EU-China Business Association

欧盟中国贸易协会

EUCBA BULLETIN 1

Quarterly Newsletter of the EU-China Business Association

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Foreword

From left to right: Stefaan Vanhooren, (Belgium) Vice-Chairman EUCBA; Ilídio de Ayala Serôdio (Portugal),Vice-Chairman EUCBA; Harald Lux, (Germany) Vice-Chairman EUCBA; Stephen Phillips (United Kingdom), Chairman EUCBA; Gwenn Sonck, (Belgium) Secretary General EUCBA; Anna Malvezzi, (Italy) Italy-China Chamber of Commerce; Jan Siemons, (Netherlands) Vice-Chairman EUCBA; Tom Jensen, (Denmark) Secretary General of the Danish Chinese Business Forum.

Trade and investment relations between the EU and China have been growing steadily. China is the EU's biggest source of imports by far, and has also become one of the EU's fastest growing export markets. The EU has also also become China's biggest source of imports. China and Europe now trade well over €1 billion a day. Bilateral trade in services, however, only amounts to one-tenth of total trade in goods, and the EU's exports of services only amount to 20% of EU's exports of goods. As a result, the EU records a significant trade deficit with China.

To further support the expansion of trade and investment relations, the EU-China Business Association (EUCBA) has opened an office in Brussels, with the support of the Government of Flanders. The EUCBA will give European companies the opportunity to work on a larger scale and also gives their activities more exposure to companies and institutions at an EU level. The EUCBA is working on the set up of an EU-China Investor Council and is also inviting Structural Partners to support the EUCBA.

Contents

As for the EUCBA Investor Council, a selected number of CEO's/Chairmen of leading European and Chinese companies will be invited to become a member of the Council. The EU-China Investor Council has been designed to give high-level access to both Chinese and European authorities and to provide a high-level, exclusive platform to exchange views on investing in China and in Europe in order to increase market access and to provide knowledge to SME's. The Council will be limited to 15 companies to ensure that it is an exclusive EU-China high-level network.

A selected number of leading European and Chinese companies will also be invited to become a Structural Partner of the EUCBA. This status offers several benefits. A Structural Partner you can organise joint activities with the EUCBA; give inputs for EUCBA actions and projects; have its company logo displayed on the EUCBA website, at events and on the EU-China quarterly newsletter. Structural partners will also be invited to attend high-level meetings with the Chinese Ambassador to the EU.

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Stephen Phillips (Chairman) and Gwenn Sonck (Secretary General)

Introduction to the EUCBA Bulletin

We are very delighted to be able to present three interviews in this first issue of the quarterly EUCBA Bulletin.

Lord James Meyer Sassoon, President of the EUCBA, introduces the Association and its aims.
H.E. Hans-Dietmar Schweisgut, Ambassador of the European Union to China, presents his views on EU-China economic and trade relations, while H.E. Madame Yang Yanyi, Ambassador of the People's Republic of China to the European Union introduces China's important "One Belt, One Road" initiative.

We will be highlighting important developments in EU-China relations in our EUCBA Bulletin. In this issue we focus on the "Position Paper 2015/2016" of the European Union Chamber of Commerce in China.

We also bring you a news round-up, announcements from the EUCBA and last but not the least news from EUCBA members and companies. If you have a story to contribute to the EUCBA Bulletin, you can mail it to Mrs Gwenn Sonck, Secretary General of the EUCBA at the following e-mail address:
gwenn.sonck@flanders-china.be

We hope you will find the EUCBA Bulletin a useful addition to your news flow about China.

Happy reading!

“We await the 13th 5-year plan with eager anticipation”

— Interview with EUCBA Chairman Lord Sassoon

Q: Could you briefly describe the aims and role of the EUCBA?
A: The EU-China Business Association (EUCBA) is an Association of Associations in the European Union countries promoting business relations between European enterprises, institutions and their Chinese counterparts. It is an international non-profit organisation registered in Belgium.

By working together at the EU level, our aim is to help companies across the EU leverage a wider network of expertise, contacts and programme of activity. The shared aim is to support EU companies in their investment and trade ventures by offering additional knowledge about China’s economy, supporting the exchange of experiences across Europe on “doing business with China”, connecting people for new business opportunities and promoting better conditions for market access to China.

Q: Could you introduce the members of the EUCBA?
A: EUCBA full members are the national/regional associations in the EU that promote trade and investment between their respective countries and China. Each association has its own network of business and other commercially-minded members such as universities. So, we like to think that all companies and organisations within this enormous network are de facto members of EUCBA. This is an unparalleled group that together create a platform for information exchange, peer support and working together for all to succeed in the enormous China market, as well as by working with Chinese companies outside China.

Q: What will be the role of the EUCBA newsletter?
A: First of all, please tell us what you want to see in it! We want to share topical and relevant information that will be useful to you. We do not want to duplicate what you already get. And we do not want to fill your inbox. But we think there are plenty of things we can share at the EU level that you might not get more locally.

Q: Could you comment on the state of the Chinese economy?
A: China is making an important step-change in its development. The days of 10% growth are a thing of the past. GDP growth around the 7% mark or, possibly, lower will become the norm. But the focus on growth rates is simplistic: the absolute growth in the size of the Chinese economy is almost triple what it was a decade ago. And GDP per capita is more important than growth rates. The on-going adjustments in the Chinese economy towards one increasingly driven by market forces will not be without pain. However, it should be viewed in a positive light for the opportunities they offer to companies throughout the EU. New opportunities are emerging in different parts of China, and new sectors opening up.

Q: What are your views on the recent turmoil on the Chinese stock market?
A: Despite all the turbulence and speculation, we are learning very little new about the China story from what we knew before. The real economy is relatively insulated from the markets in China and it is in the real economy where EU companies still do the overwhelming majority of their business with China. That the turbulence in China’s market can influence global markets is probably the key learning from the last few months. But let’s not forget China is the second largest economy in the world. We are going to have to get used to its increasing reach, and if we do, there are more opportunities than pitfalls.

Q: Are you satisfied with the development of European trade with and investments in China?
A: Yes, to a point, but more can be done. It is easy to say that. And often hard to be clear on the next steps. The EU is China’s biggest trading partner while China is the EU’s second biggest after the United States. Trade in goods was worth €467 billion in 2014, while trade in services reached €54 billion. The numbers are big – but that is not a reason to be complacent.
The key is to follow the progression of China to find the next set of opportunities for EU companies, as the old investment/export model reaches the end of its course. In China, any new direction is generally mapped out in the policies. Made in China 2025 shows clearly that China recognises it is being pushed at the lower end of manufacturing by other developing nations and now strives to compete well at the top end. In the longer term, China’s One Belt, One Road initiative will see new and exciting opportunities emerge both within China and beyond, with revitalised trade and investment links through Central Asia and on to Europe. We await the 13th 5-year plan with eager anticipation too: always an important roadmap.

Q: Is the EUCBA also promoting Chinese investments in the EU?
A: Absolutely. A healthy trade and investment relationship is one that sees two way trade and investment. And this is a key component of the future of EU-China relations. In the last 12 months outbound investment from China has, for the first time, surpassed inbound. The opportunities for much-needed investment in EU infrastructure projects are wide ranging. And Chinese companies are also looking to invest abroad in advanced manufacturing, for example.

Chinese investors see the EU as more mature and with a dependable investment environment. We should welcome them; even more EU companies can then engage with their Chinese counterparts.

Q: Do you have any message for our readers?
A: Get granular about China. China is no longer 'one market', indeed if it has ever been such. It is a rich tapestry of regions – each with their own sectors, local markets and consumers – all of which offer increasing opportunities for EU companies.

Good luck in your endeavours!

"Challenges met by amicable solutions"

— Interview with H.E. Hans-Dietmar Schweisgut, Ambassador of the European Union to China

Q: How would you evaluate trade and investment relations between China and the EU in the past year?
A: 2014 showcased both the profound benefits and the challenges of the EU-China trade relationship. Thanks to an increase in bilateral flows of 9%, trade was yet again a fundamental source of growth and employment in both China and the EU at a difficult time for the world economy. In 2014 the EU was yet again China's n°1 trade partner and China was the EU's 2nd trade partner—almost on a par with the US. This underlines the deep and growing interdependence in our relations.

At the same time, many of the problems faced by our companies in terms of trade barriers, discrimination or lack of respect of IPR continued. So far, the Third Plenum reforms have not yet delivered their promise of opening up. This is essential to strengthen our relationship, as trade is a two-way street.

2014 also showed the maturity of our relationship, in two ways: We overcame the challenge of trade friction by finding amicable solutions to the solar panels and telecom networks cases. And we did not let friction prevent us from embarking on negotiations of an ambitious and comprehensive agreement on investment—a potential game-changer in bilateral relations. In this fashion, 2014 set the course for qualitative change in our relations in the long term, based on even deeper interlocking of our economies.

Q: What are your major expectations for the development of trade and investment relations this year?
A: Beyond our flagship project of a comprehensive agreement on investment, 2015 will provide a great opportunity to strengthen our bilateral trade and investment relations.

2015 is not only the 40th anniversary of EU-China diplomatic relations, but also the 10th anniversary of our dialogue in a fundamental area: intellectual property. We plan to deepen our collaboration in this area, with a focus on enforcement. IP must turn from a trade barrier to a key enabler for trade. This is also crucial for China to achieve its goals to become a leader in innovation.

The success of WTO and plurilateral negotiations (Information Technology Agreement, environmental goods, government procurement) will depend largely on the level of leadership China displays. We are working together with our Chinese interlocutors to conclude these negotiations—which would unlock immense potential for enhanced bilateral trade.

I am also certain that the EU's Fund for Strategic Investment will generate a lot of interest in China. The attraction of the EU as an investment location is clear and China is also welcome to participate. This Investment Plan provides important opportunities for investment in infrastructure, digital, and innovation projects, to name but a few.

At the same time, it will be crucial to avoid two fundamental challenges. As growth slows, the barriers and distortions present in China have a higher impact on foreign companies, felt in erosion of profits for EU business and in trade deficits. To ensure the stability of our relationship, this requires more market opening and non-discrimination of foreign companies and products.

In parallel, China's security related provisions are just being crafted. It is important this is done in a way that respects international obligations and does not create obstacles to trade and investment. We are happy to share our experience with China in this regard.

Q: What in your view is the major issue in bilateral trade relations?
A: The biggest issue is how to exploit untapped potential in high-value goods, services and investment. As important as it already is, our trade in goods can be further expanded in high value-added, high-tech goods. These are goods that Chinese consumers and industry seek in China's new phase of development. An enabling environment in China (respect for IPR, removal of barriers to market access and standardization) would unlock this potential.

Services account for only one tenth of our bilateral trade in goods—the EU exports 6 times more services to the US than to China. While growing, only 2% of EU's foreign direct investments (FDI) go to China—and a similar order of magnitude applies to China's investments to the EU. The negotiation of a comprehensive agreement on investment is the key that would unlock possibilities in the trillions of euros, particularly in the service sector.

Q: How are the negotiations on the investment treaty progressing?
A: The negotiations are moving apace, reflecting the importance both sides attach to them. We have had seven rounds of negotiations. The approach is constructive and open—a must in such complex negotiations. Although both sides want to conclude as soon as possible, I would like to underline that substance prevails over speed. We seek an ambitious outcome, with state of the art investor protection and genuine market access for investors. At the EU-China Summit on 29th June leaders on both sides have given strong political endorsement to these negotiations. Now it is our job to translate this into resolute action.

Q: What role do you expect European countries to play in the Asian Infrastructure Investment Bank (AIIB)?
A: The AIIB interim secretariat has openly welcomed the participation of non-regional countries into the new development bank. Among those countries are 14 EU Member States which can hopefully contribute to the ambition of making the AIIB a 'lean, clean and green' bank. This is reflected in the strong interest among the European countries as regards for example how 'environmental and social safeguards' as well as 'procurement policies' of the AIIB are being set up. It is our expectation that the Bank will conform to the highest standards of governance and transparency.

There is thus a strong likelihood for a win-win situation here, given that the substantial investment potential in Asia is unlikely to be met by existing development banks, whether multilateral or domestic. By pooling our knowledge, capital and commitment, we can work together for better connectivity in Asia, contributing to stronger and more sustainable growth in the region.

Q: Are you worried by China's slowing foreign trade growth?
A: China accounts for almost 15% of our trade—so slowing demand for EU products and services due to China's slowdown could deprive the EU of an important source of growth and employment.

This makes it the more important for China to accelerate rebalancing of its economy toward consumption, and also to move ahead with reforms to further open China's economy. The reduction of certain import tariffs is a positive first step in this regard, and we look forward to China following this up with even more resolute action.

This will not only set China on a course to become a successful high-income economy, but will also benefit the global economy and our bilateral relationship.

Q: Are there any upcoming initiatives to ease visa restrictions?
A: The EU counts among the top destinations for Chinese travellers, and visa applications have increased dramatically. They went up 20% in 2014 alone.

Up to 97% of Schengen Visa applications from China are approved. In addition, the Schengen countries have since October reduced the number of supporting documents to be submitted with the visa application, in a move that will further ease the procedure and speed up the delivery of visas. Further measures are currently under consideration by both sides.

Q: Are you worried about the recent evolution in the yuan-euro exchange rate?
A:The major exchange rates have fluctuated markedly over recent months. This reflects primarily the increasingly diverging monetary-policy stance where the Fed has indicated that the time to start to gradually raising interest rates in the US is coming closer, while the ECB has embarked on a policy of quantitative easing during the spring. This, in turn, mirrors the different cyclical stance and especially the outlook for inflation in the two largest currency areas in the world and is thus a natural development – and is not a cause for worry per se.

Q: Can you comment on the upcoming revision of China's foreign investment guide?
A: China's foreign investment regime is complex and restrictive, and we welcome China's efforts to review it.
The challenge is great: it requires the State to move away from control and direction to regulation of framework conditions.

We have seen certain reductions in the limitations on investment (free trade zones, revised foreign investment catalogue). But the true catalyst for investment into China would be a countrywide removal of investment restrictions such as the foreign investment catalogue, and its replacement with an open and non-discriminatory foreign investment regime.

It is equally essential to avoid new barriers to investment—such as the application of a too broad interpretation of the concept of national security, covering normal economic activity.
We are keen to work together with our Chinese partners in their on-going review of the foreign investment law in this regard.

Q: Do you have any message for our readers?
A: The EU Delegation in China works very closely with the European business community and always keeps their interests at heart. We are working with our Chinese interlocutors to further improve trade and investment links and will continue to work for more open markets and increased exchanges between Chinese and European companies.

"One Belt, One Road" enhances connectivity between Europe and Asia

— Interview with H.E. Yang Yanyi, Ambassador of the People's Republic of China to the European Union and Head of the Chinese Mission to the EU

Q: What are the benefits to China and to the European countries of the "One Belt, One Road" initiative?
One of the priorities of the "One Belt, One Road" initiative is to enhance connectivity between Europe and Asia by a number of concrete projects and cooperative measures. Both China and EU will benefit a lot from the initiative.

First of all, China-EU trade will be infused with new driving forces. In consideration of the huge trade volume between China and the EU countries, "One Belt, One Road" could be a further impetus to improve market access and trade facilitations. The two can do more to remove investment and trade barriers to create a sound business environment and unleash potentials for expanded cooperation. Taking cooperation on customs as an example, we may establish a "single-window" in border ports, cut customs clearance costs and improve customs clearance capability. Secondly, "One Belt, One Road" will facilitate greater China-EU two-way investment. Under the initiative, China will explore new investment opportunities by advancing global cooperation on production capacity. European companies, with their advantages in managerial expertise and technology, could become a positive business force, while Chinese companies, with capital and production capacity which the EU side needs badly, may help Europe consolidate economic growth and promote employment. We may also
expand mutual investment areas, intensify cooperation in agriculture, forestry, seawater desalination, marine bio-pharmacy, environmental protection, renewable energy, logistics, marine tourism and many other fields.

Thirdly, infrastructure construction, a priority of investment in "One Belt, One Road", will create regional public goods that benefit all countries. Promotion of connectivity is a priority area of the initiative. On the basis of respecting each other's sovereignty and security concerns, countries along the Belt and Road can coordinate their infrastructure construction plans and technical standard systems, construct jointly international trunk passageways and create an infrastructure network connecting all sub-regions in Asia and between Asia and Europe. The Eastern and Central European countries may need to upgrade transport equipment and facilities while Western Europe may look for ideal investment projects. Infrastructure construction will provide promising prospects for the business communities in China and the EU.

Last but not the least, "One Belt, One Road", if linked to the European Investment Plan, will benefit both Chinese and European enterprises. The EU is striving to recover from the crisis. The European Investment Plan, as I understand, is not only open to EU member states, but also welcomes the contribution from non-EU countries. As the Chinese economy enters into a period of "New Normal" that focuses more on quality and efficiency, more Chinese companies are looking abroad for business opportunities. The two economies are complimentary to each other. To create an environment friendly for the companies from both sides is, therefore, both our shared interest and obligation.

Q: Where is the overland and maritime Silk Road terminating in Europe? Hamburg, Antwerp, or Rotterdam? Or are there several terminals?
A: The "One Belt, One Road" initiative is an open, pluralistic and inclusive regional cooperation initiative with no strict geographic boundaries. It covers, but is not limited to, the area along the ancient Silk Road. It is open to all countries, international and regional organizations and the results of the concerted efforts will benefit wider areas. There is no specific terminal, which is clearly illustrated by the three railway lines of goods connecting Asia and Europe. The Chongqing-Xinjiang-Europe International Railway ends in Duisburg, Germany, while the Chengdu-Europe Express ends in Lodz, Poland and the Yiwu – Madrid Railway line ends in Madrid. In a word, Europe is an important and integral part of the initiative.

Q: In what projects do you expect European countries to play a role?
A: Over the past several months, China and the EU institutions have been working closely to work out concrete cooperation models. We have been discussing for example how China can contribute to the European Strategic Investment Fund, how Chinese and EU companies can be encouraged to participate actively in connectivity projects and what both sides can do to enhance capacity cooperation. Some of these projects involve mainly EU institutions while others are the responsibility of the member states. We hope that while EU institutions frame the general cooperation model, the member countries could identify some projects that Chinese companies could participate in and designate the possible ways for China's involvement. Moreover, we hope our partners could provide detailed information on laws and regulations regarding investment and take measures to facilitate Chinese investment.

Q: What measures would you like the European Commission to take to accommodate and facilitate the "One Belt, One Road" Initiative?
A: China's "One Belt, One Road" Initiative and the European Investment Plan complement each other. At the 17th China-EU summit held in Brussels last June, leaders of both sides decided to support synergies between the two initiatives and directed the China-EU High-Level Economic and Trade Dialogue (HED) to develop practical avenues for mutually beneficial cooperation, including through a China-EU co-investment vehicle or fund. The two sides worked very closely on the HED, co-chaired by Vice Premier Ma Kai of China and Vice President Katainen of the European Commission. The HED identified ways and means, including co-financing projects, to translate the leaders' consensus into practical actions and outcomes that contribute to growth and jobs for both sides. The China-EU Investment Agreement is to provide a simpler and more secure legal framework for investors of both sides and tap the potentials of China-EU cooperation. To this end, China and the EU have been actively engaged in negotiations. We expect the negotiations will achieve substantive progress so as to reach a comprehensive China-EU investment agreement as early as possible.

Connectivity between China and the EU is an enabler of economic growth and prosperity. Connectivity means growth; growth means more jobs and distribution of wealth across the two continents. Connectivity is high on the priority list in both the "One Belt, One Road" Initiative and the European Investment Plan. Leaders of both sides decided to establish a Connectivity Platform to promote seamless traffic flows and transport facilitation, and identify cooperation opportunities between their policies and sources of funding, including the Trans-European Networks and the "One Belt, One Road" Initiative. It is hoped that the Connectivity Platform will convene its first meeting as soon as possible, and pilot projects could be identified in Central and Eastern European countries, so as to achieve an early harvest. Connectivity also includes better mobility and flows of people between the two sides. The China-EU Dialogue on Migration and Mobility is expected to complete negotiations and signing of the agreement on mutual visa exemption for diplomatic passport holders by the end of 2015, and will discuss the facilitation of visa issuing for businessman, tourists and students on a greater scale. The EU side is encouraged to take more measures on the facilitation of visa issuance to Chinese citizens, which will contribute to growth and jobs in the EU, as well as people-to-people exchanges between the two sides.

Q: Will the Asia Infrastructure Investment Bank (AIIB) be financing all the projects or is there a role to play for other banks?
A: The Asia Infrastructure Investment Bank (AIIB) is a multilateral development bank established under inter-government agreements, with a view to supporting infrastructure construction in Asia and promoting the region's connectivity and economic integration. In addition to the AIIB, China has taken a number of other actions to support the "One Belt, One Road" Initiative, including the establishment of the Silk Road Fund (SRD). Under the principle of jointly building "One Belt, One Road" through consultations in the interests of all parties, China welcomes participation of governments and institutions from other countries, as well as international and regional organizations, Multilateral Development Banks (MDBs), commercial banks and private investors.

Q: Where can interested businesses find more information about the projects?
A: The Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road was issued by the National Development and Reform Commission of China in cooperation with the Ministry of Foreign Affairs and the Ministry of Commerce. The process to build the "One Belt, One Road" involves many other ministries. Those who are interested may focus on the fields of connectivity, trade, financial integration and people-to-people bonds for potential business opportunities. All projects will follow market rules, including disclosure of information.

"Keep reform promises to firm up softening economy"

Introduction to the Position Paper 2015/2016 of the European Union Chamber of Commerce in China

The European Union Chamber of Commerce in China published its *European Business in China – Position Paper 2015/2016 (Position Paper)* in September in which it strongly urged the Chinese leadership to make good on market reform promises that can firm up the nation's softening economy while bolstering trust among European and international businesses. This year's *Position Paper* outlines the European Chamber's view that China's leadership must take action now to implement market-orientated policies if the country is to maintain moderately high levels of economic growth.

Despite GDP growth of 7% in the first half of the year, a spate of indicators tells of worrying underlying problems that need the Chinese leadership's urgent attention. Aware of these economic challenges, the Chinese leadership has repeatedly said it will make the world's second biggest economy less dependent on government spending and more reliant on organic corporate growth by letting market forces play out fully.
Yet two years since the promulgation of the Chinese leadership's Third Plenum document known as the *'Decision'*, which emphasises how market forces ought to guide the next stage of its economic development, China is implementing few substantive market-driven reforms. To this end, in this year's *Position Paper,* the European Chamber conducted a 'reality check' on the Third Plenum, based on the input of 37 of its sectoral working groups, to evaluate the progress of reforms. The consensus is that while reforms are happening in many areas, they are primarily of benefit to domestic Chinese companies.

On the one hand, the European Chamber believes that statements from Beijing have never been more encouraging to business: steps such as the introduction and subsequent reduction of areas of business not permissible to foreigners or 'negative lists', as well a reduced *Foreign Investment Industrial Guidance Catalogue*; and the progress on the Comprehensive Agreement on Investment as well as the increase in free trade zones (FTZs) – these should all bode well for EU-China commercial relations.

On the other hand, the leadership's overwrought concern with national security issues, expansive wording in a slate of recent legislations that often obfuscates the law, as well as the slow progress in the overall implementation of market reforms, is unsettling for business and causing a loss of confidence. It often seems that the reforms that are meant to benefit foreign companies are 'ring-fenced' in the country's FTZs. European business is therefore asking to what extent China really considers it as a part of the reform effort.
"At best it leaves a mixed picture suggesting that part of China's reform agenda includes new restrictions and that the country is even closing off altogether in some areas of its economy. In fact, never before has the European Chamber seen such a contradictory government agenda of reform and closing up. I am very concerned that reform momentum has been lost," said European Chamber President Jörg Wuttke.

Executive summary

The Chinese economy is faced with the onset of a permanent slowdown. To mitigate its adverse effects the Chinese Government needs to change its old ways. Foreign business hailed the promulgation of the Third Plenum's Decision, China's reform vision until 2020. Two years on, it is now clear that some reform momentum has been lost and the hopes of foreign business have given way to a more subdued optimism in an emerging political-economic environment that can be described as one of 'reform and closing up'.

The Chinese Government must avoid giving in to the protectionist tendencies that are continuing to curtail legitimate market access, whether on the grounds of national security or other concerns. Its most pressing issue now is how to forge ahead with the reforms that will help to bring about the rebalancing of the economy. China needs to employ a 'new toolbox' capable of successfully delivering an economic model
that the European Chamber defines as:

"An economic model in which market forces decide on the allocation of resources in the economy under the auspices of rule of law; consumption holds a significantly larger share of GDP; there exists no discrimination between domestic and foreign investment; there is harmonisation with global standards and supply chains; and the state plays a reduced role in the economy, acting solely as regulator and enforcer. An economy in which—due to a more sophisticated regulatory environment—the services sector has become the dominant engine of growth, supported by an education system and a flexible and open labour market that endow China's workforce with the required skillset. An economic model that will result in greater innovative capacity and a higher quality of life for the individual."

In order to get there, China will need to address a number of key challenges.

1. The Reality Check

1.1 The Chinese Economic Slowdown

China's gross domestic product (GDP) growth dropped to seven per cent in the first half of 2015, the lowest level since 2009. Financial leverage is precipitously high, with total debt having ballooned to 282 per cent of GDP in 2014. China's total trade declined by 6.9 per cent in the first half of 2015 and aggregate productivity of China's economy is also at a significant low. European companies have reported for the third year in a row that their earnings before interest and tax (EBIT) margins are more likely to be greater outside of China than they are inside China. The four successive interest rate cuts from November, 2014 to mid-2015, and the volatility and sharp declines in the Chinese stock market in 2015, point towards increasing misgivings over whether China actually retains the capacity to meet its projected economic growth targets.

1.2 Towards the 'New Normal'

In brief, the 'new normal' will be an era characterised by lower, but more qualitative economic growth.

1.3 Third Plenum Reality Check

European business fully subscribes to the principle that China has to "let the market play the decisive role in allocating resources and let the government play its functions better." However, European business is now witnessing the government's reform agenda seemingly occupying opposite ends of the spectrum: both improvements and deteriorations are taking place to varying degrees.

2. The 'New Toolbox'

2.1 Accelerating Reform of the Financial System

China's financial system needs to become more efficient in allocating capital if the economy is to grow more sustainably. This has to be at the core of the government's reform drive and will require some fundamental reforms to ensure that funds are being lent on a more viable basis.

2.2 Limiting State Engagement in the Economy

Over the past decades, the state loomed large in the Chinese economy. It has been dominated by strong state-owned enterprises (SOEs), to which the government channelled the population's savings in order to develop large-scale projects on the back of clearly defined industrial policies. This approach has been costly and inefficient, and has to be abandoned now if the market is to play a decisive role in the economy.

2.3 Increasing Market Access for the Private Sector, Including Foreign Business

One of the greatest policy tools that is still at the Chinese Government's disposal—unlike many governments in developed economies—is the possibility of allowing the private sector to fully play out within the economy and to harness the substantial gains this will bring. China needs to establish an open market economy in order to unlock the substantial potential of private companies. This was clearly recognised in the Decision, but uncertainty remains over whether it will be forthcoming.

2.4 Committing to the Rule of Law

Greater implementation of rule of law is undoubtedly the most important tool in the box and will be the top driver for China's economic development in the coming years. Transparency, legal certainty and public consultation are all central elements of rule of law that will ensure the proper functioning of an economy. However, China needs to do more to increase investors' trust in its judicial system.

2.5 Abolishing the Foreign Investment Catalogues and Committing to a Nationwide Roll-out of the Negative List

The continued adherence to the *Foreign Investment Industry Guidance Catalogue* falls short of the Chinese Government's stated ambition to give full play to the market. Instead, China should proceed with a nationwide roll-out of the 'negative-list' approach.

2.6 Fostering an Innovative Environment

Innovation is one of the most important drivers of economic growth. In order for China to successfully create the right conditions for it to take place it must, first and foremost, guarantee a competitive market that is open to all companies, regardless of nationality. China also needs to have an education system and a flexible and open labour market in place, to continue improving its workforce.

3. China and the World

3.1 National Security Concerns

In 2015, several Chinese government agencies have issued a number of laws that make reference to national security. The definitions included in these laws are very vague, which creates a great deal of uncertainty for business and is detrimental to the credibility of the Chinese marketplace.

3.2 China's New International Institutions

China is swiftly and resolutely moving ahead with developing its own set of international institutions and development agendas – this could profoundly shape the future of the global trading system. European business welcomes these developments, but thinks that China should prioritise taking a greater leadership role in the established global trading system, with the World Trade Organisation (WTO) at its centre.

3.3 Taking a Leading Role in Global Affairs

China has benefitted immensely from its entry into the WTO some 15 years ago, and now has the opportunity to shape and ensure the success of future development rounds by, among other things, lobbying for progress with the Doha Development Agenda and making a more compelling, revised offer to join the Government Procurement Agreement.

4. Expectations of the European Union

The European Chamber believes the European Union's (EU's) economic and trade relations with China should be prioritised. Despite its challenging business environment, China still offers significant potential to European companies, including small and medium-sized enterprises. As such, European business views the ongoing negotiations for an EU-China Comprehensive Agreement on Investment as the biggest opportunity to reset EU-China relations and boost the fledging growth of both economic blocs.

5. The Audacity to Change

The Chinese leadership is faced with the considerable challenge of successfully navigating the adverse effects of permanently lower economic growth. A large part of the solution will be the successful transition to the 'new normal', an era in which China will embrace an economic model that can deliver sustainable, qualitative growth. This is well within the Chinese Government's reach if it can have the courage of its convictions and stick to the bold reform pledges made in the Decision. A successful rebalancing of the Chinese economy will require an adroit sequencing of macroeconomic policies; it will require the ability to let go of the impulse to micro-manage the domestic economy; and it will require the courage to follow through with overdue, but critical, structural reforms. In short, it will require the audacity to change.

Europe-China News Round-up

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China first non-EU country to contribute to Investment Plan for Europe

At the latest session of the High-level Economic and Trade Dialogue (HED) in Beijing in September, Chinese Vice-Premier Ma Kai informed EU Commission Vice-President Katainen that China will contribute to investments in the context of the €315 billion Investment Plan for Europe. China is the first non-EU country to announce a contribution to the Plan. This continues the strategic engagement on economic, trade and investment issues from the EU-China Summit, which was held in Brussels on 29 June. The two sides agreed to set up a joint working group to increase cooperation between the EU and China on all aspects of investment.

Also at the HED, the EU and China signed a milestone agreement in the global race to develop 5G mobile telecommunications networks. EU Commissioners Oettinger and Bulc were also in Beijing for the HED.

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Commissioner Malmström met Chinese Minister of Commerce Gao Hucheng to take stock of investment talks

EU Trade Commissioner Cecilia Malmström and Chinese Minister of Commerce Gao Hucheng met on October 7 in Brussels to take stock of progress made so far in the ongoing negotiations for a bilateral investment deal.

“Following my meeting with Minister Gao today, we are getting clarity as regards the scope of our future deal”, Commissioner Malmström said. “However, more efforts are still needed to address all obstacles to investment between the EU and China, and to ensure a fair, open and transparent regulatory environment for investors on both sides.”

The annual EU-China Joint Committee on Trade chaired by Commissioner Malmström and Minister Gao also provided an opportunity to discuss some of the existing market access barriers and questions related to protection of intellectual property rights – their enforcement, and ways to enhance EU-China cooperation in this area.

Both sides exchanged views on the on-going economic and political reforms in China. Commissioner Malmström underlined the importance of strengthening the rule of law and independent judiciary system, allowing lawyers to operate freely and independently, supporting the work of foreign business and citizens. Referring to the importance of digital society for business operating in China, Commissioner Malmström asked her Chinese counterpart “to contribute to making the internet a vehicle for freedom of expression and free trade”.

In addition, the Joint Committee reviewed the preparations for the 10th WTO Ministerial Conference taking place in Nairobi in December of this year. The EU side expressed its deep concern regarding the state of multilateral trade negotiations and emphasised the need for all major WTO Members to be ready to contribute to negotiations and take responsibility for the strengthening of the multilateral system.

At the meeting, Commissioner Malmström also called for a lifting of China’s ban on EU beef and to accelerate export authorisations for beef and pork, as well as speeding up import procedures for dairy products, the European Commission reported on its website.

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10th EU-China Business Summit held in Brussels in June

EU-China Business Summit was held in Brussels on June 29, 2015.

The EU-China Business Association invited 500 business leaders and officials to join the 10th EU-China Business Summit on 29 June 2015 at Palais d’Egmont in Brussels. The EU-China Business Summit is a joint initiative by BusinessEurope, the China Council Council of the Promotion of International Trade (CCPIT), in cooperation with the European Union Chamber of Commerce in China (EUCCC) and the EU-China Business Association (EUCBA). The business summit is recognised as the highest-level platform for exchanges between EU and Chinese business and political leaders and brought together a number of high-level business leaders from large Chinese and European companies, including several CEOs. President Jean-Claude Juncker and Premier Li Keqiang made keynote addresses during the opening session.

Under the overall theme of “Building a Stronger Partnership” interesting discussions were held on topical issues like investment cooperation, the digital economy and green and sustainable growth. Commission Vice President Jykri Katainen introduced the panel on investment cooperation.

The thematic session 1: “New opportunities for EU-China investment cooperation” was moderated by Mr Stephen Phillips, Chairman of the EU-China Business Association (EUCBA). The second thematic session focused on “Green economy and sustainable growth” and the third one on “Industrial transformation in a digital world”.

FCCC Chairman Bert De Graeve, Chairman of Bekaert, participated in the CEO dialogue with European and Chinese CEO’s and Mrs Malmstrom, European Commissioner for Trade.

For more information on the 10th EU-China Business Summit you are invited to explore the dedicated website: www.eu-china-business-summit.eu

The EU-China Business Summit was organized with the support of the Flanders-China Chamber of Commerce (FCCC).

Speeches delivered at the Summit can be viewed by following this link: www.eu-china-business-summit.eu

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EU and China celebrated 40 years of relations

Earlier this year, the EU and China celebrated 40 years of relations. On May 6, 1975, Qiao Guanhua, then China's foreign minister, and Christopher Soames, then European Commission vice-president, agreed to establish diplomatic relations between China and the European Economic Community (EEC). High Representative of the EU for Foreign Affairs and Security Policy and EC Vice-President Federica Mogherini held a strategic dialogue with State Councilor Yang Jiechi in Beijing on May 6. On the same day in Brussels, top officials attended a joint event organized by the Chinese Mission to the EU and the European Commission. In June, Chinese Premier Li Keqiang attended the EU-China Summit in Brussels. Since the establishment of the China-EU strategic partnership in 2003, trade exchanges have more than quadrupled. Last year, annual trade reached $615 billion. The EU is China's largest trade partner, while China is the second-largest trade partner of the EU.

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China, Canada and the US join the EU's Designview IP database

As of 14 September 2015, the State Intellectual Property Office of the People's Republic of China (SIPO), the Canadian Intellectual Property Office (CIPO), and the United States Patent and Trademark Office (USPTO) have made their industrial design data available to the Designview tool, a searchable database for IP users set up by the EU's IP office OHIM (Office for the Harmonisation in the Internal Market).

The integration of Chinese data through SIPO is a concrete result of EU-China cooperation in the field of Intellectual Property, the 10th anniversary of which we are celebrating this year. it was achieved thanks to the excellent bilateral cooperation between SIPO and OHIM, and the support of the IP key action managed by OHIM.
With SIPO, CIPO and USPTO on-board, there are now 35 participating IP offices in Designview. With the addition of more than 3.3 million designs from SIPO, Designview now provides information and access to more than 8.6 million industrial designs in total for IP professionals, companies and other users worldwide.

Since the introduction of Designview on 19 November 2012, more than 1.2 million searches from 137 different countries have been carried out using the tool. Now Chinese rights owners and other users can access this service in a Chinese language version. For more information visit https://www.tmdn.org/tmdsview-web/welcome.

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Harbin to Hamburg cargo train route opened

A freight train returned to Harbin, Heilongjiang province, on July 14 with 41 containers of cargo in completing its maiden journey to the German port city of Hamburg. It was the train's first return home after traveling more than 7,450 kilometers along the Ha'ou Route (Ha in Chinese means Harbin, while ou refers to Europe). The train left Harbin on June 13. It traveled through Russia from Manzhouli, the Inner Mongolia autonomous region, by joining the Trans-Siberian railway and making its way to Yekaterinburg, Russia, Moscow and then Poland before arriving at Hamburg a fortnight later. On its outbound journey from Harbin, the train hauled 49 containers of cargo to Russia, Poland, the Czech Republic and Germany. Two containers, destined for Poland and Russia, included 15 kinds of products worth $3 million. By the end of this year, there will be 26 two-way runs of freight trains between Harbin and European cities. The Ha'ou freight rail transport service is provided by Ha'ou International Logistics, a conglomerate of domestic logistics companies and the Harbin Railway Bureau.

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Commissioner Carlos Moedas visits China

Carlos Moedas, European Commissioner for Research, Science and Innovation, visited China from 6 to 11 September 2015. During his first official visit to China, Commissioner Moedas held meetings with high-level officials and key stakeholders in Beijing from 6 to 8 September and co-chaired the Annual Meeting of the New Champions (AMNC - Summer Davos Conference) in Dalian from 9 to 11 September. His visit was accompanied by Jean-Pierre Bourguignon, President of the European Research Council.

In his meeting with China's Minister for Science and Technology Wan Gang, both sides reached agreement on the setting up of the Co-Funding Mechanism (CFM) for research and innovation for the next five years built on Horizon 2020 on the EU side and relevant research and innovation programmes on the Chinese side to support joint research and innovation activities on topics in strategic areas of common interest and mutual benefit, such as food, agriculture, biotechnology, green transport – including aviation –, sustainable urbanisation, information and communication technologies, energy, health and mobility of young researchers. Both sides also raised the framework conditions for research and innovation in their discussion.

EUCBA News

Joint Booth "Doing Business in China" HANNOVER MESSE 2016

The EUCBA is a supporting organisation of the joint booth "Doing Business in China" HANNOVER MESSE 2016 of the German-Chinese Business Union (DCW). HANNOVER MESSE is a major forum for decision-makers and the most important technology event worldwide, where professionals consist of 95 % of the attendees. This impressive event attracts 200.000 trade visitors, companies and 5.000 exhibitors from various countries at one venue.

HANNOVER MESSE's "Global Business & Markets" foreign trade platform, presents a collection of measures and programs that promote foreign trade, commercial services, and highlight new business locations. In particular, this platform helps small and medium sized firms develop their operations in foreign markets.

DCW and its member companies have presented their services since 2012 at HANNOVER MESSE. You are invited to present yourself as co-exhibitor at "Doing Business with China" International Joint Booth. You may also use the opportunity to present your expertise at one of the major China-related events at HANNOVER MESSE:

- EU-China Economic Cooperation (EUCEC) Forum 2016
- Chinese-European Intercultural Business (CEIB) Forum 2016

Get more information at:
www.dcw-ev.de/hannovermesse

MOU signed between EUCBA and EU SME Centre

Mrs Gwenn Sonck, Secretary-General of the EU-China Business Association (EUCBA) and Mr Chris Cheung, Director of the EU SME Centre Beijing have signed a Memorandum of Understanding (MOU) in Beijing. The Centre is a European Union funded initiative helping SMEs get ready to do business in China. Located in Beijing, the Centre provides a comprehensive range of hands-on support services to European small and medium-sized enterprises (SMEs), getting them ready to do business in China. Its team of experts provides advice and support in four areas – business development, law, standards and conformity and human resources. Collaborating with external experts worldwide, the Centre converts valuable knowledge and experience into practical business tools and services easily accessible online. Website: www.eusmecentre.org.cn

EXPO Milano 2015 EU-China Days

The EU-China Business Association (EUCBA) invited European and Chinese companies to the EU-China Days organised by the European Commission at the World Expo in Milan on 9 and 10 June 2015. The event allowed participating companies to get information on the European Commission tools which can assist and support the internationalisation of businesses (in particular SMEs), as well as business relations between Europe and China. They also had the chance to meet Chinese and European counterparts during the B2B sessions to discuss concrete cooperation projects in business, technology transfer and research.

About the EUCBA

The EU–China Business Association (EUCBA) is the EU-wide federation of national non-profit business organisations in the European Union with specialization and particular expertise in exchange of knowledge on investments and trade with China. At current, EUCBA unites 18 members in 18 countries representing more than 3,500 companies – large, medium, and small, in all branches of industry, commerce and the service sector.

EUCBA promotes direct investment and trade between China and the EU through international exchange of information and joint projects of its members – providing European companies a stronger base for expanding trade cooperation with China.

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