South America to ensure a sound environment for local biodiversity conservation[95].

• **Enhancing the co-development of ecosystem models, and promoting the role of technology for biodiversity protection.** The combination of various monitoring systems is highly encouraged to share practices, data, and platforms. Creating more powerful and detailed ecosystem models will facilitate policy makers in setting more specific and effective goals. Once monitoring systems, models and policies are in place, technology can help with policy evaluation and implementation, and provide evidence for appropriate policy adjustments or for the extension of existing policies[96].

• **Working together to establish a biodiversity conservation fund.** With reference to the Green Climate Fund, China and the EU can jointly establish a biodiversity fund to address funding needs. Other countries can contribute with donations, either voluntarily or in the form of Official Development Aid (ODA)[97].

•**Jointly participating in the development of international laws and regulations for the assessment of biodiversity loss.** China and the EU can enhance cooperation in improving sustainable taxonomy and international biodiversity-related laws and regulations, and join hands in promoting the preparation and implementation of the Global Biodiversity Framework.

7. Enhancing cooperation on 5G/6G and conducting dialogues on cybersecurity

While 5G is empowering industries, global 6G pre-research has started. 5G and 6G are set to integrate into the manufacturing, energy, healthcare, and transportation industries to drive the transition to digitalisation.

However, over the past few years, 5G has been used as a geopolitical tool. Some EU countries have labelled Chinese companies as "high-risk suppliers" directly or indirectly excluding them from 5G construction. **This Report urges the EU to provide an open, fair, and non-discriminatory market for China's telecommunications companies.**

• **Avoid politicisation of business,** remove restrictions on so-called "high-risk" suppliers with non-technical factors. Cybersecurity matters but where the parent company is located should not be used as a basis for addressing security issues.

• **"Key areas" of digital infrastructure should be clearly defined** and foreign enterprises should be granted equal access to the EU's digital market. The complementary advantages and vitality of China and the EU in the supply chain should be given full play.

• **Cybersecurity should not be cited as a discriminatory restriction for market access.** The EU should provide clear cybersecurity regulations, standards, and implementation guidelines.

• **Enhance coordination on cybersecurity standard-setting. The EU should work with China to** jointly promote the formulation of international standards and avoid fragmentation.

5G cybersecurity is a major global concern. China has implemented its cyber security law in June 2017, with the data security law and the Regulation to strengthen protection over critical information infrastructure taking effect from September. It will also enforce the Personal Information Protection Law this November. **China and the EU**

should build mutual trust in cybersecurity as soon as possible[98].

• **The Personal Information Protection Law and the GDPR provide common ground for China-EU cooperation on data security.** China's Personal Information Protection Law draws on relevant provisions of the EU's GDPR, with major content consistent with the GDPR. This provides a consensual basis for cooperation on data security between the two sides.

• **Initiating negotiations on China-EU data security agreement.** The Personal Information Protection Law stipulates that in case of international agreements signed by China involving the outbound flow of personal information, the provisions of bilateral agreements shall take precedence. Under such circumstances, China and the EU are in a good position to commence negotiations on data security agreement.

• **Controlling divergence in data investment and trade.** According to the Data Security Law, if a foreign government imposes discriminatory restrictions on China in data-related investment and trade, China may take reciprocal measures case by case. In this context, China and the EU should engage in more dialogue to prevent the escalation of friction in this field.

• **Establishing an intergovernmental agreement on data security cooperation.** China proposed the Global Initiative on Data Security in September 2020, calling on countries to foster an open, fair and non-discriminatory business environment for mutual benefit, win-win outcomes and common development. The EU should work with China to promote data security under the principle of extensive consultation, joint contribution and shared benefits.

• **Maintaining China-EU cybersecurity dialogue.** As of 2020, the China-EU working group on cyber affairs had met seven times. It is suggested that both sides convene the

8th meeting as early as possible, and strive to establish mutual trust and assurance mechanisms in areas such as infrastructure security and digital asset security.

8. Cooperating in building a digital economy

8.1. Strengthening China-EU cooperation on digital economy under the China-EU Digital Partnership

China and the EU have established a mechanism for high-level dialogue on digital cooperation and joined hands to build a digital partnership. It is suggested that the following measures be taken to enhance exchanges and cooperation between the two sides on the digital economy.

• **Creating multi-level China-EU dialogues on digital economy.** Based on the China-EU high-level dialogue on digital cooperation, it is recommended that the EU departments establish multi-level bilateral dialogues with their Chinese counterparts to implement the agreements between Chinese and EU leaders and their high-level dialogue on digital cooperation, to deepen Sino-EU digital policy dialogues and exchanges.

• **Expanding the scope of topics for discussion and enriching the content of cooperation.** It is proposed that the EU and China consider setting up thematic working groups on issues at the forefront of digital economy. Apart from cybersecurity and ICT standards, dialogue should be expanded to cover cutting-edge topics such as AI, smart city, digital currency and so on. At the same time, China-EU cooperation on digital economy should be enriched by setting up funded research projects, joint talent training programmes or industrial exchange platforms.

• **Reinforcing cooperation on cross-border data flow.** On the basis of protecting personal privacy and trade secrets of enterprises and safeguarding national security, it is advised that China and the EU work together on cross-border data flow, and consolidate the fundamental work on principles, systems, standards and technologies to promote open, orderly and secure cross-border data flow.

• **Promoting China-EU cooperation on the European cloud initiative GAIA-X.** Chinese companies boast world-leading technologies and application experience in the field of cloud infrastructure. The EU can strengthen collaboration with Chinese enterprises at the frontier of technological research and innovation to boost the development GAIA-X.

8.2. Broadening cooperation on basic research and application development to stimulate innovation in business models

It is recommended China-EU cooperation in the R&D and application of digital economy be strengthened.

• **Enhancing R&D cooperation.** China and the EU can set up more cooperation projects on digital economy research, share R&D results and help the two sides make continuous breakthroughs in basic research;

• **Increasing cooperation on application development and business model innovation.** In the field of application development for subjects such as smart city and industrial IoT, China and the EU can jointly explore how new technologies can be translated into solutions in specific scenarios and how to innovate business models.

8.3. Ensuring equal participation of Chinese enterprises in the formulation of EU industry standards

High-quality EU industry standards are conducive to promoting the transformation of EU industries, improving their overall competitiveness and enhancing the international influence of EU digital economy rules. The EU's dialogue with China on standard-setting and development for digital economy is insufficient. And as China still figures little in the EU's policy documents, cooperation and dialogues in the digital area, Chinese enterprises are concerned about the "fragmentation" of standards in this area. The challenges in the technology sector cannot be solved in an isolated or closed manner, and fragmented digital standards undermine the progress of global connectivity. China is a major force in the development of global digital markets and technologies. Inviting Chinese enterprises to participate in technological R&D and standards setting will have a positive effect on the global advancement of science and technology. It is suggested that relevant EU industry associations involve Chinese enterprises with leading technologies in standard-setting.

• **The participation of Chinese enterprises in the formulation of EU standards will enhance the applicability of EU digital standards.** It is recommended that the EU make joint efforts with the European Committee for Standardization, the European Committee for Electrotechnical Standardization, the European Telecommunications Standards Association and other influential industry associations to be open to Chinese enterprises' participation in the formulation of industry standards, such as those for unmanned aerial vehicles and smartphone products. This will also ensure EU standards are more universally applicable.

• **The participation of Chinese enterprises will help make EU digital standards forward-looking.** Chinese enterprises' involvement in setting EU industry standards, such as those for software and automobiles, will help ensure the foresight of EU standards and enhance the EU's voice in standard setting worldwide.

9. Win-win cooperation in third-party markets

China has a wealth of experience in cooperation on infrastructure construction and production capacity while Europe shares common languages and enjoys a long history of interaction with Africa and Latin America. The two sides can actively further cooperation in third-party markets on topics such as the fight against the pandemic, poverty reduction and sustainable development, which can help strengthen the EU's clout on global issues, and develop and benefit third-party markets.

• **Establishing a regular mechanism for cooperation in third-party markets.** Based on the existing Sino-French and Sino-German third-party cooperation, set up a China-EU regular mechanism for third-party cooperation, and create a corresponding project information library and risk database; set up more funds for third-party cooperation, and encourage private capital to actively participate in China-EU third-party market cooperation.

• **Developing a list of third-party cooperation projects.** Draw up a list of representative China-EU projects in Africa and Latin America to help EU Member States and private enterprises understand China-EU cooperation in these regions and showcase good practices for subsequent cooperation between Chinese and EU enterprises in third-party markets.

• **Jointly increasing international development assistance.** In the fight against the pandemic, infrastructure construction, poverty alleviation and skills training, China and the EU should address the needs of local people, leverage each other's comparative advantages, design and implement projects together, and jointly provide more feasible development assistance to third-party markets. It is advised that China and the EU increase their support and assistance to Africa, invite France and Germany to join the "Partnership for Africa's Development" initiative launched by China and Africa, and participate in tripartite, quadripartite or multiparty cooperation. In the meantime, China and the EU are actively supporting Africa in improving local production capacity of vaccines. China has signed debt relief agreements or reached debt relief consensus with 19 African countries, and constructively participated in Africa's sustainable development plans such as the Great Green Wall in Africa. In addition, it is expected that the EU will provide more vaccine doses to African countries in urgent need and assist Africa in coping with the debt pressure so that the continent can recover its economy and pursue green and low-carbon development as early as possible.

10. Promoting China-EU youth communication and cooperation in economic and cultural areas

People-to-people exchanges is one of the major pillars for the development of China-EU relations. Promoting dialogue and exchanges between Chinese and European youth will enhance bilateral understanding, help build mutual trust, and deepen economic and trade relations between China and the EU. It also allows Chinese and European people to strengthen their friendship, thus injecting vitality and impetus to the future of China-EU relations. The two sides have announced that they would hold the sixth round of the China-EU High-Level People-to-people Dialogue in China in 2022. Accordingly, to enhance the depth and breadth of exchanges between the two peoples, it is proposed that China and the EU take the following measures:

• **Promote cooperation and exchanges between youth leaders of China and the EU.** By learning from each other, young people from both sides can enhance mutual understanding, gain friendship and grow together. They can also contribute their youthful power to building a community of shared destiny for mankind. The fifth meeting of the China-EU High-Level People-to-People Dialogue was held virtually on November 9 and 10, 2020. With regard to youth, both sides can also draw on international cooperation among youth organizations and encourage them to address common challenges, conduct exchanges and cooperate on projects in areas such as climate change. It is also suggested that the two sides establish a dialogue mechanism for youth leaders to increase mutual exchanges and understanding, and organize events in multiple forms and at various levels such as China-EU youth leaders' dialogues and forums to facilitate communication in areas such as the economy.

• **Promote bilateral exchanges on culture, sports, tourism, education and so forth. It is suggested that both** sides have long-term exchanges and cooperation between the two peoples covering a wide range of fields and at multiple levels. In the field of culture, more cultural exchange and cooperation mechanisms can be created. For example, strengthen cooperation between "European capitals of culture" and Chinese cities of historical and cultural significance on urban development and urban renewal, promote exchanges for preserving cultural relics and world cultural heritage in China and the EU, and support cooperation in cultural and creative industries between China and the EU. In terms of sports, the Beijing 2022 Winter Olympic Games, the Paris 2024 Olympic Games and the Milan-Cortina 2026 Winter Olympic Games are regarded as opportunities to intensify exchanges between Chinese and European youth on the Olympic spirit, sports competition, leisure sports and digital Olympics, and enhance mutual understanding between people from both sides. It is recommended that two-way tourism between China and the EU Schengen countries be gradually resumed through "travel bubbles" to revitalize international tourism. Moreover, on the basis of the China Scholarship Council and the EU Erasmus+, permanent mechanisms and institutions can serve as a bond and play their role to enrich the content of China-EU youth exchanges. A number of influential programmes involving short-term exchanges, semester study and internship for young people from China and the EU can be launched as well. In the history of China-EU relations, Chinese business associations represented by the China Chamber of Commerce in Germany and the China Chamber of Commerce in Spain have played an active role. Looking ahead, they should continue to connect institutions in the economic, trade and cultural fields to reinforce economic and people-to-people communication between China and the EU.

Conclusion

2020/2021 have witnessed various changes and enormous challenges globally. As the COVID-19 pandemic continues to evolve while political and economic changes keep unfolding, the global recovery has been clouded by complexities and uncertainties. Against this backdrop, China-EU relations, especially economic and trade relations, were faced with new challenges. Nevertheless, overall, China-EU ties have moved forward amid headwinds.

At opposite ends of the Eurasian continent, China and the EU have interacted by way of shared benefits; 326 years ago, Leibniz, a European philosopher, wrote in his book *Latest News from China* that “Chinese people are good observers whilst Europeans are good thinkers, together, we could draw upon each other’s strength”, which vividly depicts the solid foundation of mutually beneficial cooperation between China and the EU.

Today, China-EU cooperation in trade, green and digital transformation, people-to-people exchange, and other areas have all achieved impressive fruitful results, which further proves the positive complementarity of China-EU relations.

As two major forces for world peace, two major markets for common development and two major civilizations advancing human progress, China and the EU will bring benefits to not only the two peoples, but also global development. Mutual trust, openness and close cooperation between the two will provide impetus to development and contribute to peace and prosperity in the world.

Looking ahead, China and the EU should continue to work side by side to explore the potential for cooperation, expand the convergence of interests and create new growth points.

Last but not least, we would like to express our sincere gratitude to experts and scholars from China and the EU, CCCEU members and its Digital Economy Working Group, other Chinese enterprises in the EU and the chamber's partners for their valuable insights and support throughout the production of this report!

APPendix

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