



European Chamber  
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European Business in China

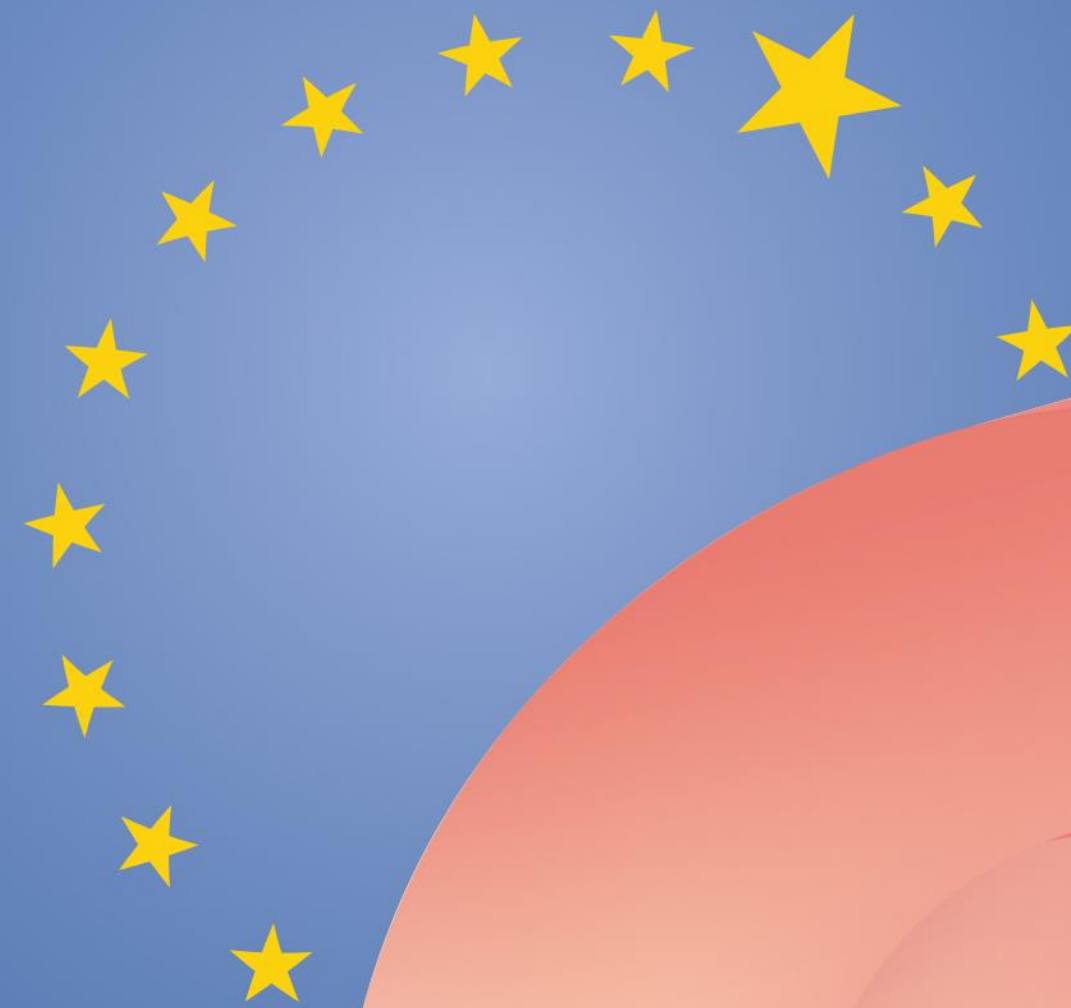
# POSITION PAPER 2024/2025

European Union Chamber of Commerce in China

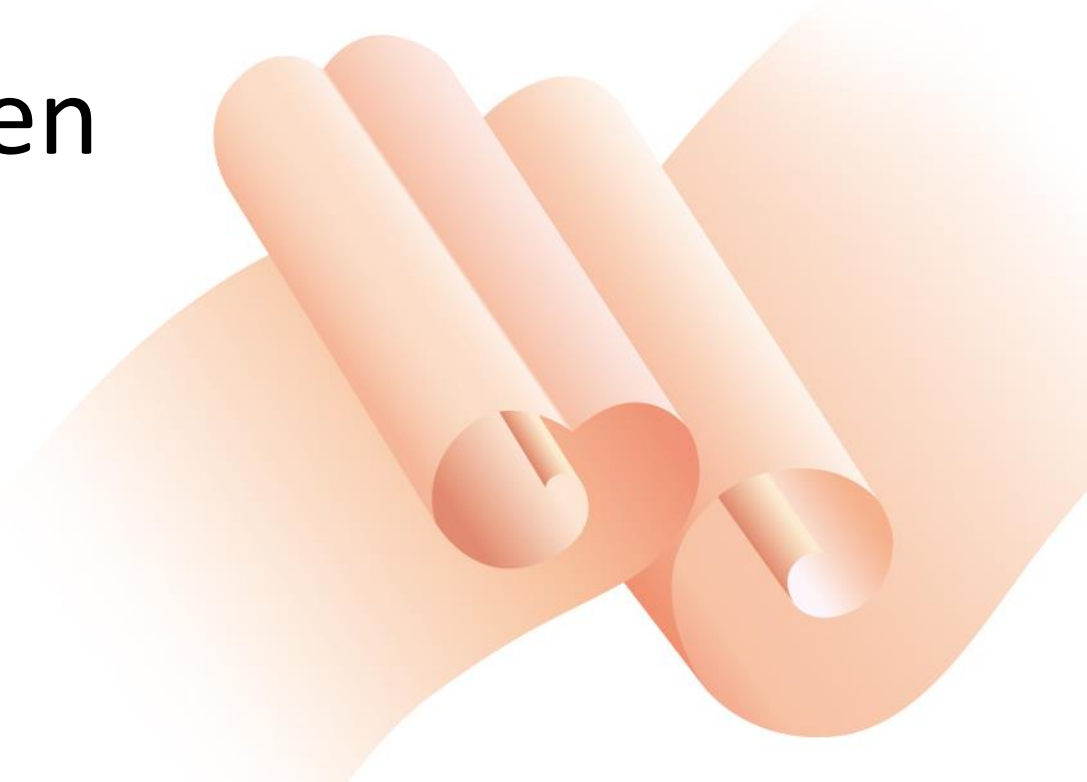
Presented by Adam Dunnett

21<sup>st</sup> October 2024

Beijing/Brussels



- COVID has led to lasting behavioural changes in the business community
- A tipping point has been reached: for many, the risks are beginning to outweigh the rewards
- The situation is likely to deteriorate further unless comprehensive action is taken

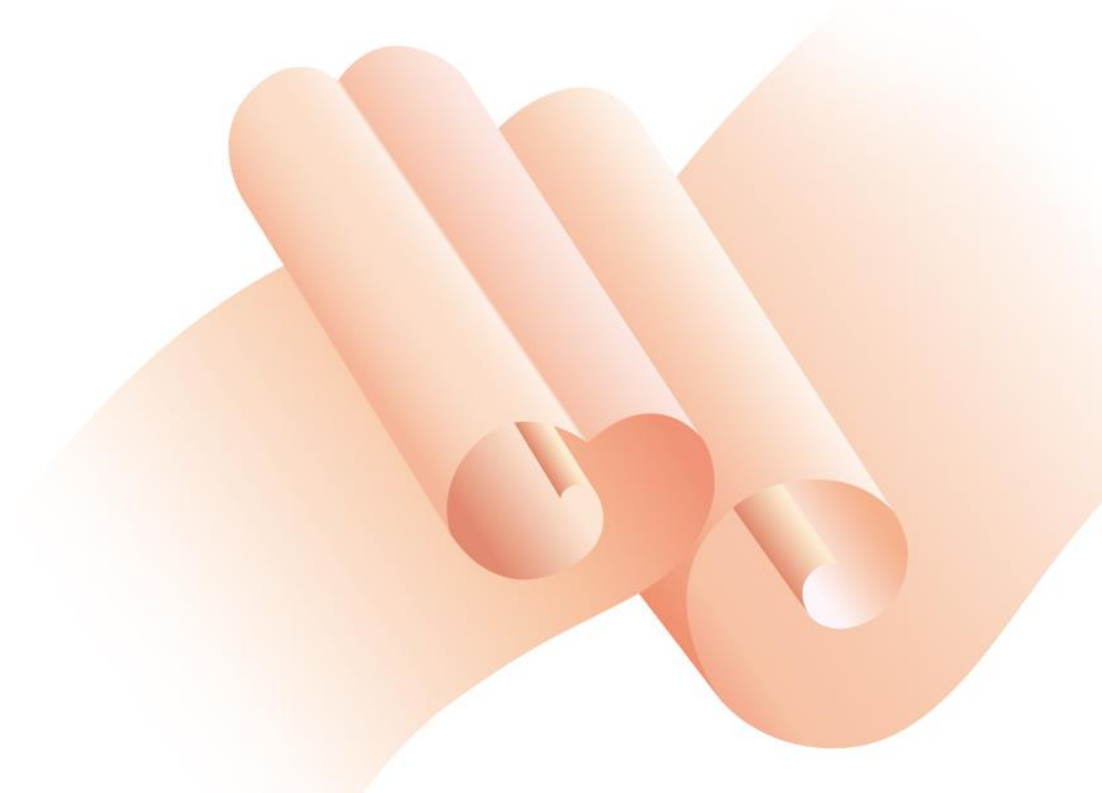


**1 With challenges mounting, the risks are beginning to outweigh the rewards**

2 The result: Investments now being shifted and China operations siloed

3 Action can turn tide: Plans announced, but full implementation needed

4 Summary remarks



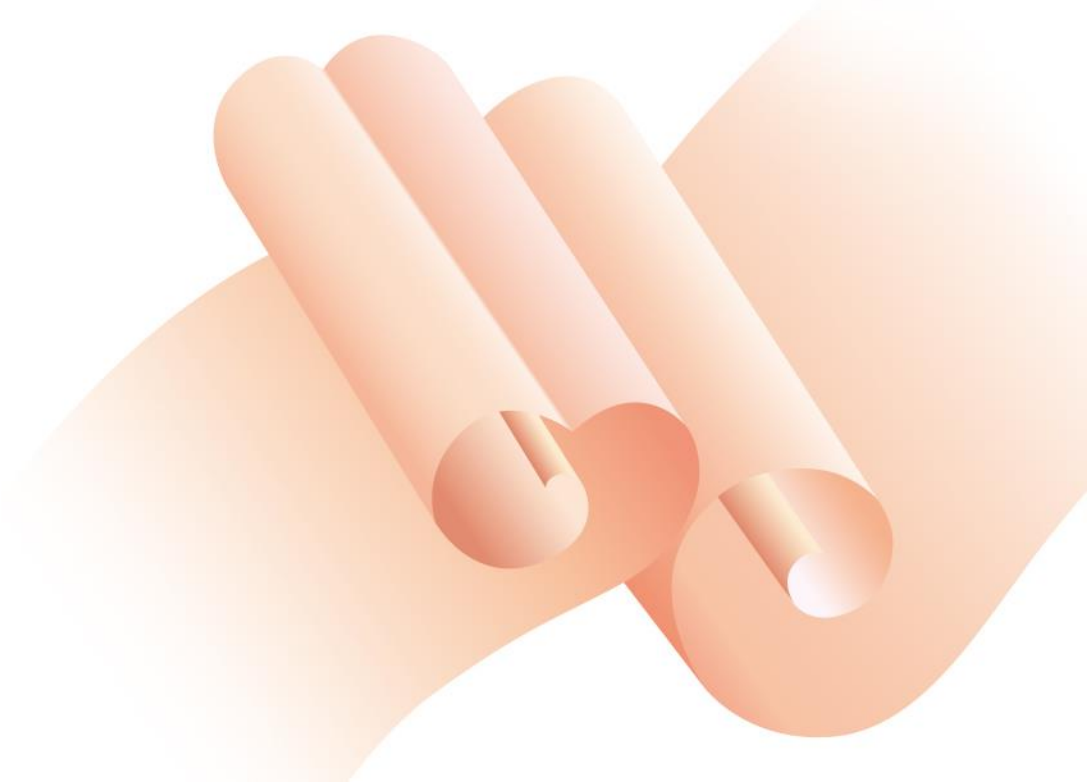
# Challenges are proliferating and intensifying



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- Long-standing challenges persist
  - Market access and regulatory barriers
  - A highly politicised business environment
  - Prioritisation of national security and advancing self-reliance
- New challenges have emerged
  - China's economic slowdown
  - Lacklustre domestic consumption
  - Overcapacity

**Risks beginning to outweigh the rewards**

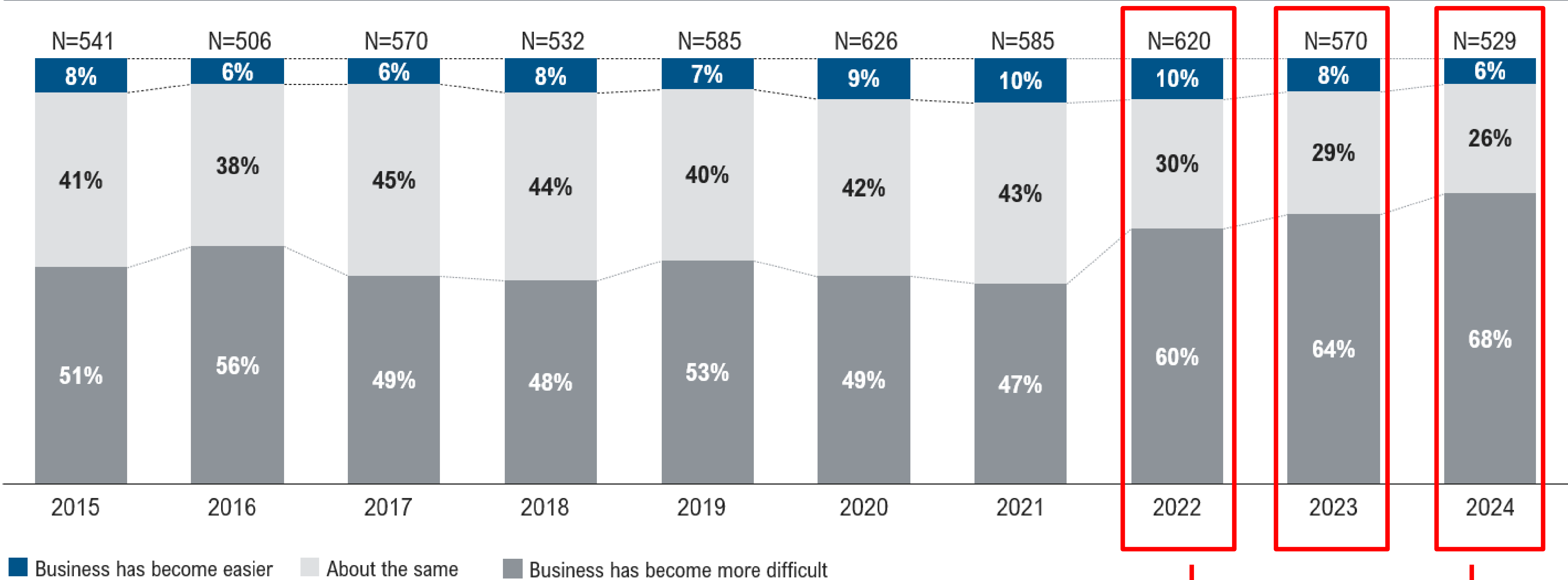


# Doing business in China has become more difficult in recent years



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How has your industry's business environment changed over the past year?



Source: Business Confidence Survey 2024 data

Consecutive record highs

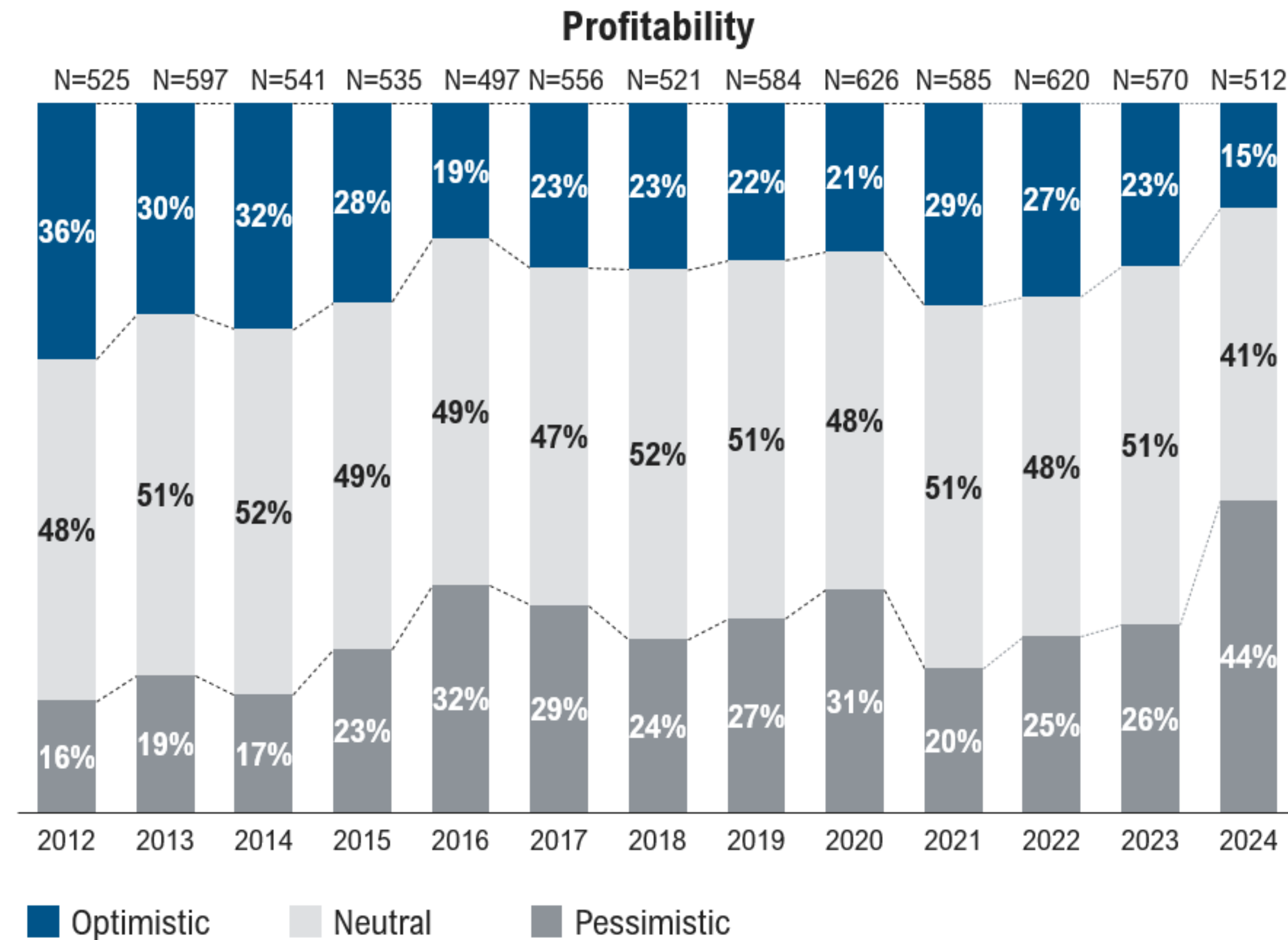


# European companies' outlook on profitability has deteriorated substantially



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How would you describe the business outlook for your sector in China over the next two years?

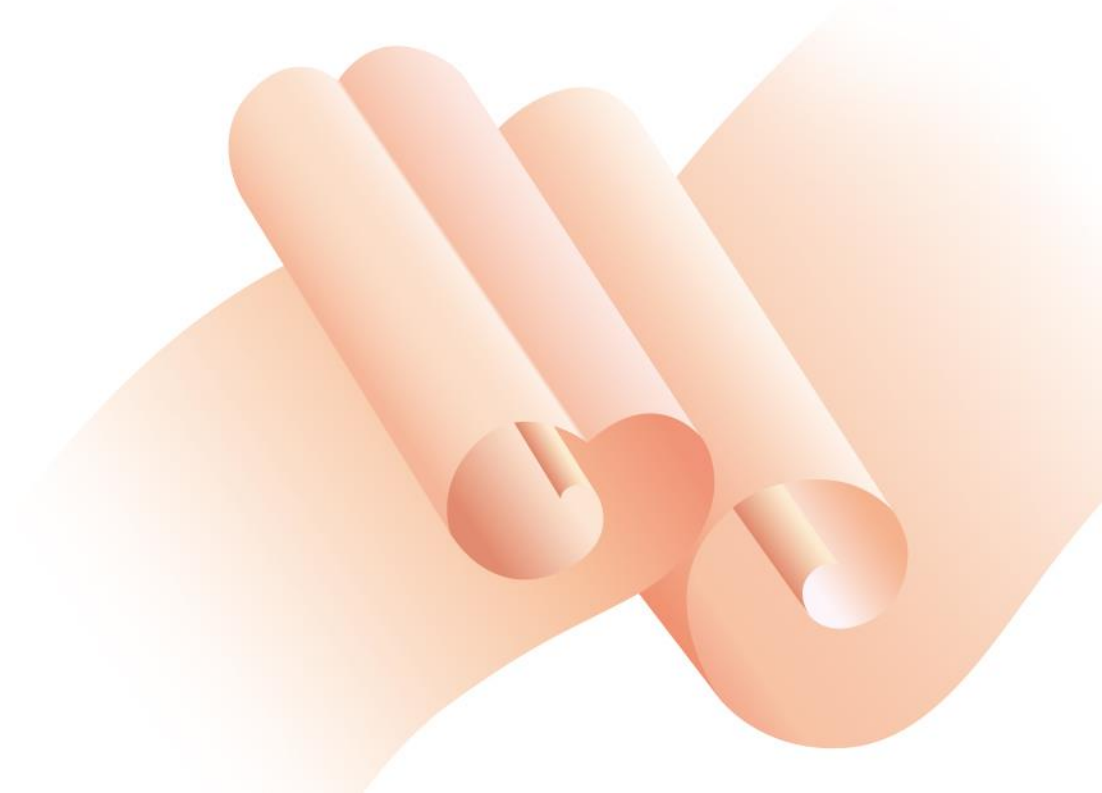


Source: Business Confidence Survey 2024 data

Pessimism about profitability highest level on record

- 71% report their worldwide EBIT margins  $\geq$  their China EBIT margins  $\rightarrow$  **Why invest in China when other regions offer the same returns for less risk?**

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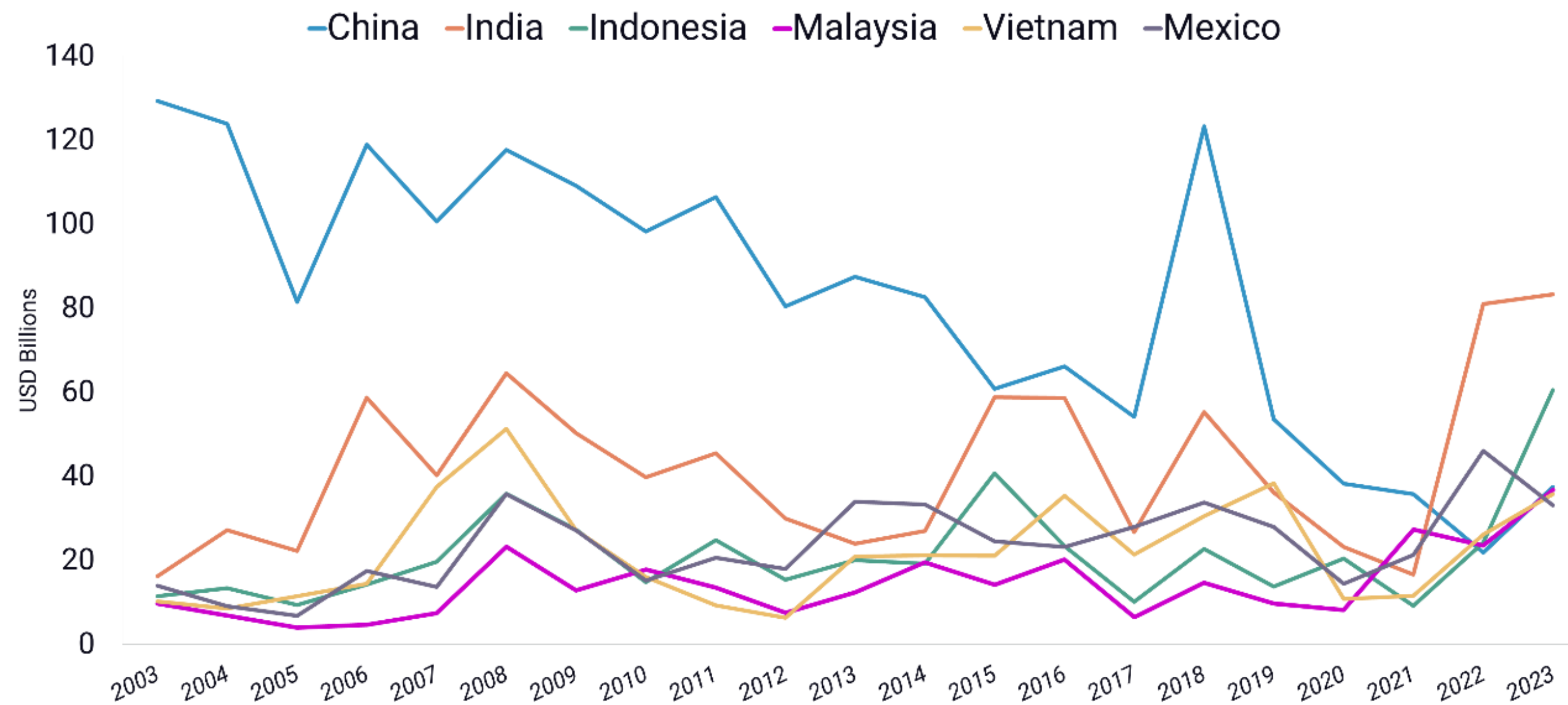
# Companies have begun adjusting their approaches to the China market (FDI)



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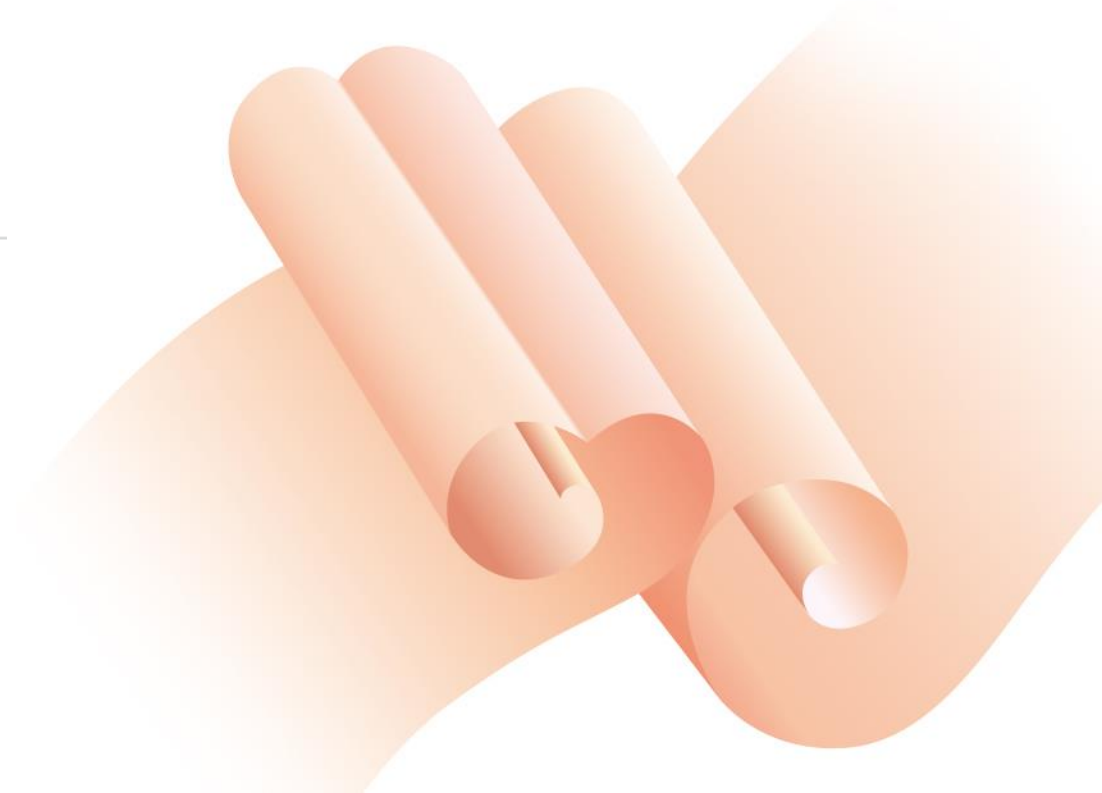
- A tipping point has been reached: Members have begun shifting investments planned for China to alternative markets

## Value of announced greenfield FDI projects, 2003–2023



Source: UNCTAD world investment report

- In tandem, the nature of FDI into China is becoming increasingly 'defensive'





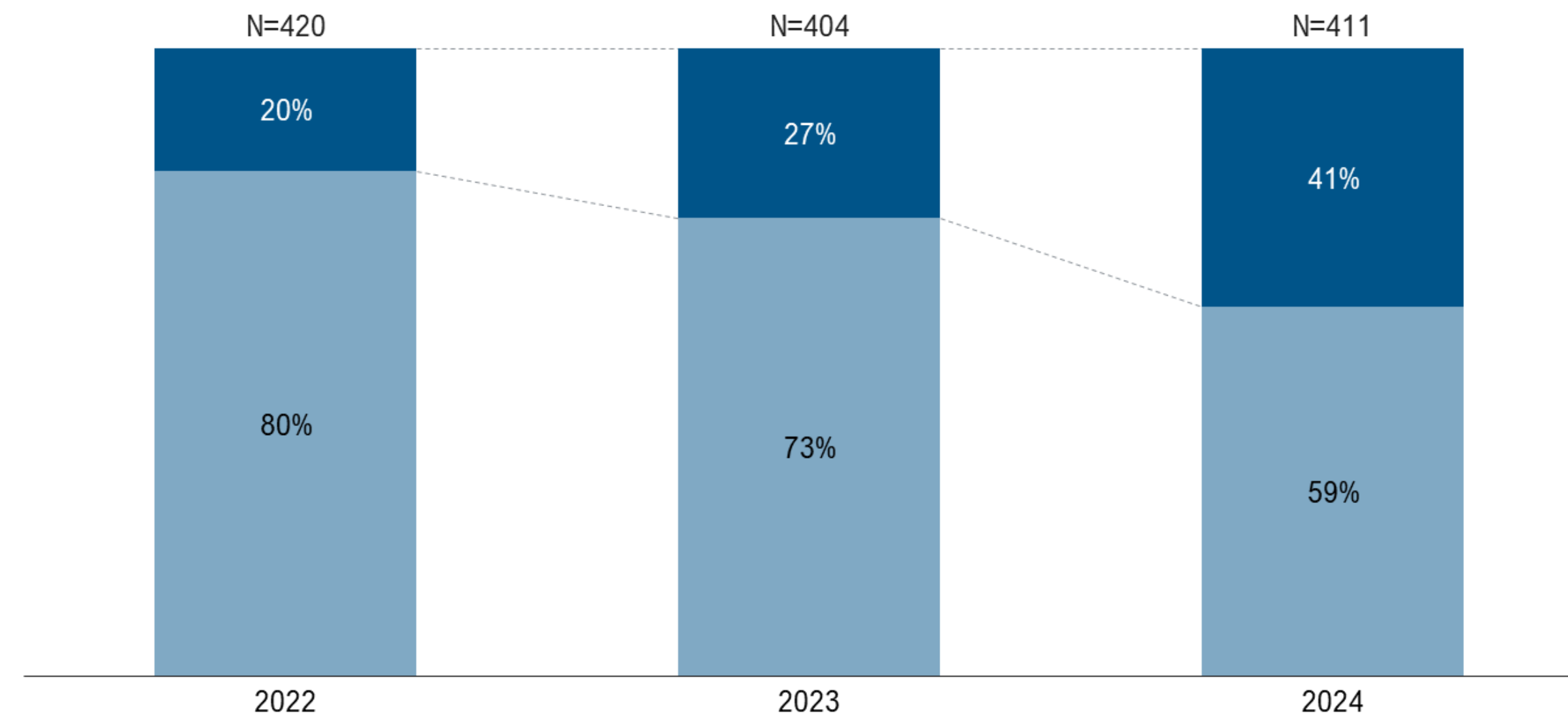
# Companies have begun adjusting their approaches to the China market (supply chains and operations)



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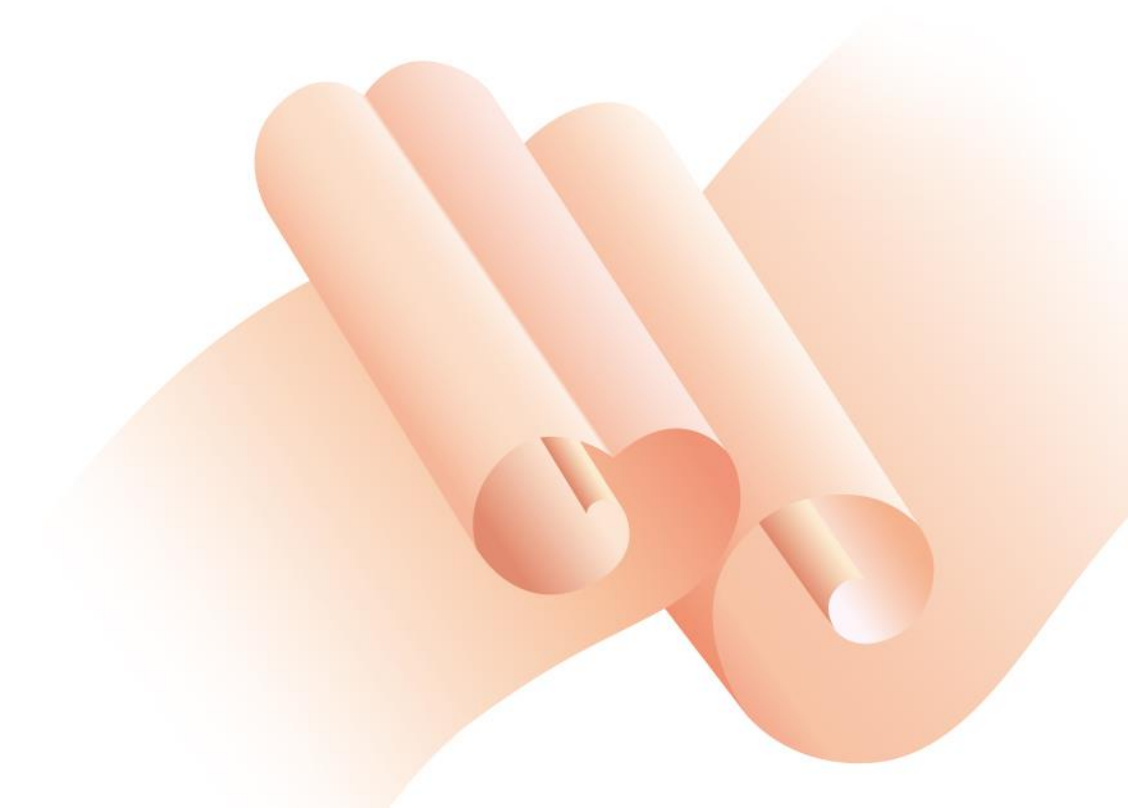
- Increased numbers both on- and offshoring and/or localising → represents a strategic shift towards siloing China operations from the rest of the world
- The creation of autonomous systems risks putting us on course for reduced engagement and missed opportunities

Has your company experienced any form of decoupling between your HQ and your China operations over the past two years?

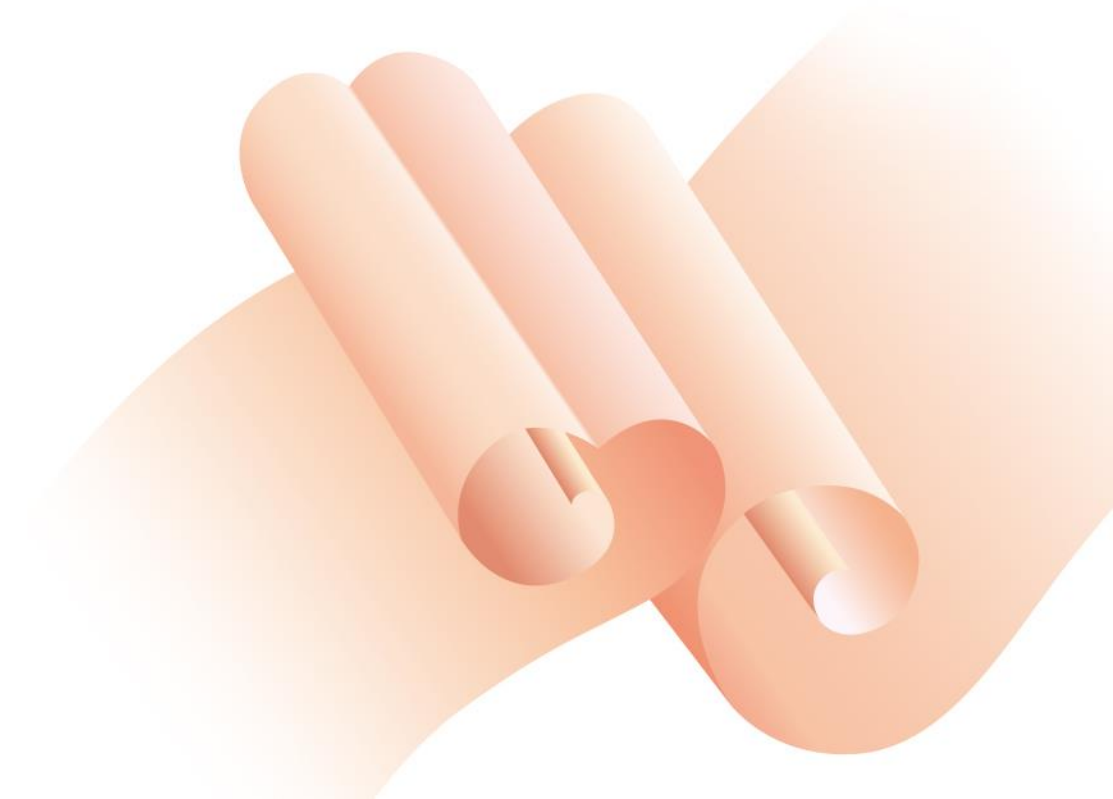


■ Yes ■ No

Source: Business Confidence Survey 2024 data



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# Lack of follow through on reform pledges led to 'promise fatigue'

## Early 2000s

Almost 200,000 local regulations revised in period immediately before/after China's WTO accession

## 2017 Davos

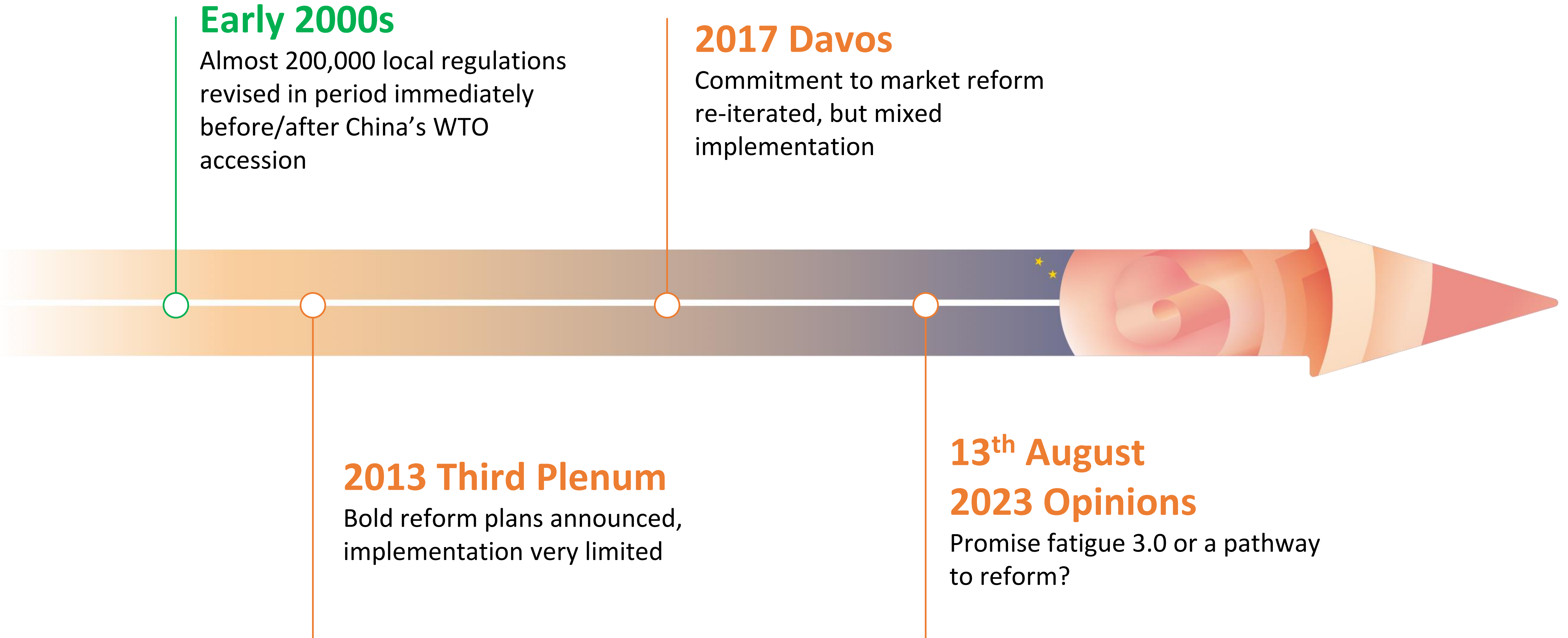
Commitment to market reform re-iterated, but mixed implementation

## 2013 Third Plenum

Bold reform plans announced, implementation very limited

## 13<sup>th</sup> August 2023 Opinions

Promise fatigue 3.0 or a pathway to reform?



# The State Council's 13<sup>th</sup> August 2023 Opinions



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- Why do we care about this document?
  - Directed at foreign businesses specifically
  - Repeated government assurances that they are taking the Opinions seriously
- 'Reality check' provided by the Chamber, organised across six thematic areas:
  - Market access and procurement
  - HR and business travel
  - Digital and cyber
  - Green energy access
  - IPR
  - Investment promotion and facilitation
- **Key finding:** Welcome progress has been made on HR/travel issues; much more needed to restore foreign investor confidence



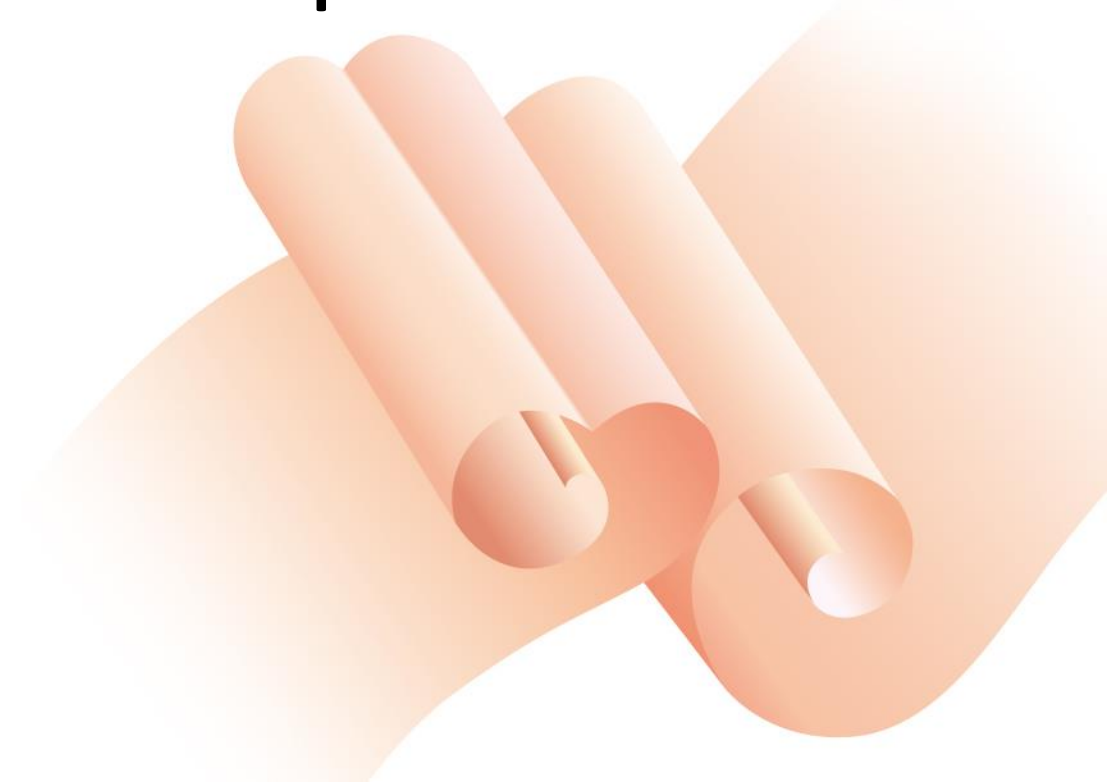


# Market access and procurement: narrow progress, big-ticket items unaddressed



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- Headway made on sectoral initiatives of limited impact and/or geographical scope:
  - E.g., removal of ownership restrictions from six types of VATS in IT sector
  - E.g., Shanghai cargo relay pilot
- Limited progress made on 'big ticket items'
  - E.g., revision of Government Procurement Law
- European companies continue to face discriminatory treatment in market access and procurement
  - E.g., rail industry and the 'one-point scoring system'

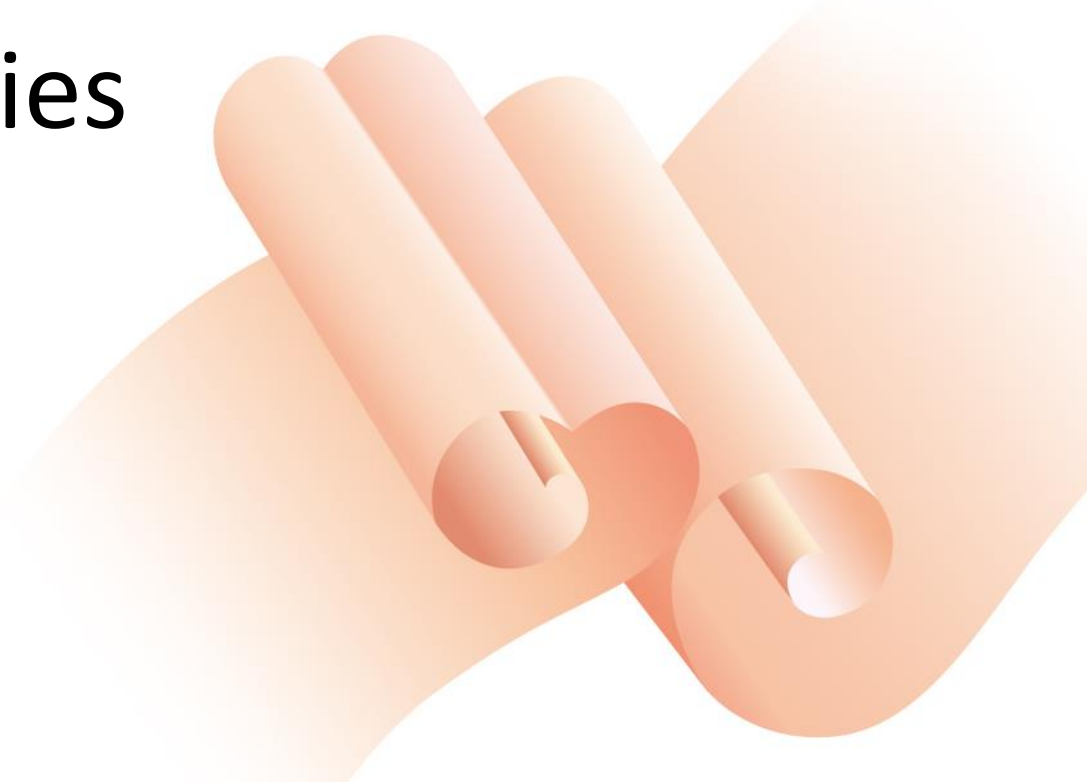


# HR and business travel: welcome progress made, but issues of most importance to business untouched



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- Early progress seen regarding foreign talent attraction and retention, but not enough to significantly boost investor confidence
  - E.g., August 2023 IIT extension: Necessary to stem further outflows of foreign talent, but represents maintenance of status quo only
- Policies on visa-free travel greatly welcomed – extending the scope to cover all EU nations would be a quick win
  - Executives from ‘visa-waived’ countries can now visit China at < 1 week’s notice (previously took around 3 months)
  - Many companies’ senior staff hold passports from ‘non-visa-waived’ countries

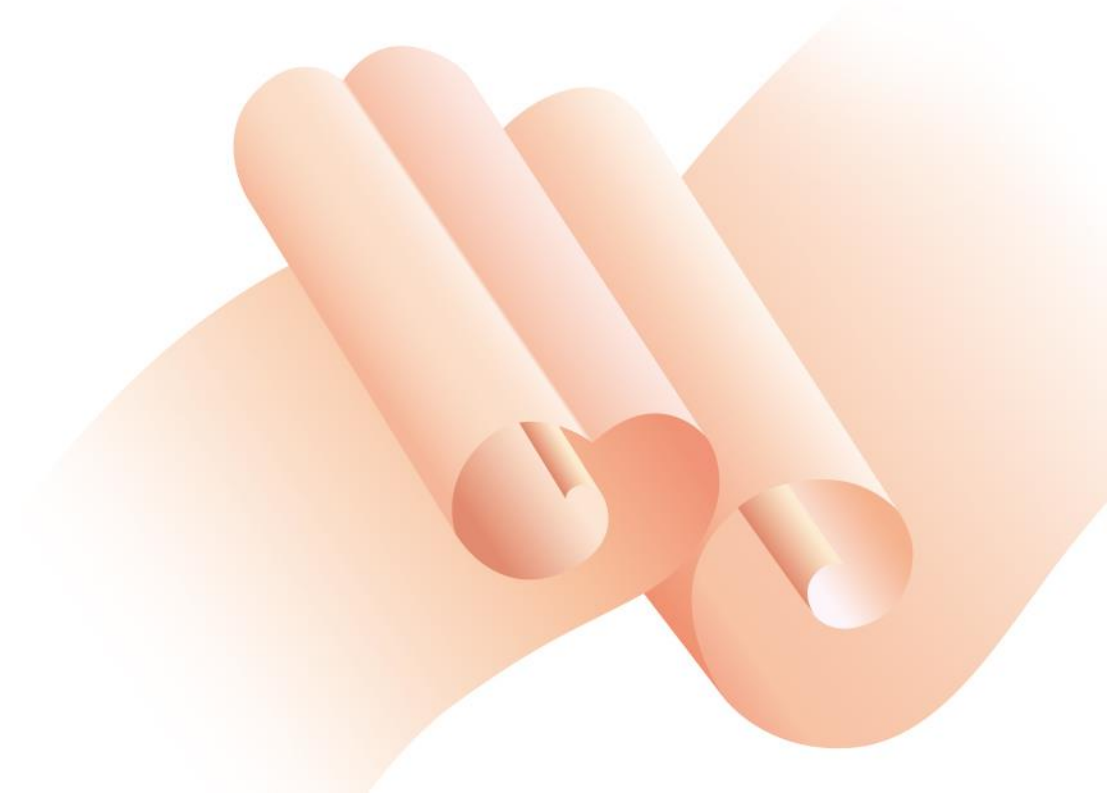


## Digital and Cyber: progress being made, but at a slow pace



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- Initial momentum built following the revision of China's regulations for CBDT
- If China's data regulations to facilitate, not hinder business, then further action is required.
  - Upcoming rules to not be defined in an expansive manner
  - Industry-specific regulations to be better aligned with China's revised CBDT regulations



# Green energy access: key area for business, not emphasised in Opinions



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- With most European companies needing to rapidly decarbonise their China operations to meet global ESG pledges, access to green energy is an imperative
- Access to green energy was mentioned but only in one sub-measure of the *Opinions*. Related policy action has been taken.
  - Progress seen at the local-level in some locations, e.g. Tianjin green electricity pilot
- At the same time, challenges remain:
  - 42% report limited access to green energy as the key challenge they face in their decarbonisation efforts (BCS 2024)
  - Chamber members have begun postponing investments and their China decarbonisation targets





# Intellectual property rights: enforcement remains a challenge



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- China's written IPR laws and regulations have been sufficient for a number of years, but enforcement still a problem for many:
  - 84%, (+4pp y-o-y) report finding China's written laws and regulations to be adequate or excellent;
  - 46%, (+1pp y-o-y) believe that they are not adequately enforced
- Amendment of the implementing regulations of China's Patent Law
- Sectoral-level challenges persist:
  - E.g., the lack of effective regulatory enforcement is resulting in many fake goods still being sold on e-commerce platforms in China

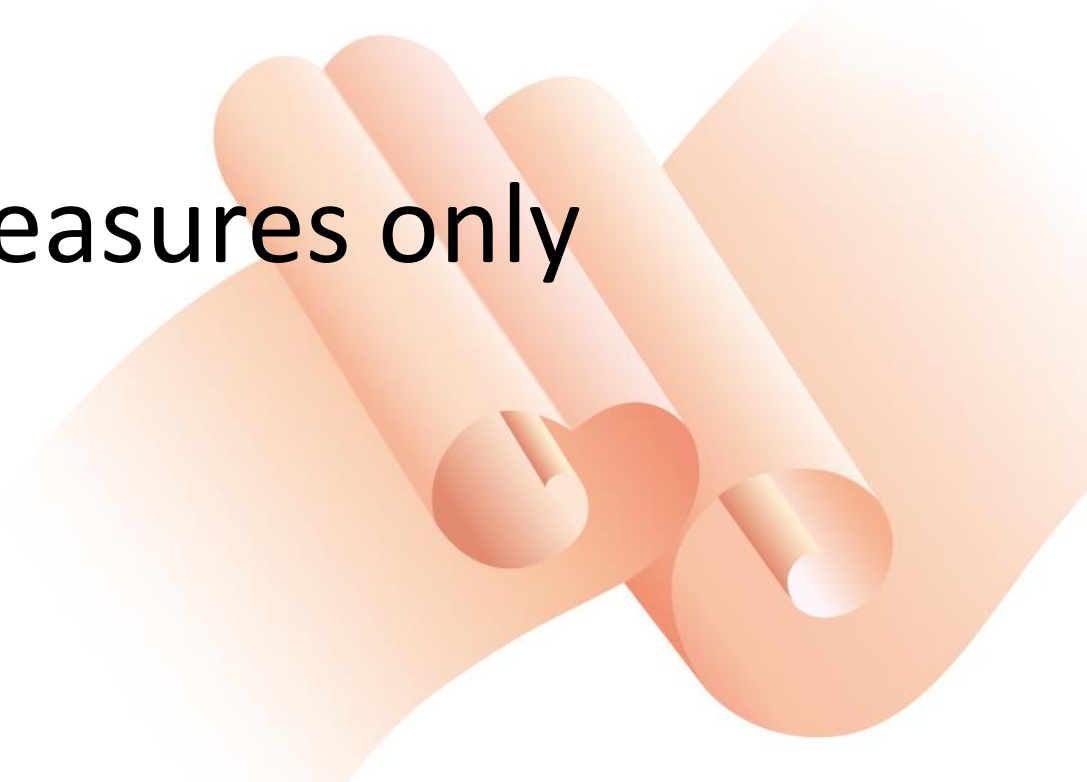


# Investment promotion and facilitation: progress made, more ambition and specificity needed



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- Increase in industry-government dialogue welcomed, but it needs to be relevant and specific:
  - E.g., focus on giving policy interpretations with limited room for discussion
  - E.g., speakers' talking points / agendas increasingly 'vetted' in advance
- Guidelines on support for FIEs still needed
- The *Opinions* contains measures related to providing incentives for investment in China, but their impact has been largely underwhelming
  - E.g., tax incentives – the focus is on the implementation of existing policy measures only

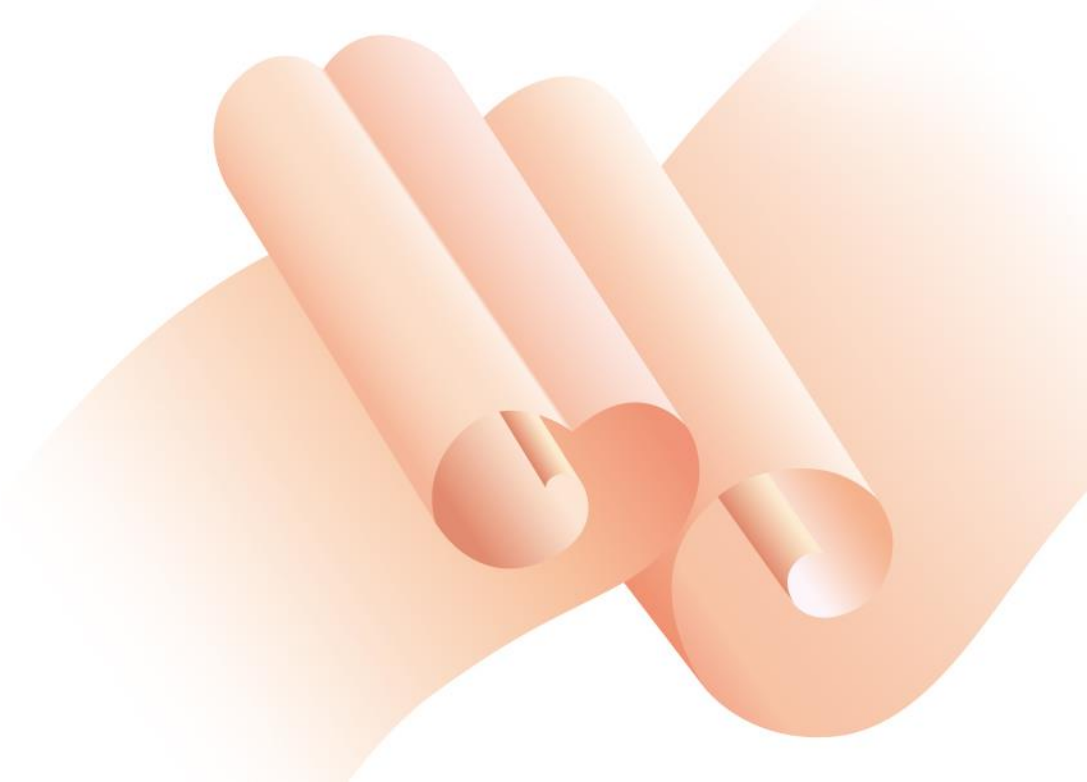


# 2024 Third Plenum Decision: Little to suggest that a change of course is imminent

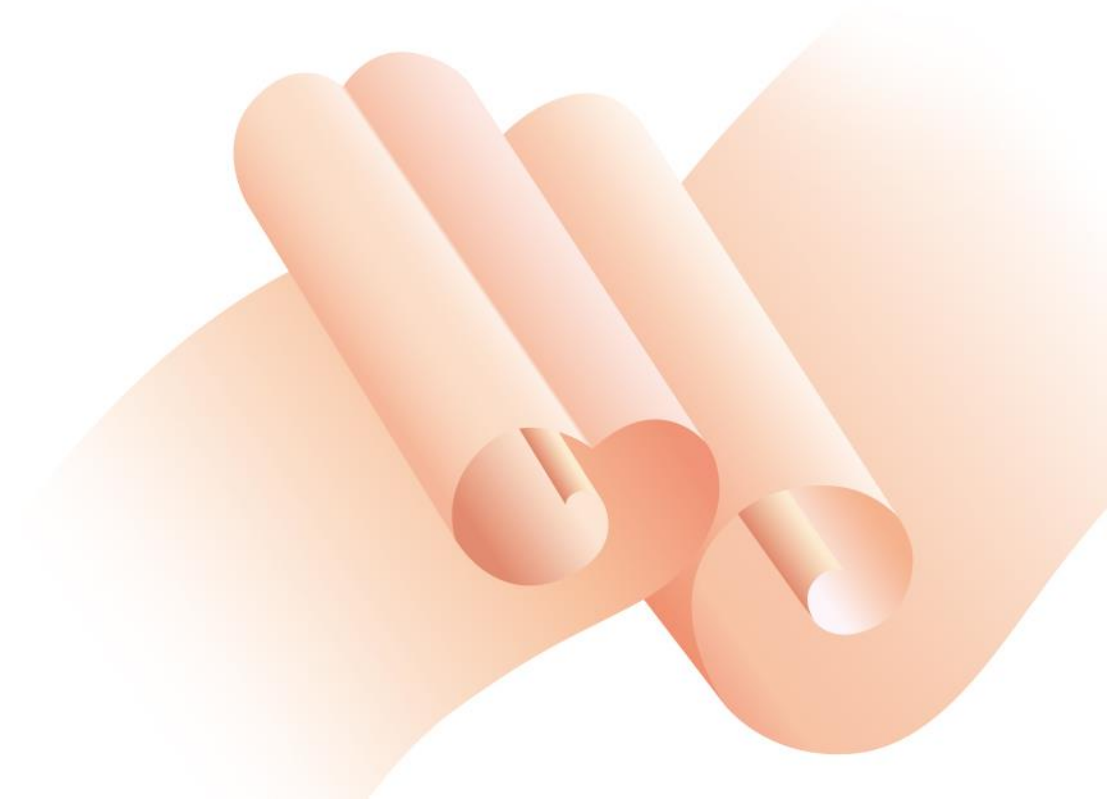


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- Continued emphasis on promoting investment in manufacturing as source of economic growth; light on details when it comes to boosting domestic demand
- The market to play 'the decisive role in resource allocation' but also for SOEs and state capital to 'get stronger, do better and grow bigger'
- Emphasis on security was reiterated
  - Calls for increased localisation and creation of China-specific supply chains
  - Supply chain decoupling concerns
  - Hinders competitiveness of foreign businesses



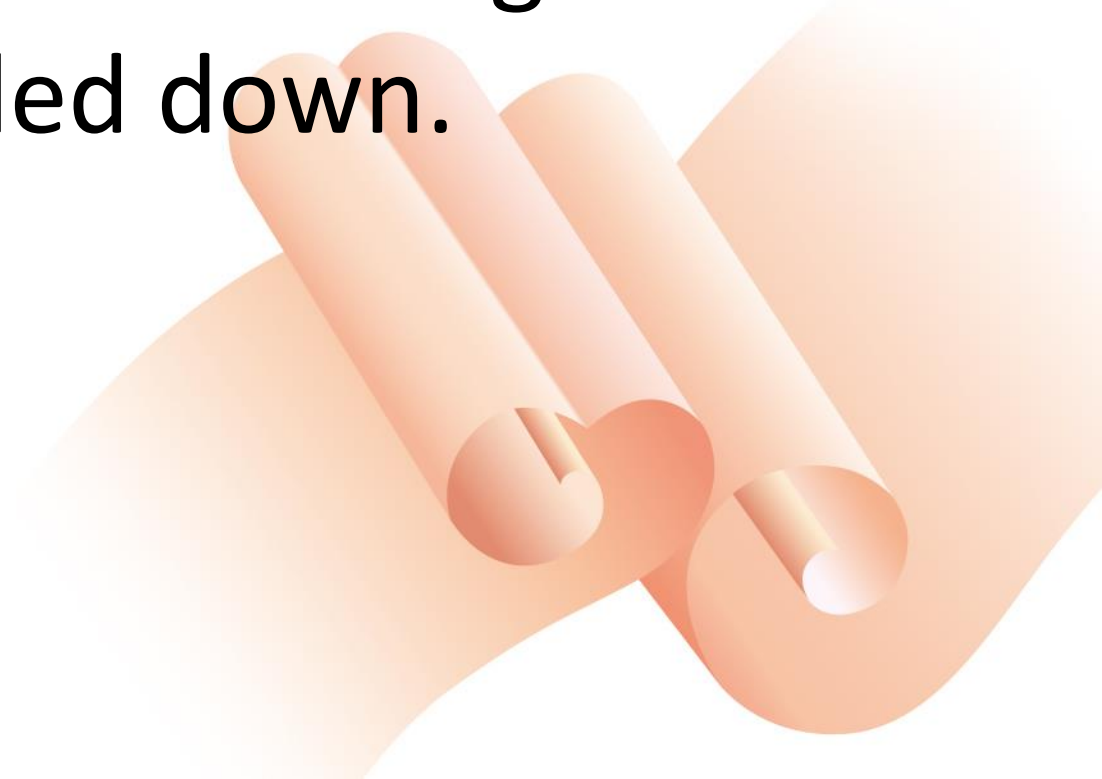
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- Our members remain highly committed to China, but with the risks of doing business increasing and the rewards decreasing, many are now concluding that additional China investments require a strategic rethink.
- A tipping point has been met → some members already begun to both shift investments planned for China to alternative markets and silo their China operations.
- This trend will continue if key business concerns are left unaddressed.
- The potential of China remains attractive, but after over a decade of limited action being taken to implement reform promises, expectations of meaningful change have been dialed down.

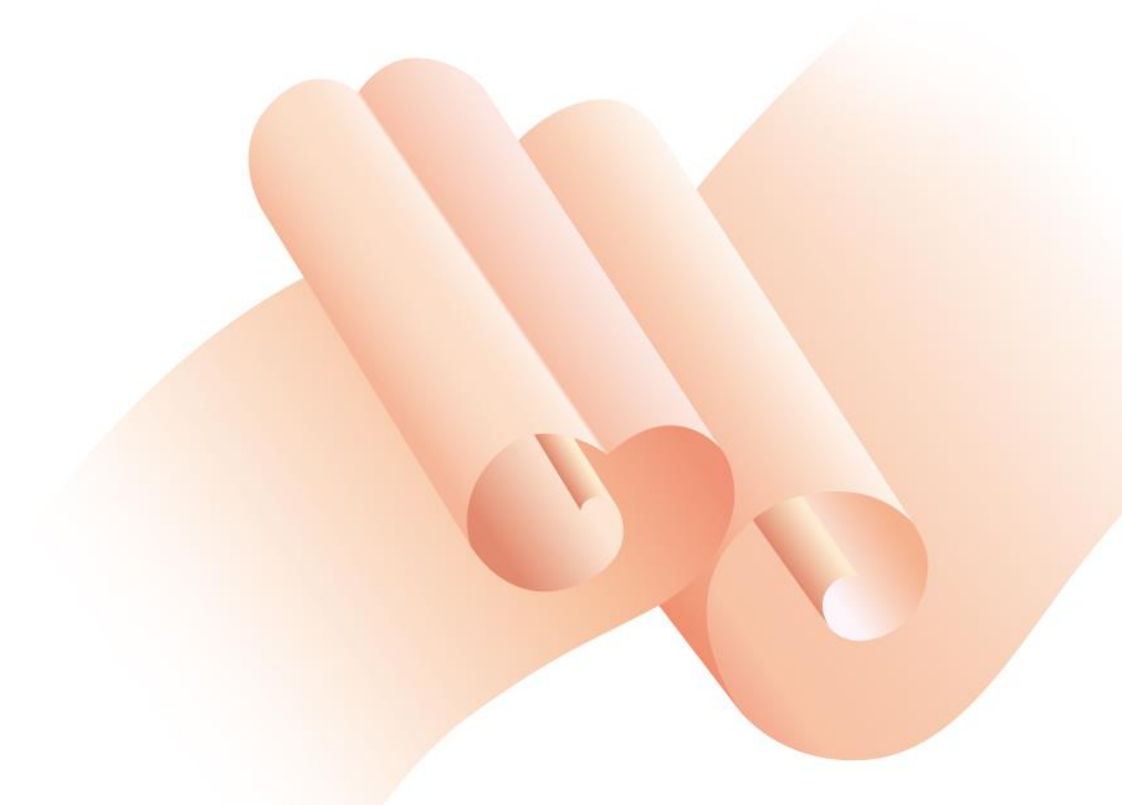
**Action urgently needed to turn the tide**



# Over 1,000 recommendations on how to fully restore business confidence



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## Q&A