Journal of the European Union Chamber of Commerce in China

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FINANCE

THE KNOWN KNOWNS IN CHINA'S MARKETPLACE
How the expansion of FIEs has institutionalised CSR practices in China

A CATALYST FOR INNOVATION IN CHINA AND THE WORLD?
The future of EU companies in the Chinese fintech environment

Also in this issue:

CHINA'S 19TH PARTY CONGRESS
What does this congressional meeting spell for the future of business?

SUCCESSES WITH SMART CARDS
European Chamber Smart Card China Desk accomplishments

HOW IS IT COMING TOGETHER?
The Executive Summary from the *Position Paper 2017/2018*

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CITIC Jinling Hotel

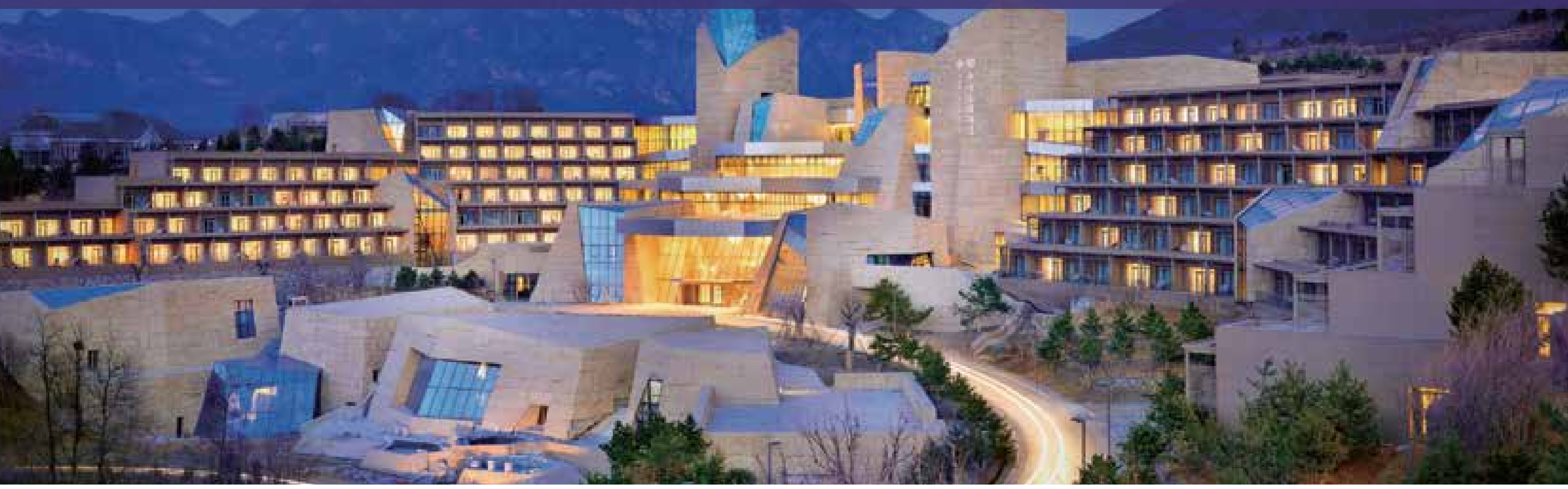

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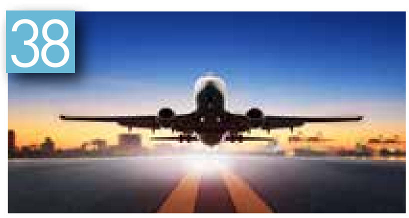
TABLE OF CONTENTS



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Chief Editor
Jace Gilmore

Art Director
Wenwen Gu

For European Chamber Membership:

National Member Relations Manager
Paula Mueller
Tel: +86 (21) 6385 2023 ext 114
pmueller@europeanchamber.com.cn

For advertising in EURObiz:

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

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European Chamber Chapters:

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

Nanjing
806, No.99 Zhongshan Road, Xuanwu District, Nanjing
南京市玄武区中山路99号
806室
Tel: +86 (25) 8362 7330 / 8362 7331
Fax: +86 (25) 8362 7332
nanjing@europeanchamber.com.cn

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

Shenyang
Room 646, Sofitel Shenyang Lido, 386 Qingnian Street, Heping District, Shenyang, 110004
P.R. China
沈阳市和平区青年大街386号
丽都索菲特酒店646室
Tel: +86 (24) 6683 4376
Fax: +86 (24) 6683 4376
shenyang@europeanchamber.com.cn

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

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

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

Southwest – Chongqing
1-1, 23F, B4 Block, Chongqing Foreign Business District, 12 Yun Shan Nan Lu, Yubei District, Chongqing, China
中国重庆市渝北区云杉南路12号重庆涉外商务区B4栋23楼1-1室
Tel: +86 (23) 63085669
chongqing@europeanchamber.com.cn

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

CHINA'S ECONOMY NEEDS CONCRETE REFORM

Mats Harborn
President of The European Union Chamber of Commerce in China

Throughout 2017, the Chinese authorities have spoken strongly in favour of reforms that will promote economic globalisation and openness to the outside world. The reasons are pretty clear given the benefits China has accrued since its WTO accession in 2001 and its current need to increase foreign investment. While the European Chamber fully embraces these renewed pledges to open up, there is a distinct feeling we have been here before. They come less than five years after the Third Plenum's *Decision* first saw the light of day, which ultimately failed to deliver on its own promises for deep and meaningful reforms. China therefore needs to send an unambiguous statement of intent by moving ahead with the measures that have been promised and by providing reciprocal access to its market, for both trade and investment.

During his much publicised January 2017 speech at the World Economic Forum in Davos, President Xi Jinping stated that China would expand market access for foreign investors and level the playing field to make China's market more transparent and better regulated. Later that month saw *State Council Document No. 5* released, which outlined plans to do just that. Additional details of plans to attract more foreign investment were then unveiled with the August release of *State Council Document No. 39*.

The European Chamber attaches great importance to these official statements, in particular the two State Council documents, which it views as the overarching, guiding principles for reforming China's foreign business and investment environment in the short to medium term. Following through on its pledges will see China on its way to reaching its full economic potential. It will also surely improve its dismal 2017 OECD ranking of 59th place among the 62 countries evaluated on their openness to foreign investment.

With foreign investment in China declining year-on-year during the first half of 2017, it is clear that the authorities want to attract more. However, there is a right and wrong way to do so. European businesses make investments when capacities need to be established or expanded in response to market demand, not because an investment zone offering short-term financial incentives has been set up. If greater market access were to be granted, 56 per cent of respondents to the *European Chamber's Business Confidence Survey 2017* would be more likely to increase their investments.

Full implementation of the State Council documents' commitment to fair competition would help to win over the doubters. It would also align with the European Chamber's longstanding call for a level playing field to be established for all businesses in China. At the moment, this is unfortunately a dim prospect, particularly taking into consideration certain mergers of Chinese state-owned enterprises (SOEs) that have created enormous companies with preferential access to capital, and often markets. This untenable situation has allowed these SOEs to dominate domestically while muscling out international competitors.

There are some reasons to be hopeful, though, which give a glimpse of China's possible future direction. For example, there have been significant improvements over the past year in the pharmaceutical industry, with authorities streamlining regulations and improving patients' access to drugs. This positive approach should now be applied to other areas that are facing potential market closure, such as the agriculture, food and beverage industry. Starting from 1st October, shipments of food products, including some low risk ones, will require an official inspection certificate from a foreign government. As certification requirements for low-risk food products are out of line with international practice, this could lead to a dramatic reduction in food imports.

In July, the authorities did enact a new *Foreign Investment Catalogue* with 63 restricted or prohibited areas in effect nationwide. However, any perceived progress here is tempered by the fact that the length of the catalogue is still far too long. What's more, the accompanying rules and regulations still maintain a distinction between foreign and domestic investment. It is highly unlikely that this kind of incremental change will result in the foreign investment tap being opened up. Amending China's Company Law so that it applies equally to domestic enterprises and FIEs would have a far more profound impact.

The European Chamber hopes that after the 19th Party Congress the Chinese authorities will boldly proceed with implementation of the State Council documents and focus on concluding the ongoing negotiations for the EU-China Comprehensive Agreement on Investment. These actions would reduce both potential and current political tensions between China and the West, as we have previously pointed out.

Market-driven reforms are crucial to ensuring long-term and high-quality economic growth in China, and offering reciprocal access to its own market would be a major step in the right direction. The Chinese authorities clearly know what needs to be done, and the European Chamber looks forward to supporting them in their commitment to economic globalisation, and transforming well-intentioned words into tangible, positive change.

This article was published originally in the Wall Street Journal, Asia Edition, on 19th September 2017. You can find it at, http://www.w`j.com/articles/chinas-economy-needs-concrete-reform-1505751598

CHINA'S 19TH PARTY CONGRESS

What does this congressional meeting spell for the future of business in China

The 19th National Congress of the Communist Party of China (19th Party Congress) will take place soon, and foreign businesses need to think about what effect this event may have on their operations in China. To get a clear picture of what the 19th Party Congress means for business dealings in China, **Andrew Polk**, the co-founder of **Trivium/China**, lays out some questions that corporations should be asking themselves leading up to this important party event.

19th Party Congress is just around the corner, and foreign businesses need to start thinking through the implications of this event for their operations in China. For the uninitiated, the 19th Party Congress is China's quinquennial conclave that regularly reshuffles party leadership and sets the policy direction for the next five-year period. It is the most important political event in China.

Despite the clear consequences this event has for party personnel and overall governance in China, the specific import that a party congress holds for businesses can be difficult to decipher. To get a clear picture of what the 19th Party Congress means for multinational corporations (MNCs) in China today, executives need to know the right questions to ask and where to look for the answers.

In this article, we lay out a few of the key questions that businesses need to be mulling over in the up-coming weeks. We also discuss some of the likely answers to those question and key developments to watch for going forward.

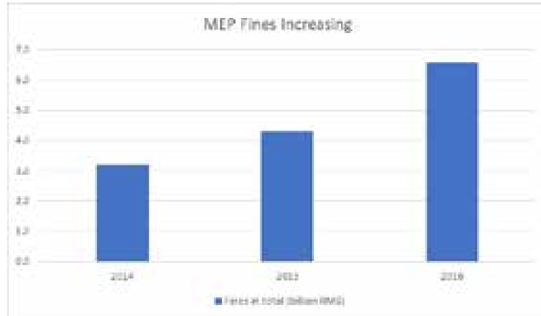
What should businesses be looking for?

Part of the confusion surrounding the 19th Party Congress stems from the fact that most analysts focus on the wrong things. Most of the prognosticating, by far, centres around who may emerge, over the course of the event, as the new leadership of the Communist Party of China (CPC). People want to know who will be sitting on the Politburo Standing Committee alongside General Secretary Xi Jinping for the next five years.

While the composition of the CPC's top echelon matters when it comes to the execution of specific government relations strategies, the direction of overall policy matters just as much, if not more. Getting an early read on various policy trajectories can help companies position themselves for success vis-à-vis the party, the government, business partners and competitors.

Rather than obsessing over the names of China's elite leaders, businesses should be taking a deep dive into the Party Congress Report that General Secretary Xi Jinping will deliver at the congress. It is hard to overstate the importance of this report. It sets the direction of policy along myriad fronts for the next five years and, in theory, every policy decision from 2018-2022 should flow out of it.

Because 'party speak' is often inscrutable, analysts and businesses do not pay enough attention to the report, but for those that do, important signals can be gleaned. At the 18th Party Congress, for example, 'ecological civilisation' (party speak for environmental protection) was given equal priority with economic development in the report; so, it is no coincidence that environmental protection has seen sustained policy attention over the past five years. For businesses, that is not an abstract development – it has hit companies' pockets directly. Over the past three years, the Ministry of Environmental Protection (MEP) has handed out 14 billion yuan in fines for violating various environmental protection policies.



Source: MEP's China environment situation communique 中国环境状况公报

The report will not contain minute policy details, as it is a wide-ranging artefact. Rather, it will touch on a host of important issues ranging from cultural development and party discipline to economic development and foreign policy. Additionally, much of the speech will only outline the successes of the last five years. However, for those who know where to look, the report will signal the CPC's intentions in some key policy areas.

What is the relationship between the party and the government?

Any executive that has spent time in China recently has seen the resurgence of the CPC first-hand. Some notable changes have included: rejuvenated party cells taking on more prominent roles inside MNCs, decision-making responsibilities shifting from governmental agencies toward party bodies and intransigent local party officials being scared stiff by the anti-corruption campaign. It is clear that the party now plays a much larger role in business than it did five years ago.

In hindsight, this development was signalled in the *18th Party Congress Report*. That document included new language saying that the CPC should exert more control over state institutions. It is highly likely that such language will be strengthened in this year's work report. Any emphasis on the CPC's role in governance, combined with a coming revamp to the CPC's supervision and discipline system set to take place early next year, will further institutionalise the shift towards a more assertive CPC presence when it comes to policy formulation and implementation. Companies should resist the temptation to fight against this trend and instead, learn how to productively react to it.

How is the growth target treated?

General Secretary Xi Jinping is unlikely to discuss the growth target explicitly, but the way he discusses economic growth and development, in general, will be extremely important. Inside the party, a robust debate is taking place over the growth target and whether or not it should be abandoned as a relic of the past. General Secretary Xi himself said at a Politburo meeting back in November 2016, that growth "is not a numbers game" and that qualitative development indicators should increasingly be emphasised.

Any reiteration that the quality of growth matters as much as hitting specific development targets would be a strong indicator that General Secretary Xi is laying the groundwork to back away from the previously stated growth target. We do not know if that will happen, but we will be watching closely. The continued pursuit of overly high growth implies a substantially different policy mix than the acceptance and facilitation of the economy's shift towards slower, but more sustainable growth. The former would benefit companies aligned with infrastructure spending and property development, while the latter would imply more policy support for the services sector, including healthcare, education and professional services.

How is technological development and data treated?

Companies need to figure out China's evolving stance on both technological advancement and data storage. That is a tall order given that no one inside the Chinese Government seems to be able to articulate the exact strategy for advancement. The report may not lay out a detailed plan for China's technological development and data storage issues, but at the 19th Party Congress it is likely to see more granularity than many other policy areas, and any emphasis here by General Secretary Xi will be key.

Many companies in China are wondering, for example, how strongly the *2017 Cybersecurity Law of the People's Republic of China* will be implemented. The optimistic view is that China does not want to scare away businesses by enacting and enforcing overly arcane rules, so regulators will back off once they realise some of the more disruptive effects that overly aggressive cybersecurity rules produce. However, the party leadership has shown a willingness to enact regressive policies, despite their recognisable downsides, especially when it comes to issues that are considered to be a matter of national security. Data flows and storage would fall into that category. If policies around cybersecurity, state security and core technologies are highlighted in the party report, it would be a strong signal that companies would need to brace themselves for significant policy tightening.

What is the attitude towards foreign investment?

Foreign investment flows have been in the headlines throughout 2017. Authorities have largely gotten a handle on capital outflows – both overseas direct investment and portfolio investment – but they are still concerned about the slump in inbound investment. If the desire to improve the foreign investment environment is well highlighted in the party report, then we will know that the intention, at least, is to continue to gradually open up and clarify existing investment rules. If the foreign direct investment environment is barely mentioned, then we would expect opening of the Chinese economy to proceed at a slower pace in coming years. Either way, these dynamics need to be considered by corporate boards making investment allocations across the globe.

Conclusion

The questions discussed above are just a few that companies should be asking themselves as the 19th Party Congress approaches. While the Chinese system remains opaque in many respects, the CPC does tend to signal its policy intentions. Moreover, policy formulation in China does follow certain processes, and that has been particularly true under General Secretary Xi Jinping – even if those processes have changed from previous administrations. Observers often describe a 'sudden crackdown' in this or that area, but for the most part, those 'sudden' moves are well signalled in advance by various party and government organs.

The Party Congress Report is the most high-level signalling document that the CPC has. General Secretary Xi must let his intentions be known to the millions of party-affiliated officials that he leads, and they are the report's primary audience. The CPC won't accomplish everything in the report, but there is no reason to mislead cadres, who will ultimately implement the report's directives, about the party's general aims for the next five years.

In general, we would expect that the policy direction for the next five years will not be too dissimilar from the past five. Many observers are optimistically hoping for a change of direction from General Secretary Xi starting next year. The argument is this: having fully consolidated power, the real reformer inside of General Secretary Xi can finally emerge untethered. We are highly sceptical of this expectation.

That does not mean that something truly unexpected will not emerge at the 19th Party Congress. A radical restructuring of the leadership structure would, of course, bear attention. Outside of such a move, we would look for any significant new policy priority to be given a billing in the work report. The new names on the Politburo Standing Committee will matter, but the developments that will truly affect foreign businesses in China will emanate from the words spoken at the party congress. Eb

Andrew Polk *is co-founder at* ***Trivium/China****. He was formerly director of China research at Medley Global Advisors and resident economist at the Conference Board's China Center. Trivium is a team of policy and economy analysts telling stories that put today's China in context and tomorrow's China in focus.*

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A CATALYST FOR INNOVATION IN CHINA AND THE WORLD

The future of EU companies in the Chinese fintech environment

As the fintech adoption rate has soared to 68 per cent in China, its development has brought worldwide attention in search of how to develop and adopt similar technology. **EY Tax** with **Dr Zhong Lin**, partner, EY Chen & Co Law Firm and **Galaad Delval**, researcher, EY Chen & Co Law Firm, a member firm of Ernst & Young Global Limited, present the current state of fintech in China and what opportunities are open to European Union companies.

Referred to as fintech, the various technologies applied to financial services have deeply impacted the Chinese economy in recent years. With a soaring 252 per cent increase in fintech investment between 2010 and June 2016, the sustained development of those technologies, combined with a soaring adoption rate of 68 per cent among consumers, has led fintech to gain even further traction in the consumer marketplace.[1]

The widespread adoption of this technology can be seen in its rapidly growing ecosystem which has come to encompass what are considered 'traditional companies'.

With fintech increasingly becoming an integral part of the Chinese economy, the question of its current status and what that implies for European Union (EU) companies has become critical. Recognised and accepted by both consumers and companies, fintech is

1 *The Rise of FinTech in China, a collaborative report by DBS and EY*, DBS and EY, 2016.

also being increasingly targeted by regulators, resulting in a unique opportunity for EU companies, which are willing to enter the fintech market to increase their presence.

The widespread acceptance of fintech under the 'practicability' umbrella

The current status of fintech in China is marked by continued widespread adoption by consumers and with steady growth in the fintech ecosystem.

With an ever increasing ecosystem, fintech has now become a common component in various industries that are only tangentially linked to the world of finance. Customers are now able to use a one-stop application for a multitude of different services. It is now rare to have companies that have not integrated fintech into their operations for the purpose of receiving or managing payments. This cycle of dependency is rooted in the concept of 'practicability', where the way a service or payment functions is rooted in fintech. For the user, it is extremely simple to use mobile payment, either by scanning or having their QR code scanned. It is similarly useful for the company to be a part of a consumer's mobile transaction by having their own mobile payment account, a process much simpler than the traditional opening of a bank account.

What to expect from the regulatory angle?

While the fintech market has mostly remained outside the scope of regulatory reform, a marked shift has taken place within this year.

While the *2017 Cybersecurity Law of the People's Republic of China* (Cybersecurity Law), adopted on 7th November 2016, is meant to be a law that broadly applies to areas of cybersecurity and data protection, and due to this its effects on fintech cannot be underestimated. With the Cybersecurity Law, as general law, strengthening data protection and cybersecurity requirements for all companies operating in China, this will naturally have an impact on the fintech market and all businesses that utilise this technology.

There are several other key developments that have taken place since then, one of which includes the *Circular of the People's Bank of China, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission and the Standardisation Administration of China on Issuing the Development Plan for Building the Standardisation System for the Finance Sector [2016-2020]* (adopted on 8th June 2017). This circular in the fourth chapter, third section, calls for standardising and further regulating the fintech industry. Further regulations will take the form of national standards, laws and policy guidance.

These developments hint at regulations being tightened with regards to the fintech industry; this includes the government and various other governmental bodies, employing both direct and indirect means of regulation. These regulations could take the form of new national or industrial standards and even more direct policy proposals that govern the use of fintech in areas like bike-sharing, banking, or its use on mobile devices.

What does this mean for EU companies?

The adoption of fintech by customers, as well as the recent focus on enacting new regulations, shows not only a market that is already well developed, but also one that has room to grow.

As major internet companies are leading the fintech development in China, numerous start-ups have emerged with the purpose of disrupting the current marketplace or inventing an innovative new product. EU companies could integrate into the Chinese fintech market by leveraging unique and innovative domestic products to help with the adoption and development of fintech in China. Some of these products could help to fill in the as-yet-unknown gaps currently present in the Chinese fintech sector. At the same time, European Union businesses could help introduce a pro-privacy stance that is currently under-represented in Chinese fintech.

It is unlikely that EU small to medium-sized enterprises can break into the mobile fintech market, as competition remains fierce among domestic participants that are already far ahead in payment technologies like blockchain and the use of artificial intelligence.

Despite these limitations, there is a unique opportunity for EU companies to successfully tap into the current fintech market. Now is the key time with the coming implementation, in 2020, of the new National Social Credit System, a policy which further entrenches fintech into the lives of Chinese citizens. Eb

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FINTECH - OLD WINE IN A NEW BOTTLE

A different take on a technological trend in finance.

Fintech is increasingly becoming an important part of the global economy, with China so far leading in its development. The rapid adoption of new mobile payment systems like WeChat Pay and Alipay have forever changed how people think of finance and banking. Despite these recent alterations to the banking sector, **Dr Oliver Rui**, a professor of Finance and Accounting at the China Europe International Business School (**CEIBS**), offers a different perspective, arguing that these changes are nothing special. It is only 'old wine in a new bottle'.

By any measure, China is a world leader in fintech. Venture capital (VC) investment in fintech increased more than 600 per cent from 2014 to 2015. The Chinese investment fund Yu'e Bao (余额宝), established by Alibaba's Ant Financial, is now the world's largest money market fund with US dollar (USD) 165.6 billion in assets as of Q1 this year. The adoption of mobile payment services Alipay and WeChat Pay, used by anyone who shops at a convenience store or dines at a restaurant in China, is evidence of the rapidity with which fintech has taken off. According to figures compiled by iResearch, mobile payment transactions in China totalled USD 5.5 trillion last year, far ahead of the United States (US).

As mobile commerce, big data analytics, and artificial intelligence plays a larger role in banking and financial services, we have started to see more headlines touting China's fintech revolution. Having a mobile payment system is actually a fairly simple way to pay one's bills, however in many ways fintech is basically 'old wine in a new bottle'. Most customers still require the same services from banks and financial institutions; the only thing that is changing is the tools used to access them. Instead of walking into a bank branch and handling a transaction with a teller, consumers are increasingly banking online via mobile phones. Analysts estimate that, since 2009, e-banking has replaced 80 per cent of traditional bank transactions in China. A typical transaction with a teller costs the bank USD 4.00, while an ATM transaction costs USD 0.85 and a mobile banking transaction costs just USD 0.08; so clearly the lower transaction costs benefit their bottom line.

Fintech will not put traditional banks and financial institutions out of business. It is simply changing the structure of how they operate. As they adapt they will ultimately thrive, and their customers will benefit as well. In fact, the largest impact we will likely see from fintech in China is the acceleration of inclusive finance.

The big data analytics that drive most of fintech's innovations make it easier for lenders to assess credit risks when deciding on loans. In China, this not only benefits the banks and financial companies, but also the small and micro-enterprises and entrepreneurs that have historically been unable to get financing through traditional institutions. Small and medium-sized enterprises provide approximately 80 per cent of the country's jobs and have received 65 per cent of the new patents. Yet according to the *Report on 2016 China's Small- and Micro-Enterprises*, one third of the country's 56 million small- and micro-enterprises, along with individually-owned businesses, are in debt and only 11.9 per cent of these businesses can receive loans from banks.

Ant Financial and online peer-to-peer lending platforms are filling some of these gaps. Ant Financial's big data capabilities give it a leg up in being able to accurately judge an applicant's ability to repay a loan, because it can tap information from the many different components of the 'Alibaba ecosystem'. For example, when a merchant with a small shop on Taobao (淘宝网), an online shopping platform, needs a loan, Ant Financial can see the sales volume and transaction size of their Taobao shop. It also has access to the merchant's personal spending habits if they use Alipay to top-up their mobile phone plan, buy groceries, or purchase flight tickets. As a greater number of small merchants, entrepreneurs and consumers use Alibaba's e-commerce and mobile payment services, Ant Financial has more transaction data to build lending models for assessing credit risk.

Fintech is also driving efficiencies in supply chain financing, as big data enables manufacturers to be nimbler in response to market trends, and supply chain financing platforms can better assess lending risk and timing of payments in order to lower transaction costs.

Regulations currently prohibit Chinese banks from entering the mobile payment market, and transaction limits mean that consumers can only use Alipay and WeChat Pay for relatively low-cost products and services—92 per cent of the transactions they handle are for amounts less than 500 yuan—so bank-issued debit cards are not going away anytime soon. This also means that banks can focus on higher-value clients and more profitable services.

China's popular mobile payment platforms are beginning to go global. These payment services can now be used by Chinese nationals in 28 other countries and regions, including the United Kingdom, Austria, France, Germany, Belgium and the Netherlands. However, to date, these payment platforms have been focussed mostly on following Chinese tourists to their favourite holiday and shopping destinations abroad rather than trying to attract European users. This presents an opportunity for European banking and finance companies, as regulations in most countries will require Alipay and WeChat Pay to operate with a local partner.

European companies with products to market to Chinese consumers may also benefit from working with Alipay and WeChat Pay in order to learn more about Chinese consumer preferences.

Yet at the end of the day, until someone figures out how to grow money on trees, whether you are handing over cash, swiping your debit or credit card, or flashing a QR code on your mobile phone, payment is still simply an exchange of money for goods and services; there is nothing revolutionary about it. Fintech does not change the essence of finance which is to identify and price risk. However, fintech can create some breakthroughs in insurance and wealth management with the development of blockchain and artificial intelligence (AI). Eb

***Oliver Rui** is a professor of finance and accounting, holding the Zhongkun Group Chair in Finance at the China Europe International Business School (CEIBS). He is also the director at the CEIBS Centre for Wealth Management and is the co-director at the CEIBS Centre for Family Heritage. He is professionally designated as a certified financial analyst (CFA) and financial risk manager (FRM). CEIBS, a joint-venture for management education, was co-founded by the Chinese Government and European Union in 1994. It is the first business school on the Chinese mainland to have been accredited by both EQUIS and AACSB and the only business school in Asia to have simultaneously made it to the Financial Times' top 30 list of MBA, EMBA and executive education programmes.*

FINTECH IN EUROPE

The traditional banking sector's response to Chinese innovation

Fintech is quickly being seen as a disruption to world financial markets. With China excelling in fintech development and investment, it behoves European institutions to play 'catch-up' to these established industries. **Peter Ling-Vannerus,** chief representative of SEB, Beijing, and Beijing chair of the European Union Chamber of Commerce in China's Banking and Securities Working Group, and **Max Merkle**, communications and business manager at the European Union Chamber of Commerce in China, discuss the state of play regarding fintech in Europe and traditional banks' responses to it.

Disruption from fintech has long been a looming threat hanging over the European banking sector; a sector which has still not fully embraced this new type of technology. While there are, of course, a number of other threats that banks currently face, such as any eventual fallout from Brexit, or a continuation of the European sovereign debt crisis, the disruptive impact of fintech will still be strongly felt within virtually all product and customer segments of the European financial sector. Thus, European banks–all of whom are established players–are looking for solutions at every opportunity.

The Financial Stability Board, an international body that provides recommendations on how to improve the global financial system, defines fintech as "technologically enabled financial innovation that could result in new business models, application, processes or products with an associated material effect on financial markets and institutions and the provision of financial services". [1]

European banks are keen to invest in more of these 'disruptive technologies'. All European banks place a high priority on fintech and have subsequently modified their organisational set-up to ensure that technical issues are given attention at the highest level of management. European banks have also worked hard to ensure that communication channels remain open between banks and the fintech industry, so they can stay up-to-date on the latest trends. Investment in innovation remains high due to constant pressure put on banks from customers and competitor institutions. European banks are spending considerable sums scouting for the newest technologies and are not only cooperating with start-ups, but with academia and the hacker community as well. The latter is done both by hosting 'hackathons'—company-sponsored competitions for young coding and design talent to come up with novel products in a short space of time; sometimes in one day—and through strategic cooperation with fintech start-ups, which are often incubated within the banks' 'fintech labs'. By utilising these tools, almost 60 per cent of all European banks have invested in both in-house solutions and cooperative endeavours with outside firms.[2] Many European banks have also acquired fintech start-ups over the last couple of years in order to integrate these disruptive technologies into their own processes – particularly, if they find it too hard to develop them in-house.

In any discussion pertaining to the ongoing disruption of the financial sector from fintech, it helps to distinguish between corporate customer and private consumer segments, as corporate players and private persons naturally have different requirements when considering a particular banking service.

1 *Monitoring of FinTech,* The Financial Stability Board, 2017, viewed 4th September 2017, <http://www.fsb.org/what-we-do/policy-development/additional-policy-areas/monitoring-of-fintech/>

2 Ibid.

Corporate banking

Previous disruptions to banks' business models have yet to be felt in the corporate banking arena (such as sales and trading or transaction banking) as much as it has been in the private consumer banking segment. The corporate banking sector is, by its very nature, a market with rather high barriers to entry, as it is hard to set up a new bank to cater to corporate clients and undertake sales and trading, or transaction banking services for them. Furthermore, European banks came early to invest in automated services in the corporate banking sector. New players are also investing in this sector, but the innovative pressure is lower due to the aforementioned high barriers to entry. New European Union (EU) legislation has been introduced to remove some of these barriers. For example, the *Second Payment Services Directive,*[3] which will come into force across the EU starting on 13th January 2018, is meant to enable non-traditional market actors to access accounts and payment platforms.[4] It remains to be seen, however, how accessible these services will be in the end.

Private consumers

Fintech innovation is not being as rapidly adopted in Europe as it is in China, which has fintech platforms like Alipay and WeChat, however European consumers are quickly catching on. More than 50 per cent of European financial service customers are using so-called 'non-traditional fintech suppliers' for a portion of their financial service needs.[5] Of course, this is still far below China, where fintech adoption by customers is around 75 per cent.[6]

Some of the strengths that new fintech providers have are their products' intuitive design solutions and user interfaces—in particular for mobile payments—which are perceived as important to consumers. In this area, traditional European banks are at somewhat of a disadvantage, as they are stuck in the cobwebs of legacy systems, with some even dating back to the 1960s, and are faced with certain regulatory restrictions that hamper their innovative capacity.

European banks are increasingly focusing their innovative efforts on providing mobile solutions with a higher degree of user-friendliness. This is particularly appealing to younger generations–like Millennials and Generation Z–both of which are said to be 'digitally native'. The industry understands that these younger demographics will be increasingly important to win-

3 *Payment services (PSD 2) - Directive (EU) 2015/2366*, European Commission, 12th January 2016, viewed 5th September 2017, <https://ec.europa.eu/info/law/payment-services-psd-2-directive-eu-2015-2366/law-details_en>

4 *Second Payment Services Directive (PSD2)*, Payments UK, July 2016, viewed 5th September 2017, <https://www.paymentsuk.org.uk/sites/default/files/PSD2%20report%20June%202016.pdf >

5 *World Fintech Report 2017*, Capgemini, 2017, viewed 5th September 2017, <https://www.se.capgemini-consulting.com/sites/default/files/world_fintech_report_wftr_2017_final_web.pdf>

6 Ibid.

ning and maintaining a strong competitive market position in the future.

Where are the European fintech hubs?

We can broadly identify three main clusters of fintech companies in Europe. Not surprisingly, London—Europe's most important financial centre for the time being—is among the top with a lot of financial start-ups clustered around the City of London and Canary Wharf. Other industry clusters, measured by levels of investment going into fintech companies, are in Amsterdam and Stockholm. An important factor contributing to the growth of these clusters is the availability of funds in these localities.

What can European banks offer Chinese customers?

The above question will require a lot of thought from European banking executives. China already has one of the most innovative and developed fintech markets in the world, with customer usage of fintech higher than anywhere else.[7]

Nevertheless, technological innovation and disruption within corporate banking has been considerably slower than in retail banking, where most of the action in the Chinese fintech industry happens, and, crucially, all important players are private enterprises. Thus, as the Chinese banking sector continues to be dominated by state-owned banks, perhaps the most likely area where there could be opportunities for European financial institutions to provide innovative solutions, is in retail banking.

Peter Ling-Vannerus *is the chief representative, SEB, Beijing, and holds responsibility for developing and managing the bank's business in Northern China, as well as monitoring the political and economic development of China for SEB.*

Max Merkle *is a communications and business manager with the European Chamber, based in Shanghai, and manages the European Chamber's Banking and Securities Working Group.*

7 *World Fintech Report 2017*, Capgemini, 2017, viewed 5th September 2017, <https://www.se.capgemini-consulting.com/sites/default/files/world_fintech_report_wftr_2017_final_web.pdf>

THE GLOBAL CHINESE CITIZEN

How serving China's ultra-rich is shaking up the global wealth management industry

Strong fundamentals and ongoing deregulation set the stage for product innovation and cross-border opportunities. The field of global wealth management is changing rapidly with a new breed of investor taking the stage. **Fabian Gull**, writing for the **Swiss China Center (SCC)**, outlines how new opportunities exist for those that wish to navigate the complicated, but lucrative, Chinese marketplace consisting of an ever-expanding pool of private wealth.

Despite its growth slowdown in recent years, China remains at the forefront of a gigantic global economic transformation. China's past three decades of rapid economic development and wealth generation are unprecedented, both in size and pace. The country's ever-expanding pool of private wealth is approximately twice the size of the country's gross domestic product and represents one of the fastest-growing accumulations of wealth in modern history. Today, according to UBS Group AG, one billionaire is created in China every week.

The forces that set-in motion decades of extraordinary private wealth creation look poised to continue. This, combined with the new needs of affluent Chinese are creating vast investment and business opportunities for high-net-worth individuals (HNWIs) and financial service providers alike.

Soaring demand

In 2016, the number of wealthy individuals in China, with investable assets of more than Chinese renminbi-yuan (CNY) 10 million (m), was close to 1.6m. This was an expansion of more than eightfold within a decade, and the number is expected to grow by 18 per cent to 1.87m this year. At the same time, China's private wealth has swelled to CNY 165 trillion (tn) (approximately US dollars 24tn), which is more than six times the 2006-level, according to a joint report from Bain & Company and China Merchants Bank. Recent data has shown that this growth is set to continue.

This growth is not limited to China's first-tier coastal cities, but also includes areas that are lesser known to foreign businesses. The Swiss consul general of Chengdu, Frank Eggmann, concurs with this perspective on growth stating, "The wealth accumulation in western China is surprising by all standards, and it is interesting to see that there is a surging demand for sophisticated services where Swiss and other European players certainly have an edge. "

While growing rapidly, China continues to have one of the world's highest saving rates, mainly due to its still rather premature—although improving—retirement and healthcare schemes. The main challenge, and opportunity, in the wealth management industry is to connect China's huge savings to attractive investment opportunities (i.e., bridging supply and demand in capital markets).

A new breed of investor

A multitude of factors are boosting HNWIs' need for professionally managed wealth. Currently, a real paradigm shift is taking place and a new breed of client is evolving – the so called 'Chinese global citizen', and the consequent emergence of 'family offices'.

The older generation of wealthier individuals, who were among the first to benefit from the government's embrace of a market-based economy, tended to manage their money on their own, or with a small amount of assistance from select family and friends. By contrast, newer HNWIs, who often include the children of first-generation company founders, are more willing to seek professional advice. A new wave of entrepreneurs has introduced a fresh perspective and brought innovation to the Chinese marketplace, spawning new fortunes and new industries.

These 'Chinese global citizens' are more internationally minded, well-travelled, are often educated abroad and have international work experience. Along with China's economy, this younger generation of Chinese entrepreneurs' perspectives and investment needs have increasingly become more internationalised and subsequently more diverse. In other words, as the desires of China's HNWIs become more complex, their willingness to seek advice increases accordingly. These trends create tremendous opportunities for banks and other wealth managers, especially those who are able to fine-tune their offerings to suit the needs of HNWIs.

Tapping family office growth

China is currently changing the global wealth management industry, and the needs of China's HNWIs are shaping these market trends. Family offices, with a long and storied history in Europe, are essentially organisations that operate on behalf of a high-net-worth family with the goal of preserving and transferring wealth to future generations.

Yang Haodong, co-founder of the Swiss China Corporation headquartered in Shenzhen, sees family offices playing an essential role in the market professing that, "family offices are in the prime position to cater to such needs". Foreign financial advisors are in a highly advantageous position due to having extensive experience, global exposure and a lack of competitive services in this particular sector.

Modern family offices offer additional services to their clients beyond the realm of finance in sectors such as education, healthcare or lifestyle. Family offices aim at becoming the 'go-to-place' for all upscale trappings, specialising in every area that intersects with the main goal of providing a better life for their client's children.

Holistic investment approach needed

Global citizens' needs are manifold. For example, a steadily increasing number of Chinese HNWIs have significantly increased the number of private investments made overseas. These new investments have expanded the role of HNWI services even farther as now they must cater to both onshore and offshore concerns.

Transferring wealth to the next generation requires comprehensive portfolio management and a holistic investment approach across all asset classes. Both onshore and offshore activities need to reflect the increasingly important intertwined fields of personal wealth, family wealth and business-related needs. Enabled by its global network, a family office can also act as a facilitator for direct investment opportunities both around the world, and in China.

High-tech vs high-touch

The traditional financial industry has been challenged in recent years from fintech start-ups, which are currently trying to grab a slice of the wealth management action. Mr Yang is convinced that the retail and mass market will increasingly become dominated by fintech players in the near future remarking, "But looking at the level of sophistication required to succeed in the segment of serving the ultra-rich, I clearly see personal relationship management having the edge over algorithms."

A profound transformation is occurring among China's affluent, which pertains to the way the affluent treat wealth they have already accumulated. More and more Chinese HNWIs regard money not just as a source of material well-being and social status, but as something to be used for a philanthropic or charitable cause. Some family offices provide 'philanthropic consultancy' and assist their clients with these types of investments.

Complex market specifications

Opportunities found in a highly regulated and complex market also come with their share of challenges. The regulatory environment is still in its early stage and the financial sector is much less mature compared to other more established global financial centres. The government is aware of these imminent challenges and therefore it constantly works to adjust and improve the financial system. The regulator's main goal is to protect the economy's stability as well as to protect small clients from fraud or overheated speculation (like what happened in several peer-to-peer loan schemes).

Despite having a complex and increasingly restrictive licensing regime, which includes imposed capital controls and limitations for Chinese investors to invest abroad, there are still several signs of overall improvement in China's financial ecosystem which allows companies with the right setup to successfully carry out business with HNWIs.

According to Chris Carline, head of the intermediary desk at Schroders based in Beijing, the growth potential of the wealth management industry in China is enormous. Ongoing deregulation in the financial sector has set the groundwork for increased innovation and cross-border opportunities, which benefits foreign enterprises. Mr Carline believes understanding the local environment is important, emphasising that"the key remains to understand local market trends and continuously invest in its team and professional capabilities''.

Deregulation continues in different areas, resulting in easier access to onshore investment and with ownership being allowed in onshore financial companies. A further sign of a market opening is the establishment of the Stock Connect link between China's mainland markets and the Hong Kong Stock Exchange, which relaxes restrictions between markets. This opening is also being signalled by the ongoing internationalisation of the renminbi and the recently launched Silk Road Economic Belt and the 21st century Maritime Silk Road Initiative. Eb

The Swiss China Center (SCC) *is a non-profit organisation with offices in Shenzhen, Chengdu, Chongqing, Jinan, Hong Kong and Switzerland (Geneva). SCC is creating opportunities primarily in the fields of business investments, education, tourism, healthcare, lifestyle and is catering to the needs of Chinese high networth individuals and their families. SCC was founded by a diverse group of Swiss and Chinese entrepreneurs with the main objective to provide an open exchange platform connecting Switzerland and China. For more information, you can find it on our website at http://www.swiss.org.cn.*

CHINA'S STRUGGLES TO ATTRACT FOREIGN INVESTMENT

The role of navigating negative lists in China's market.

Grasping how the use of 'negative lists' is shaping governance shifts is key to successfully navigating new business opportunities in China. The regulatory environment has changed slowly since the 2013 Third Plenum declaration of a more open and inviting investment atmosphere, but has sped up notably in 2017. Now more than ever, knowing all the facts and status of reform can make an immense difference to business operations. **Philippa Jones** and **Erlend Ek** from **China Policy** help to untangle China's changing trade policy and clarify how China's new regulations are supporting its bid to become a champion of globalised trade.

Despite years of declining foreign business confidence, investment from overseas, China's leaders are rediscovering, is critical to becoming an advanced global manufacturer. Foreign investment brings with it needed technology, know-how, capital and competition, and it underpins two-way trade. With aspirations for both a more efficient and sustainable growth model and to trade at the higher end of the global supply chain, the leadership now wants it known that China is a top foreign investment destination. In signalling a renewed commitment to market opening, China seeks to make good on its new 'champion of free trade' mantra and to reduce friction over Chinese enterprises 'going global'.

Changing the model

China has struggled to convince potential bilateral investment treaty (BIT) partner states and investors of its bona fides. Its highly anticipated BITs with the United States (US) and the European Union are still on hold.

Stepping up the rhetoric, President Xi Jinping reiterated on 17th July 2017, that China must "create a stable, fair, transparent and predictable business environment" for the "sustainable and healthy development

1 16th *Meeting of the Central Leading Financial Working Group: Improving Investment and Market Environments by Expanding and Opening to the Outside World, jingjinet*, 18th July 2017, <http://www.21jingji.com/2017/7-18/zMMDEzNzlfMTQxMzgzMg.html >, (in Chinese).

of the Chinese economy".[1] President Xi's priorities include faster framing of laws and regulations, streamlining existing rules, and retooling intellectual property rights laws. With the 19th Party Congress looming, President Xi's call signalled that some needed shifts are on the way.

Adopting a negative list model

In July 2013, Beijing agreed to a negative list model as the basis for US-China trade negotiations.[2] If a sector is not on the list, foreign investment will be treated on equal terms to domestic capital. In the past, foreign investment was only allowed if approved by the central government - a 'positive list.' There was also clear separation between domestic and foreign investment, often allowing foreign investment preferential treatment on some policies, and favouring domestic investment in others. This new approach gives local governments clearer rules and holds them accountable. By no longer needing central government approval to bring in foreign investment in sectors they wish to advance, they gain flexibility. However, while this is a step in the right direction, critical rules must also be changed in order to reduce investment discrimination. Aiming to use negative lists to attract BITs partners and to drive domestic reforms, the State Council of the People's Republic of China (State Council) started piloting the negative list model in free trade zones (FTZs). The Third Plenum of the 18th Communist Party of China Central Committee's (2013 Third Plenum) called for a "unified, open and fair market system", pledging that the market should play a more "decisive role".[3] The negative list model is the centrepiece of this pledge.

Three lists

Premier Li Keqiang has declared that such a model would be part of a comprehensive reform.[4] A negative list, he said, would serve as one component of a new initiative comprising three complementary 'lists' that require the state to become less opaque and forego discretionary approval of foreign and domestic investment.

The 'three lists' are:

1. A negative list defining areas considered off-limits; all items not on the list are deemed permissible. The negative list makes it clear where investors cannot develop business.
2. A list of powers that clarify the government's authority. Areas not found on this list will be deemed outside government authority. This aims to reduce the abuse of government power and deter rent-seeking behaviour.
3. A list of state responsibilities that explains how China's market will be regulated. All services outlined on the list fall under the purview of government agencies. All items on the list must be undertaken by the government; it cannot shirk its responsibilities.

Accelerating reform in 2017

The negative list solution to foreign investment bottlenecks is now, after an initially slow start, being fast-tracked. The start of June 2017 saw a number of announcements in quick succession which included: an updated negative list for FTZs, a negative list included in the *2017 Catalogue for the Guidance of Foreign Investment Industries*, and a marked change in China trade policy with the inclusion of a negative list in the recent Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), the first trade agreement to include such a list. The State Council has issued two guidance documents in 2017, another sign of acceleration.

Despite this show of resolve, the actual implementation of these lists remain unclear. Conflicting rules across jurisdictions and agencies now need to be consolidated and streamlined. In their 2015 negative list policy blueprint, the State Council stated that more consolidated lists will be issued starting in 2018, based on experience gleaned from FTZ pilots.[5] Agencies and FTZs refer to two different types of lists as negative lists: general, non-legally binding lists for both domestic and foreign investors (used to consolidate information, primarily from various agencies' rules), and specific lists for foreign investors (like those announced in June 2017). Even when considering these two types, there are contradictions and disagreements and their relation to other existing rules remain unclear.

Awaiting reforms

Making good on Premier Li's 'three lists' proposal is a work in progress. Much improvement is still needed.

The current four foreign investment-related laws were amended in 2016. In the past, foreign investors needed to go through a lengthy permit application process that required both operational permits and business licences. Only after receiving a permit could investors establish a company and obtain a business

2 *Joint U.S.-China Economic Track Fact Sheet of the Fifth Meeting of the U.S.-China Strategic and Economic Dialogue,* U.S. Department of the Treasury Press Release, 12th July 2017, <https://www.treasury.gov/press-center/press-releases/Pages/jl2010.aspx>

3 *The Third Plenary Session of the Eighteenth Central Committee of the Communist Party of China, Xinhua News*, 12th November 2013, <http://news.xinhuanet.com/politics/2013-11/12/c_118113455.htm>, (in Chinese).

4 *Premier Li Keqiang Delivered a Speech at the Opening Ceremony of the 2014 Summer Davos Forum (full text), China News*, 10th September 2014, <http://www.chinanews.com/gn/2014/09-10/6578895.shtml>, (in Chinese).

5 *Opinions of the State Council on the Implementation of a Negative List for Market Access*, 2015, <http://www.gov.cn/zhengce/content/2015-10/19/content_10247.htm>, (in Chinese).

licence. In line with what was stated at the 2013 Third Plenum, the amendments changed the process from this complex pre-setup review and approval system, to post-setup supervision. In the Chinese Academy of Social Sciences' (CASS) latest report on this issue, CASS Institute of International Law fellow, Huang Jin, stresses, however, that legislative support is still either missing or unclear, stymying development of a new negative list model.[6] Mr Huang stresses that Beijing needs to 'bite the bullet', by either more strictly supervising the process or by taking a 'softer' approach.

Legal and regulatory conflict

Existing rules still clash with the negative list model. In FTZs, foreign industries may still fail to pass specific project-based operational restrictions, even though they are formally entitled to establish a business. It is hard to gain legal recourse in these cases, as no dispute resolution mechanism has emerged in the negative list pilots. Calls for some sort of mechanism are growing. Achieving that goal, however, would require changes to the *Organic Law of the People's Courts of the People's Republic of China* and the *Organic Law of the People's Procuratorates of the People's Republic of China*. Public comment is currently being sought on these amendments after they were reviewed at the National People's Congress (NPC) in August 2017. While Shanghai's trial and procuratorial organs have established corresponding institutions in the FTZs, professor at the KoGuan Law School of Shanghai Jiao Tong University, Gao Quanxi, points out that these corresponding institutions cannot exercise any judicial power to deal with investment and trade disputes without first amending those two laws.[7] To resolve these issues, Prof. Gao recommends the NPC pass a unified FTZ law and the Supreme People's Court establish an independent judicial system in the FTZs.

Absent legal and regulatory clarity, localities are hard pressed to implement these recent changes. The State Council had instructed ministries, departments and local governments on 16th August 2017 to draft implementation schedules. The appointed agency to take the lead on this rollout will be the Ministry of Commerce of the People's Republic of China (MOFCOM). The MOFCOM is also concurrently being kept busy drafting a new foreign investment law. How this law will pertain to the *1993 Company Law of the People's Republic of China* (revised 2013), which is now only applicable to domestic firms, remains at the centre of debate. Implementation guidelines for reviewing foreign investment under the *2015 National Security Law of the People's Republic of China*, have also yet to be formulated.

A work in progress

The core of the negative list model is the legal principle which states that something is 'permitted unless prohibited'. However as, professor at Fudan University, Gong Baihua notes, when the negative list is cited by courts it tends to cause more debate than agreement.[8] Deemed applicable to the realm of private rights only, i.e. not to public authority, this 'permitted' principle applies to citizens and legal persons unless explicitly stated otherwise. To make this principle workable, existing administrative rules must be reconfigured.

Premier Li's second and third lists (that pertain to state powers and obligations) represent continued efforts in opening up the economy. At the end of 2016, a National Supervision Commission was foreshadowed. This new body is slated to be formalised by the NPC in March 2018, in tandem with a new Supervision Law. The plan's purpose is to set up a supervisory organ parallel to the State Council which is independent from government agencies, to take a supervisory role over the agencies, according to Ma Huide, the vice-president at the China University of Politics and Law.[9] In addition to external supervision from the NPC, the adapted National Supervision Law will guarantee that the Commission will hold public officials accountable to two mandates that appear to limit the state's public authority in line with Premier Li's lists. These two mandates are the following:

1. The state must carry out all statutory functions and duties stipulated by law.

2. Nothing unauthorised by law may be undertaken by the state.

This portends a fundamental shift in governance. However, what is proposed and what is delivered is separated by a space occupied by the Communist Party of China, which rarely forsakes its strategic ambiguity and hence arbitrary intervention is never off the table. The increased 'use of law' to safeguard both domestic and foreign investment is still far from 'rule of law' protection. However, the move to reduce arbitrary state power, often exercised at the local level, is a positive development for foreign investment.

Philippa Jones *is the managing director and* ***Erlend Ek*** *is the trade and agriculture research manager at* **China Policy**. *China Policy is a research and strategic advisory based in Beijing. Working with clients at leadership, executive, and research levels, they deliver clear insight into China's policy world as it affects strategic and operational decision-making in China and around the world.*

6 *Chinese Academy of Social Sciences 2017 Release of (the Blue Book on the Rule of Law in China) and (the Blue Book on the Rule of Law in Sichuan)*, The State Council Information Office of the People's Republic of China, 20th March 2017, <http://www.scio.gov.cn/xwfbh/gbwxwfbh/xwfbh/sky/Document/1545426/1545426.htm>, (in Chinese).

7 *Greater Autonomy and Legal Innovation in China's Free Trade Zones*, eeo.com, 21st July 2017, <http://www.eeo.com.cn/2017/0721/308903.shtml>, (in Chinese).

8 *A Free Trade Zone "Negative List" of What is "Permitted" should be Implemented for the Rule of Law, the People's Network*, 19th April 2017, <http://fj.people.com.cn/n2/2017/0419/c381101-30058657.html>, (in Chinese)

9 *"There Must be Legal Duty, the Law is Not Authorised", Ma Huide Explains the Purpose of a National Commission, Southern Weekend*, 22nd November 2016, <http://www.infzm.com/content/120901>, (in Chinese).

SUCCESSES WITH SMART CARDS

An interview on the accomplishments of the European Chamber Smart Card China Desk

The Information Security China Desk (also known as the Smart Card China Desk), just wrapped up a successful year of supporting industry and advocating on behalf of European manufacturers to the Chinese Government. **Donald Chan**, chair of the **Smart Card China Desk**, answers some questions in an interview detailing the group's accomplishments and challenges they have faced.

Would you mind telling me a little bit about the Smart Card China Desk and its formation at the European Chamber? Why was the decision made to create a desk instead of forming a working group?

The so-called Information Security China Desk, or Smart Card China Desk, was established in 2009 and during the time it was initially established, there existed a complex regulatory environment in China that sometimes suffered from a lack of transparency and was difficult to navigate. So European companies decided, in both the smart card and semiconductor industries, to form this desk. Its purpose, with the help of the European Union Chamber of Commerce in China (European Chamber), was to educate, voice concerns and propose changes in a single voice. The desk also worked hard to submit proposals for changing policy by collaborating on projects like the annual European Chamber position paper. The hope was to provide key recommendations to people in industry and government in order to make a difference.

The formation of the desk allowed us to have conversations, and collaborate, with some major organisations affiliated with the Communist Party of China (CPC). Some of these notable governmental agencies and security standards bodies, included the Ministry of Commerce of the People's Republic of China, the Office of the State Commercial Cipher Administration (OSCCA) and the Cyberspace Administration of China.

So, you could take your proposals a little more directly to the policy people that have power over the semiconductor and smart card industry?

That is correct, yes. On the one hand, the European Chamber was a great platform where our members had a chance to voice their own individual opinions. It gave us a unique forum for us to gather concerns and proposals from different member companies and interested stakeholders. After gathering information, the desk, with the help of the European Chamber, could then pass along these concerns and have a productive dialogue with various ministries in the Chinese Government.

On the other hand, the desk also received help from the European Chamber to bring this message back to Europe where we could voice our concerns to the European Union (EU) as well.

We joined the yearly tour the European Chamber took to the city of Brussels, which allowed us to explain to the EU exactly what difficulties we were facing in China. We tried to participate in a host of discussions that pertained to EU-China trade, cybersecurity policy, and the smart card industry. At these discussions, we would take the opportunity to educate people on what the companies we represented are facing while operating in China.

Besides acting as a liaison and providing commentary on trade and cybersecurity, what were some of the goals that the desk hoped to accomplish when it was first established?

Since we started in 2009, our desk has conducted many on-site visits and has helped to spread information on the smart card industries that we represent. Despite the plethora of activity during our time at the European Chamber, there were still challenges that we faced and one of particular importance was the obtaining of an OSCCA licence.

Member companies at the desk required this OSCCA licence to participate in certain China-based projects. In early 2014 and 2015, two of our smart card manufacturer members, Gemalto and G&D, managed to successfully acquire this OSCCA licence after using the European Chamber to voice their complaints. In 2017, NXP Semiconductors, one of our members at the desk, was one of the first foreign semiconductor firms to acquire this OSCCA licence.

The requirements imposed by the Chinese Government were restrictive, but by utilising the platform that the European Chamber provided, the desk was able to slowly change this over time.

NXP Semiconductor's success in acquiring an OSCCA licence shows that the Chinese Government is taking into account the concerns of our members, and is willing to engage with them to better understand the reality on the ground. However, not everything is transparently carried out, which is something we are still working hard on.

Speaking of concerns, what were some of the challenges you faced while working on behalf of the smart card and semiconductor industry?

There are a few major issues that we faced during our time at the European Chamber. OSCCA is a very secretive and powerful state-owned office. Sometimes it was extremely difficult to get them to comment on something, and even if they did, their response was often vague and confusing. Communication is obviously tough when one does not have a steady stream of feedback coming from government agencies. Sometimes we have to be creative to try and seek out answers. For example, we sometimes have academic exchanges with people coming from universities, testing labs and local Chinese smart card industries. We are able to show these agencies what we are doing and after seeing the reality of the situation they can give us a better idea of if what we are asking is feasible.

What do you see in the near future for the smart card and semi-conductor industry? What do you think the effects will be on this industry area, especially with the advent of new cybersecurity regulations and the increased utilisation of big data?

Previously, we were mostly exposed to Chinese encryption regulations in a narrow sense (primarily concerning smart card applications). With new regulations coming 'down the pipeline', like the *2017 Cybersecurity Law of the People's Republic of China,* by only advocating on behalf of the smart card and semiconductor industry we will have difficulty 'pushing our message through'. This is why we are looking to join the European Chamber's Cybersecurity Working Group.

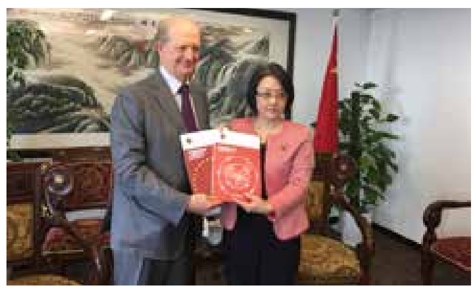
By joining this working group, the semiconductor and smart card industry will be able to join forces with other tech industries to hopefully influence any future policy. It is hard to predict what will happen to the semiconductor industry, in the future. What we can hope for, is the opportunity for us to bring our existing expertise to new endeavours at the European Chamber. Eb

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Head of SAFE Speaks at the European Chamber's Financial Services Conference

On 13th July, the European Union Chamber of Commerce in China (European Chamber) held its Financial Services Conference. The key speakers at the event, Pan Gongsheng, the administrator of the State Administration of Foreign Exchange (SAFE) and His Excellency Hans-Dietmar Schweisgut, the European Union's Ambassador to China and Mongolia, discussed the difficulties involved in balancing liberalisation with necessary regulation. Mr Pan delivered a keynote speech titled 'Cross-Border Capital Flows: Challenges and Responses', before holding a short question and answer (Q&A) session. Prior to the event, Mr Pan joined Ambassador Schweisgut and Mats Harborn, president of the European Chamber, in a meeting with members of the European Chamber's Advisory Council. This engagement represents further progress on the highly constructive, ongoing dialogue that has taken place between the European business community and SAFE throughout 2017.

A Dialogue with the Vice-Administrator of the SAC



A delegation of seven European Chamber members attended a meeting with Yu Xinli, the vice-administrator of the Standardisation Administration of China (SAC) on 27th July, at the SAC's Beijing office. Members called for increased openness, fairness and transparency in the Chinese Government's management of standardisation work. They also voiced their concerns and recommendations regarding the (draft) *Guiding Opinions on FIEs' Involvement in China's Standardisation*. Officials from the General Affairs Management Department at SAC responded to some of these issues, such as equal treatment of both domestic businesses and foreign-invested enterprises (FIEs), and FIEs' participation in technical committees. In her concluding remarks, Ms Yu expressed a desire to meet with more FIEs in the future to further discuss these and other related matters.

Advocating for Progress on Criminal IP Protection

From 20th - 21st June in Hangzhou, the European Chamber co-hosted the 2017 China Forum on Criminal Intellectual Property Protection. Chai Haitao, the director-general of the Office of the National Leading Group on the Fight Against IPR Infringement and Counterfeiting, and Gao Feng, the director-general of the Economic Crime Investigation Department of the Ministry of Public Security. During his opening remarks, Carlo D'Andrea, European Chamber vice-president and chair of the Shanghai Board, addressed the need for further improvement to both regulations on intellectual property rights (IPR) and their actual enforcement. Mr D'Andrea went on to discuss how international cooperation and understanding among different parties on IPR is needed. The five panels held during the forum included: International Experience Exchange on Criminal Protection for Intellectual Property, Trademark Crime, Trade Secret Crime, Crimes on Intellectual Properties within the Context of the Internet Era, and Criminal Investigation Strategy and Collaboration between Police and Enterprises.

Discussions Held on Sustainable Urban Development

The European Chamber participated in the High-level International Forum on Sustainable Urban Development held on 21st July in Chengdu. During a presentation given at the forum Massimo Bagnasco, vice-president of the European Chamber, highlighted how EU-China trade and investment ties are integral to creating employment, driving growth and generating prosperity for both sides. He also stated that the European Chamber has been encouraged by President Xi Jinping's recent statements in support of economic globalisation and openness and called on Chinese authorities to match their words with action. Vice-President Bagnasco concluded by pledging the European business community's continued commitment to helping implement innovative solutions for sustainable urban development and to promoting a circular economy with the aim of creating cities that are eco-friendly, low-carbon, smart and centred on people's needs. The forum was organised by the United Nations Human Settlements Programme, the China Centre for Urban Development (CCUD) of the National Development and Reform Commission (NDRC), and the Chengdu Municipal People's Government.

Clarity and Commentary on the New Work Permit System

On 22nd June, Gabriele Castaldi, chair of the European Chamber's Tianjin Board, invited Li Jian, deputy director of the Foreigners Working in China Division at the Tianjin Administration of Foreign Expert Affairs, to meet with members of the European Chamber's Tianjin Chapter to clarify the new work permit system launched in April this year. While the new policy is intended to streamline the process involved in obtaining a work permit, there has been significant confusion regarding how it is supposed to work in practice. Mr Li provided an in-depth explanation of the new system and members were afforded a rare opportunity to directly speak with a local official through an interactive Q&A. Mr Castaldi presented the Euorpean Chamber's *Tianjin Position Paper 2015/2016* and *European Business in China Business Confidence Survey 2017* to Mr Li. In closing, the latter expressed his desire for both sides to maintain a regular dialogue to exchange ideas on the work permit system.

Joint AmCham/European Chamber Meeting on Recent Developments Inside and Outside China

On the 5th September, the boards of both the European Chamber and the American Chamber of Commerce in China (AmCham) met to discuss the key issues that affect chamber membership. European Chamber President Mats Harborn, debriefed AmCham members on the European Chamber's forthcoming position paper launch on 19th September and their upcoming visit to Brussels (25th - 29th September). President Harborn also inquired about AmCham's analysis regarding the *2017 Notice on Several Measures on Promoting Further Openness and Active Utilisation of Foreign Investment* and the *2017 Notice of the State Council on Several Measures for Promoting Growth of Foreign Investment,* as well as political developments pertaining to both the European Union and China. AmCham President Bill Zarit outlined for the European Chamber the possible implications of the trade investigation against China, permitted under Section 301 of the *United States Trade Act of 1974*, and discussed the outcome of their recent visit to Washington. Both boards also discussed recent factory shutdowns due to environmental compliance regulations, efforts to establish more reciprocal trade relationships with China and the possibility of working together on Belt and Road Initiative projects.

ADVICE FOR FOREIGN SMES LOOKING TO INVEST IN CHINA

Foreign investment in China is often more complicated than people realise. With all the rules and regulations that have been enacted on investment in the past five years, people may think administration in this area is clear to foreign investors. **Helen Ju** from the **EU SME Centre** clarifies some of the complexities surrounding foreign investment in China.

The Chinese Government has been carrying out a number of measures, for four years, to deepen reform in the country's foreign investment administration system and to simplify foreign investment approval procedures. In 2017, China's free trade zone (FTZ) negative list for foreign investment (Negative List for FTZs) has been updated and applied to all FTZs. The Negative List for FTZs was first introduced in the China (Shanghai) Pilot Free Trade Zone (CSPFTZ) in 2013.[1]

Recently a new version of the *2012 Catalogue for the Guidance of Foreign Investment Industries* (Catalogue [2017] revision) came into effect in July 2017. According to comments from both government officials and legal professionals, a large number of restrictions on foreign-invested industries have been removed, especially when compared to the previous 2015 catalogue iteration. The remaining restrictions on industry and investment form the new negative list, which has been applied nationwide with the exception of FTZs. It has become known as the Negative List Outside FTZs. People believe that the Negative List for FTZs and the Negative List Outside FTZs establish a framework of administration for the totality of foreign investment.

Progress on administering foreign investment can be attributed to the two new negative lists. However, there are still some issues that foreign investors, including EU small and medium-sized enterprises (SMEs) need to pay attention to. Some of these are listed below:

1. Currently there is no unified legal document applied outside FTZs that demonstrates that domestic and foreign investment is treated equally

A speaker from the National Development and Reform Commission of the People's Republic of China (NDRC) emphasised the principle of equality that exists between domestic and foreign investments when explaining the reasoning behind deleting some of the industrial restrictions and prohibitions from the Catalogue [2017] revision. Even though these restrictions may not be clearly stated in either negative list, it would still apply to those seeking foreign investment in China.

In March 2016, the NDRC and the Ministry of Commerce of the People's Republic of China (MOFCOM) jointly issued a (trial) *Draft Market Access Negative List* which outlines the restrictions on all investments, foreign or domestic' in FTZs. This draft document emphasises that foreign and domestic investment should be treated similarly, if not equally, and is now in the trial implementation stage, only applying to FTZs. When planning to invest in FTZs, foreign investors will need to check the (trial) *Draft Market Access Negative List* first and then the Negative List for FTZs, to have a basic idea if their proposed investment is legally feasible.

The legal situation is different for foreign investment in areas outside FTZs. According to the State Council of the People's Republic of China (State Council), the (trial) *Draft Market Access Negative List* will not be applicable outside the FTZs before 2018. Due to its delayed implementation, there is no unified legal document outside FTZs that outline restrictions that apply to both foreign and domestic investment. Suggestions from officials at MOFCOM and its local Beijing branch indicate that businesses interested in investing outside FTZs would be wise to check local regulations and industry policy. Officials have refrained from disclosing whether a unified market access negative list is even in the process of being formulated.

2. It is necessary for businesses to check relevant regulations before tackling foreign investment in China

Negative lists, in and outside FTZs, can be invaluable to foreign investors, although these documents do not solve all issues related to foreign investment in China. In many cases, it is still necessary to understand the litany of industrial policies and local regulations. An example as to why this is an important consideration can be found below.

A case study: setting up a call centre in mainland China

A foreign investor plans to set up a call centre in mainland China and has not decided, whether or not, to invest in or outside FTZs. No information can be found concerning foreign investment in call centre businesses, even after checking the (trial) Draft Market Access Negative List, the Negative List for FTZs and the Negative List Outside FTZs. Is it safe to say there are no restrictions on foreign investment in call centre business? After checking national and local rules as well as regulations that govern this particular industry, the answer the investor comes to is a resounding 'no'.

According to the *Industrial Classification for National Economic Activities* (GB T4754-2011), call centre businesses belong in the software and information technology (IT) service industry category, while according to the (trial) *Draft Market Access Negative List* a call centre may be considered a telecommunications business, which is subject to foreign investment restrictions. Since it is related to telecommunications, the foreign investor should also check the *Telecommunication Services Classification Catalogue* (Catalogue [2015] revision), which shows call centre businesses being classified as a value-added telecom service (VATS).

If the investor were to check the Negative List Outside FTZs again they would find that among the World Trade Organization (WTO) commitments on telecommunications, call centre businesses are not among the VATS businesses that are open to foreign investment. Outside of FTZs, there is no legal basis for having foreign investment in call centre businesses. When checking the Negative List for FTZs, we find there are special exceptions to foreign investment made in the CSPFTZ. Found in a regulation, jointly issued by the Ministry of Industry and Information Technology of the Chinese Government (MIIT) and the Shanghai Municipal Government, call centre business is specifically mentioned in a pilot programme that allows for foreign investment.

1 By 31st March 2017 there are 11 free trade zones in mainland China.

Additionally, a separate regulation issued by MIIT for the CSPFTZ replaced the *Provisions on the Administration of Telecommunications Enterprises with Foreign Investment* (revised 2016). According to this regulation, a lower requirement on registered capital of 1 million yuan exists and there is no requirement mandating the foreign investor have a 'good track record' or have operational experience in a VATS business.

With information obtained through thorough research, the foreign investor may still need to double-check with local authorities, like the Shanghai Communications Administration and the local branch of MOFCOM, in order to be sure that the investment being made is completely legal.

Advice for SMEs

As you can see from the above analysis and the foreign investment example given, foreign investment administration has many areas needs improvement. Even after the (trial) *Draft Market Access Negative List* was formulated after many months of authorities reviewing key industries and existing restrictions on foreign investment, there is still work that needs to be done.

In conclusion, our suggestion to EU SMEs planning to invest in China is to start with the examination of the current (trial) Draft Market Access Negative List. Even for foreign investment in areas outside FTZs, this list can still be used as point of reference. After that is done, the SME should then proceed to check the Negative Lists for FTZs and/or Outside FTZs, and follow-up with research done on the relevant industrial policies and local regulations. Finally, after thoroughly research existing foreign investment protocol, an SME should contact the competent authorities to ensure all necessary steps have been undertaken when it comes to foreign investment.

The ***EU SME Centre*** *in Beijing* 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.*

Our 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. From first-line advice to in-depth technical solutions, we offer services through Knowledge Centre, Advice Centre, Training Centre, SME Advocacy Platform and Hot-Desks.

The Centre is funded by the European Union and implemented by a consortium of six partners – the China-Britain Business Council, the Benelux Chamber of Commerce, the China-Italy Chamber of Commerce, the French Chamber of Commerce in China, the EUROCHAMBRES, and the European Union Chamber of Commerce in China.

To learn more about the Centre, visit website www.eusmecentre.org.cn Eb

MANAGING INTELLECTUAL PROPERTY AS A FINANCIAL BUSINESS ASSET IN CHINA

Many businesses are unaware that around half of their intangible assets could be used as collateral. Intellectual property (IP) has a use that goes beyond ensuring products are not copied. Corporations should be developing a business strategy that takes this little-known fact into account. The **China IPR SME Helpdesk** outlines how businesses can improve performance and secure their revenue by using IP they already have.

For most businesses, intangible assets represent more than 50 per cent of the enterprise's value. The most significant group of intangible assets are those that are protected by intellectual property (IP) which can include inventions, designs and brands. Since they compose such a large part of their overall value, their management as financial assets is important to business success.

Businesses that actively manage their IP as a financial asset outperform their peers by up to 30 per cent. They do so by maximising the effectiveness of a business investment, allowing it to drive performance in areas that produce the best return, while managing the operational risk. They may also use their IP assets as collateral in order to secure various forms of funding. Moreover, there are opportunities to gain strategic advantage with regards to the sale or purchase of a business.

Understanding the financial value of particular IP assets is important when moving into a new market, especially with all of the new risks and rewards that come with the various opportunities any new venture brings. Doing business in China comes with its own set of challenges, so knowing how to protect ones IP assets is extremely important. This article discusses why IP assets matter from a financial perspective, and how a business can manage them in an advantageous manner.

Managing return on investment and improving performance

When a business has several IP assets, knowing the comparative return on investment of each one allows the business to focus, and to develop a complementary strategy, on which one will give the best return. It also means that the risk to the viability of the business if certain IP rights are lost can be assessed. This is important in deciding how to structure commercial relationships and operations while doing business in China.

Similar to physical assets, measuring the return on investment requires knowledge of their monetary value and of the amount of investment made in them over a given period. Ascertaining individual IP assets consists of identifying the technology and brand in each product and if any brand is used for more than one type of product.

Providing a security interest when financing

IP assets can be used as collateral in order to provide a security interest when seeking out different ways of raising funds. China has been at the forefront of using patent mortgages which are readily available to both Chinese and European financial institutions.

The numerous ways of raising funds includes:

1. **Providing collateral for existing loans**: It is not unusual for a company's IP to be covered by the bank charge at the nominal or nil value. Valuing it separately often increases the value of the security covered by the charge. This can be used either to increase the size of the loan or to reduce the amount of interest already accumulated. If IP assets are to be used to secure the loan, it will be necessary to get the issued security released from any additional bank charge and priced only at the nominal value.

2. **Providing collateral for a new loan**: This can be to support borrowing from a bank to establish cash flow, or for longer-term debt-to-fund investment in new products or markets. Lending against IP assets is a specialised form of lending usually carried out by dedicated teams within larger lending organisations, or by smaller specialist lending houses.

3. **Patent (and other IP) mortgages**: A patent mortgage is one form of lending against patents or other IP assets. The significant difference between this and a floating charge is that a mortgage will usually transfer title to the lender immediately in the case of a default. It is a well-established form of lending by some Chinese banks who may have more familiarity with it than their international counterparts.

4. **Creating a vehicle for raising equity**: If IP assets are owned by a company, which was created for the sole purpose of holding these assets, and that company earns royalties, then shares can be issued in that company for purposes of equity financing.

5. **Securitisation (bond issuance)**: An alternative to issuing shares in an IP holding company is to use the company's assets as collateral for issuing a bond. This is likely to be an attractive option for medium-sized businesses with brands or technology that are reasonably well-known in its own marketplace.

6. **Secure assets to benefit a third party**: A further use of an IP holding company is to act as collateral in order to secure the company's pension fund or a new

venture.

IP assets are often undervalued in company accounts. Appropriately identifying and valuing these assets can result in a worthwhile increase in value that lenders will assign for lending purposes. This can be very useful in a credit crunch.

The acceptability of IP assets for fundraising will depend, to a considerable extent, on what their valuation is and whether they are owned by an appropriate entity.

There are several considerations that impact valuation, including whether the IP assets are clearly identified, consolidated into one ownership or dispersed, protected from insolvency risks associated with operational activities, protected by appropriate registrations, subject to a structured enforcement programme, licensed to group businesses and/or third parties for the purpose of generating income, or being used to increase the profitability of the business in question.

Drafting an IP strategy

A well-managed IP strategy makes a significant difference to the valuation of a company's IP assets. An evaluator will assess the economic impact of the IP on the company's business. Although there are several different valuation methodologies, all of them must take into account the risk to a company's IP. A realistic IP strategy that is well-documented and one that demonstrates effective support for the overall business strategy will always enhance the ultimate valuation figure of IP.

IP strategy should reinforce the greater corporate strategy and evolve as the business continues to develop. The strategy should also change depending on which market the business is participating in, as development will differ depending on a business's priorities. The balance of which IP rights are most useful, what should be invested in and their management time allocation will vary accordingly.

For example, when establishing in a new market, the registration of trademarks, patents and copyright is significant. Once a business is established, enforcement of IP is likely to become a higher priority. When a business seeks to improve its market share relative to its competitors, then the focus may be on litigating.

It is essential that company management is involved when drafting IP strategy and that they understand how it will support various business objectives. Key people that need to be involved in the strategising are the chief executive officer, finance director, tax advisor, general counsel, chief technology officer and chief operating officer.

The IP strategy should be reviewed whenever the business strategy changes, which should occur at least once per year.

Conclusion

With a strategic IP management approach and the appropriate identification, valuation and protection of IP assets, one can use their intangible assets to their advantage in order to secure financing and improve their company's overall performance. However, to use IP assets as a business tool, SME Helpdesk experts strongly recommend that SMEs ensure their key IP asset is protected by being properly registered, in order to prevent IP from being exposed by current/former employees and business partners. They should also structure IP ownership so it is able to be appropriately used as collateral in the event a company needs to raise funds.

*The **China IPR SME Helpdesk** supports small and medium sized enterprises (SMEs) from European Union (EU) member states to protect and enforce their Intellectual Property Rights (IPR) in or relating to China, Hong Kong, Macao and Taiwan, through the provision of **free information and services**. The Helpdesk provides jargon-free, first-line, confidential advice on intellectual property and related issues, along with training events, materials and online resources. Individual SMEs and SME intermediaries can submit their IPR queries via email (question@china-iprhelpdesk.eu) and gain access to a panel of experts, in order to receive **free and confidential first-line advice** within **3 working days**.*

The China IPR SME Helpdesk is co-funded by the European Union.

To learn more about the China IPR SME Helpdesk and any aspect of intellectual property rights in China, please visit our online portal at http://www.ipr-hub.eu/.

CHINA IPR SME HELPDESK

THE KNOWN KNOWNS IN CHINA'S MARKETPLACE

How the expansion of FIEs has institutionalised CSR practices in China

Foreign-invested enterprises (FIEs) have helped contribute to China's rapid economic growth with an essential component being its impact on corporate social responsibility (CSR) institutionalisation. Due to marked differences in China's CSR environment, FIEs require additional insight if they want to continue and successfully navigate the domestic business environment. **Ailin Zhou**, intellectual property (IP) assistant at **Taylor Wessing**, analyses and advises on the complexities of CSR in China.

China's rapid economic growth continues to have an ever-increasing influence in the global marketplace. This article tries, from the perspective of corporate social responsibility (CSR), to demonstrate how FIE expansion has impacted CSR institutionalisation in China. Due to a marked difference in CSR definitional support between developed and developing countries, along with differences in political and organisational structures in China, FIEs require additional insight into the particularities of the Chinese CSR framework and the subsequent stakeholder concerns.

The expansion of FIEs and their role in institutionalising Chinese CSR practices

In spite of soaring economic growth, CSR remained for many years an underdeveloped concept in China. This contrasted with other, more 'developed', countries such as Sweden, Germany, the United Kingdom and the United States. After China's entry into the World Trade Organization (WTO) in 2001 and among an increase of FIEs being formed in China, massive changes took place in the Chinese institutional environment. According to the *Research on Social Responsibility Report of Foreign-Invested Enterprises in China (2002-2010)*, only one FIE was recorded as operating in China in 2002, however that number has since swelled to 78 starting in 2010. This correlates with the proportion of FIEs, state-owned enterprises (SOEs) and other (private, township or restructuring) enterprises that reported their activities utilising a CSR framework, the number of reports of which proceeded to decrease from 50 per cent in 2002 to 10.7 per cent in 2010.

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total number of FIEs' CSR reports	1	2	1	2	8	15	35	48	78
Proportion in all CSR reports	50 %	66.7 %	16.7 %	15.4 %	25 %	15.3 %	20.7 %	7.4 %	10.7 %

Figure 1. the total number and proportion of FIEs that reported using CSR from 2002 to 2010, adopted from the *Research on Social Responsibility Report of Foreign-Invested Enterprises in China (2002-2010)*

Given that CSR can be used as a method of ensuring accountability and since enterprises try to attract inward investment and incentives through the use of CSR reports, the aforementioned changes indicate that FIEs attach significant importance to CSR reports and when facing the expansion of FIEs, Chinese enterprises have begun to pay attention to these reports in order to remain competitive for outside investment and government support.

The theory of CSR is believed to have emerged, and developed, for the Western world and thus may have little to contribute to Asian economies. Due to this preconception, little is now known about CSR practices in non-Western countries.[1] In spite of that, research indicates that although CSR and corporate social performance (CSP) are used for accountability and marketing purposes, top-CSR performers are trumpeted as leaders to be followed, which further institutionalises CSR practices in their respective fields.[2] These FIEs tend to have a better and more mature understanding of CSR, something that is routinely acknowledged by Chinese stakeholders. A comparative study revealed that CSP of FIEs regarding employee benefits, tax liability and environmental liability is strong, yet improvements are still needed in the customer and supplier relationship.[3]

Various associations and magazines organise events and competitions for FIEs in order to improve their CSP and to better localise their CSR strategies. For example, the China Association of Enterprises with Foreign Investment (CAIFI) together with the *China WTO Tribune* hold an annual competition that showcases excellent CSR practices by FIEs. These exemplary CSR practices, carried out by outstanding FIEs, are subsequently examined by researchers and then imitated by competitors. The expansion of FIEs in China has influenced the domestic institutionalisation of CSR practices, although this process has been constantly challenged by domestic Chinese enterprises.

The Chinese CSR framework and organisational field

Undoubtedly, globalisation has affected how CSR is perceived by businesses and FIEs are, to some extent, powerful actors in the Chinese CSR field. Yet, in order to improve the influence and visibility of CSR programmes, FIEs need to better understand the unique Chinese CSR framework and subsequent organisational field.

Highlighting these differences, *rén* (仁) and *lǐ* (礼) in Confucianism form the foundation of the Chinese concept of CSR.[4] The word *rén* refers to "benevolence, philanthropy, and humaneness", while *lǐ* is usually interpreted as "social rules and norms that dictate legitimate behaviour".[5] Research suggests the strong Confucian ethics of *rén* and *lǐ* are often seen as "a substitute for the concept of CSR by a number of Chinese business leaders".[6]

In addition to traditional Confucian values, collectivist cultural orientation also plays a prominent role in Chinese business development.[7] Juelin Yin and Yuli Zhang have developed a framework for understanding CSR in China, as illustrated in Figure 2 below. They offer two explanations for China's adoption of this current CSR framework. The first is that, in the 'Chinese institutional context', "stakeholder interest and legal compliance" are not treated as crucial CSR components because of China's transitioning financial and legal systems.[8] The second explanation pertains to the "dominant influence of ethical leadership in China".[9] In contrast to China, where many market-based transactions are governed by 'managerial ethics', many western-economic transactions are governed by both formal and informal institutions.[10] The Chinese Government-led market economy has instead been characterised by unclear property rights, an ineffective legal framework and having a lax monitoring force.[11]

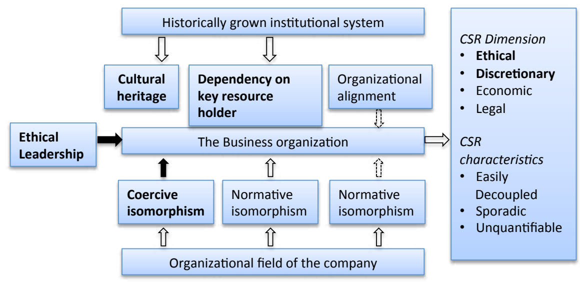


Figure 2. a framework for understanding CSR in China (Yin, J., & Zhang, Y., 2012, *Institutional Dynamics and Corporate Social Responsibility (CSR)*, p. 311)

Research has found that the legal infrastructure underpinning existing tax law and other forms of state regulation have impacted corporate behaviour in socially responsible ways.[12] Having different levels of regulation can properly incentivise corporations to behave in a particular manner in order to achieve certain political goals.[13] Since 2006, the Chinese Government at the na-

1 Lindgreen, A., Swaen, V., & Campbell, T. T.,2009, *Corporate Social Responsibility Practices in Developing and Transitional Countries: Botswana and Malawi,* vol. 90, no. 3, *Journal of Business Ethics*, pp.429-440.

2 Yin, J., Rothlin, S., Li, X., and Caccamo, M., 2013, *Stakeholder Perspectives on Corporate Social Responsibility (CSR) of Multinational Companies in China, Journal of International Business Ethics*, Vol. 6, no. 1-2, pp.57-71.

3 Liu, Y., & Zou, Z., 2012, *Comparative Study: The Social Responsibility of Foreign-funded Corporate in China, Scientific Research*, pp.226-229, International Conference on Engineering and Business Management.

4 Liu, X., *China's Traditional Culture*, Huanzhong University of Science and Technology Publisher, Wuhan, 1998; and Lü, X. H., 1997, *Business Ethics in China. Journal of Business Ethics*, vol. 16, no. 14, pp.1509-1518.

5 Yin, J., & Zhang, Y., 2012, *Institutional Dynamics and Corporate Social Responsibility (CSR) in an Emerging Country Context: Evidence from China, Journal of Business Ethics*, vol. 111, no. 2, pp. 301-316.

6 Ibid; Liu X., 1998, *China's Traditional Culture*; and Lü, X. H., 1997, *Business Ethics in China*.

7 Axinn, C. N., Blair, M. E., Heorhiadi, A., & Thach, S. V., 2004, *Comparing Ethical Ideologies Across Cultures, Journal of Business Ethics*, vol. 54, no. 2, pp.103-119.

8 Yin, J., & Zhang, Y., 2012, *Institutional Dynamics and Corporate Social Responsibility (CSR)*, p. 312.

9 Ibid.

10 Ibid.

11 Yin, J., Rothlin, S., Li, X., and Caccamo, M., 2013, *Stakeholder Perspectives on Corporate Social Responsibility (CSR) of Multinational Companies in China, Journal of International Business Ethics*, Vol. 6, no. 1-2, pp.57-71; Tan, J., 2009, *International Structure and Firm Social Performance in Transitional Economies: Evidence of Multinational Corporations in China, Journal of Business Ethics*, 86(2), pp. 171-189.

12 Campbell, J. L., 2007, *Why Would Corporations Behave in Socially Responsible Ways? An Institutional Theory of Corporate Social Responsibility, Academy of Management Review*, vol. 32, no. 3, pp. 946-967.

13 Ibid; Galaskiewicz, J., 1991, *Making Corporate Actors Accountable: Institution-building in Minneapolis-St.Paul*. In W. W. Powell & P. J. DiMaggio (Eds.), *The New Institutionalism in Oranizational Analysis*, pp.293-310. Chicago: University of Chicago Press.

tional, provincial and local level, has been promoting CSR as a way to rebuild social legitimacy.[14] The difficulty that comes with adopting CSR as a wider societal model is that, "businesses are not really responsible to society in general, but only to their stakeholders".[15]

Adopting a stakeholder classification model, the dominant members of society that have an actual stake in promoting CSR are local governments. However, local governments in China are much less powerful than their national counterparts and therefore they must accept the central government's CSR rules and guidelines despite not having the greatest interest in ensuring they are enforced.[16] Despite these shortcomings, localities try and further institutionalise CSR practices by offering incentives, holding CSR conferences and forums, and by setting up special committees to observe local businesses in their operations.[17]

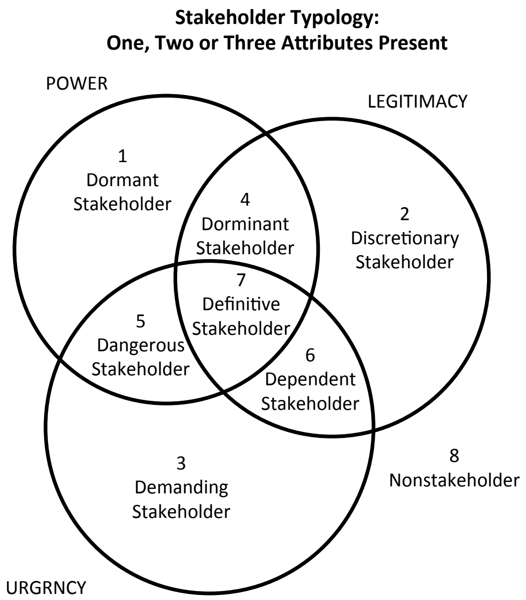


Figure 3. classification of stakeholders (Mitchell, R. K., Agle, B. R., & Wood, D. J., 1997, *Toward a Theory of Stakeholder Identification*)

Past research has examined the methods used by local governments in China to facilitate corporations' CSP. In both provinces and municipalities that include, the city of Shanghai, Jiangsu Province, Zhejiang Province, Guangdong Province, Hebei Province, Shanxi Province, Shaanxi Province and Hainan Province, programmatic documents have been put forward to help conceptualise CSR. In addition, provincial standard vary remarkably.[18] Research also points out the gaps and differences in guiding ideology and understanding of CSR. These differences often lead local governments to adopt different methodologies for improving corporate social behaviour.[19]

Hao Qin's (one of the main drafters of the three national standards) comparative study provides some insights into the different methods that local governments primarily use when crafting CSR. One method that is used is to withdraw from any support-related activities completely, since it depends on the organisation's philanthropic nature to voluntarily shoulder the burden of CSR. This method is often utilised in underdeveloped areas that are disproportionately impoverished. The second method is to enact new regulations, since organisations and the local government can cooperate strategically in order to achieve both their stated economic and CSR-related goals. This method is often employed in relatively less-developed or developing areas like Hebei and Shanxi Province.[20] The government, in this case, functions as an interlocutor that helps to balance profit-seeking motives and corporate social behaviours. The government seeks to achieve this by encouraging, promoting, and enacting 'soft laws' that establish mechanisms to enforce accountability. The last method is to simply enact regulatory standards and strictly apply them. These standards need to be supervised underneath a continuous system of accountability. Cases in point are Hangzhou in Zhejiang Province, Shenzhen in Guangdong Province and the Pudong district in Shanghai.[21] These areas tend to be more developed with large-scale exchanges between FIEs and international academics.

Conclusion

From the abovementioned, it is obvious that FIE expansion has a positive impact on the Chinese CSR field. However, FIEs are facing increasingly fierce competition, as Chinese enterprises are now aware of the importance of CSR. Chinese enterprises may be better attuned to Chinese stakeholder expectations and local policies, so in this light FIEs need to provide advanced access to needed, relevant information. More importantly, FIEs need a better understanding of the Chinese CSR framework along with local rules and regulations in order to continue and improve CSR programmes.

***Taylor Wessing** is a leading full-service law firm with over 1,200 lawyers in 33 offices around the world. Their China Group members are based in Shanghai, Beijing, Hong Kong, Munich, Frankfurt, Düsseldorf, Hamburg, Vienna, Paris, London and Singapore. Besides all areas of business law relevant to business transactions in China, they are also well known for their advice to Chinese companies investing overseas. For more information, please visit their website.*

14 Moon, J., & Shen, X., 2010, *CSR in China Research: Salience, Focus and Nature, Journal of Business Ethics*, vol. 94., no. 4, pp.613-629. 15 Avetisyan, E., & Ferrary, M., 2013, *Dynamics of Stakeholders' Implications in the Institutionalization of the CSR Field in France and in the United States, Journal of Business Ethics*, vol. 115, no. 1, pp.115-133.

16 Mitchell, R. K., Agle, B. R., & Wood, D. J., 1997, *Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts. Academy of Management Review*, vol. 22, no. 4, pp. 853-886.

17 Wang, X. and Yang, L., 2013, *Path Choice on Corporate Social Responsibility Public Policy: The Comparative Study between Six Developed Nations and China, Proceedings of the 2013 International Conference on Public Administration*, vol. 1, no. 1, pp. 583-590.

18 Hao, Q., 2013, *A Comparative of Local Governments' CSR Policies, China Market*, no. 11, pp. 71-76. (in Chinese).

19 Gao, J., 2015, *A Study on the Policies and Methods Local Governments Adopt in Promoting CSR, Organisation Reform and Management*, 2015, vol. 7, pp. 188-190. (in Chinese); Yu, Z. H., 2010, *Chinese Local Government Engages in Promoting CSR, China WTO Tribune*, no. 88, pp. 83-84.

20 Hao, Q., 2013, *A Comparative of Local Governments'*.

21 Ibid;Yu, Z. B., 2008, *Chinese Local Government Push Forward CSR: Treating CSR as an Effective Way to Build Well-off Society, China WTO Tribune*, no. 60, pp. 56-58.

THE ADVISORY COUNCIL OF THE EUROPEAN CHAMBER

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BEHIND CHINA'S ECONOMIC RISE

The role of aviation logistics and its future

The aviation industry in China has been rapidly changing as the national economy rapidly rises. **Jeff Cai**, the South China general manager at **Best Services International Freight Ltd**, reveals the secret behind China's economic rise and more specifically the country's success in the aviation logistics industry.

Transportation traditionally plays a critical role in boosting a country's development, as almost all trading activities rely upon it. Since China has come into its own as an economic superpower, its logistics industries have been developing rapidly as trade has accelerated. The rise of international trade and the rapidly increasing pace of development in the logistics industry, have served to complement each other nicely. International trade demands that growth in the logistics marketplace accelerate, and for the industry as a whole to become more cost effective. China's existing infrastructure is one of the key secrets that makes China important in today's international trade regime and a leader in e-commerce.

The status quo of the aviation logistics industry in China

There is currently fierce market competition and increased integration in the aviation logistics marketplace. China, having the advantage of a reduced total cost in their supply chain, a unique transportation speed and a low surcharge on goods with high safety standards, operates an aviation logistics industry that has become the envy of countries around the world.

The optimisation of air freight products in terms of quantity and quality

China became the world's number one trader of goods, starting in 2013. Both China's imports and exports maintained steady growth, totalling US dollars 4.16 trillion (tn), an increase of 7.6 per cent, due to dramatically increased demand in the air cargo market. According to data collected by iiMedia Research, revenue collected from cross-border e-commerce transactions have reached upwards of Chinese renminbi-yuan (CNY) 6.3tn in 2016, showing an increase of 23.5 per cent from 2015. These staggering amounts are only expected to go up in 2017, with estimates putting revenue at CNY 7.5tn by the end of the year.[1]

The development of cross-border e-commerce has actually enhanced the demand for airfreight business, with the number of air freight commodities having increased dramatically this past decade. Airfreight products have replaced many singular industrial manufactured goods like toys and textile products. This has led to an increase in high-tech and high value-added goods such as electronics and medical products.

Chinese aviation logistics turnover reaches second in the world

With continuous infrastructure improvement in the aviation logistics industry, the circular flow of income in China has now been ranked second in the world. In 2014, the national air cargo volume was 5.128 million (m) tons, an increase of 2.1 per cent, of which international air routes accounted for 1.843m tons. International flights were down 1.7 per cent from 2013, while domestic flights had increased by 3.1 per cent, and circulated approximately 3.285m tons. The national airport cargo throughput reached 98.3 per cent, with the main airports that load cargo being located in Beijing, Shanghai and Guangzhou. All of these cities contributed 49.6 percent of the total cargo throughput.[2] When looking at the data for regional distribution, East China had the largest amount of throughput, reaching 40.8 per cent, while the southern, northern and southwest regions of China accounted for only 24.5 per cent, 18.0 per cent and 9.6 per cent respectively. The northeast and northwest areas of China accounted for 3.5 per cent and 2.2 per cent, with the Xinjiang Uighur Autonomous Region accounting for only 1.3 per cent. In 2016, the national aviation cargo freight volume increased by 6.2 per cent compared to 2015, and reached 6.68m tons.[3] Currently, there are thousands of international air cargo agencies working in the Chinese marketplace and because of this air cargo has been on the rise. Projections show air cargo volume rising to 6.8m tons by 2020, with the average annual growth rate of express servicing exceeding 20 per cent.[4] The global aviation cargo turnover volume experienced an increase of 2.3 per cent in 2015, although that number is expected to grow to 3.5 per cent at the end of the year. Along with this increase, civil aviation airport cargo throughput is expected to grow at 7.5 per cent annually.[5]

Future development

Upstream and downstream expansion

In order to have a sustainable future for aviation logistics, companies are working on both upstream and downstream expansion. Aviation logistics will inevitably expand across the industrial supply chain, with 'resource integration' as a strategy drawing consensus from the industry.

Internationalisation

The aviation logistics industry has been rapidly

1 *An Analysis of China's Cross-border E-Commerce Market in the First Half of 2017*, Cifi News, 9th August 2017, <http://www.cifnews.com/article/27996>, [in Chinese].

2 *2016 Civil Aviation Airport Cargo and Postal Throughput Rankings, AskCI*, 4th March 2017, <http://www.askci.com/news/paihang/20170304/10511592497.shtml>, [in Chinese].

3 *2016 Analysis of China's Aviation Transportation Operations: Cargo and Mail Traffic Volume was 6.68 Million Tons and Passenger Traffic Increased by 12 %, AskCI*, 4th March 2017, <http://www.askci.com/news/paihang/20170304/10511592497.shtml>, [in Chinese].

4 *Analysis on the Development Trend of China's Air Cargo Industry in 2015, China BGao*, 20th November 2015, <http://www.chinabgao.com/k/hangkonghuoyun/20769.html>, [in Chinese].

5 *Prospects for Global Aviation Market Development in 2017, CCA Online*, 14th February 2017, <http://www.ccaonline.cn/hangjia/article/314061.html>, [in Chinese].

developing throughout the Asia Pacific region. In 2013, four of the top five airlines, that have the most airfreight volume, are located in the Asia Pacific region. It is expected that as the Asia Pacific market consolidates it will become a global air cargo hub. Because of this, the aviation logistics industry in China will be increasingly internationalised and will subsequently have more opportunities made available to it.

Airports in second-tier cities

In recent years, as air cargo facilities and equipment are improved upon and with the volume of cargo steadily increasing, many airports in second-tier cities, such as Zhengzhou, Wuhan, and Nanjing, have started to expand. The collaboration of cargo transportation will be an important trend that can facilitate the sustainable development of the aviation logistic industry.

Custom clearance

In order to adapt to a regional economic development strategy, the regional clearance management process must be re-engineered, customs clearance integrated reform has been implemented in Beijing, Tianjin, the broader Hebei provincial region, the Yangtze River Economic Zone, and Guangdong Province. These areas have established a unified regional customs declaration system, a new risk-control process, improved professional examination procedures and improved on-site operations. These regional customs are able to achieve interoperability through reform and companies can choose to declare, pay taxes or clear customs in these areas in a manner convenient to them. To improve internal cooperation, customs clearance integrated reform was implemented starting in July 2017.[6] With the implementation of integrated reform, aviation logistics companies will be able to operate more effectively and efficiently.

Internet of things

It has always been essential for logistics companies to keep track of where their cargo is, and the 'Internet of things' has made it much easier. The industry can utilise the Internet to improve development and resolve current issues. For example, iTracing has based their software on a service (SaaS) platform which will be able to alleviate shortages in the traditional air cargo state-owned system. William Arten, the former director of the Lufthansa Cargo Group, indicated that e-commerce will revolutionise the industry, stating that the Internet will change everything.[7]

Conclusion

In conclusion, the future development of the Chinese aviation logistics industry will encounter both opportunities and challenges. Companies that are able to adapt to the future environment and take advantage of these new opportunities will be able to grow exponentially in the flourishing logistics industry and play an important role in the global market.

***Best Services International Freight Ltd** (BSI) group is an integrated international logistics enterprise and a full logistic solution services provider that covers international and domestic air transport, FCL, LCL, bulk cargo transport, charter service, multi-modal transport, warehouse, distribution, customs brokerage, agent for cargo insurance, import and export business. BSI is especially strong in the air, as one of the top air master co-loaders in South China, BSI signs BSA contracts with various mainstream airlines which guarantees lowest possible cost in the market, as well guaranteed space and transit time during peak season for its valuable clients. The company has an office in Shenzhen, Guangzhou and Dongguan and many other cities of China.*

6 *General Administration of Customs to Promote the Integration of Customs Clearance Reform Across the Country,* Shanghai Municipal Government Website, 2nd July 2017, <http://www.shanghai.gov.cn/nw2/nw2314/nw2315/nw4411/u21aw1240561.html>, (in Chinese).

7 Liu, Haiming, *An Analysis on How the Internet Influences the Air Cargo Industry, Civil Aviation Resource Net*, 26th December 2014, <http://news.carnoc.com/list/302/302535.html>, (in Chinese).

Jimmy Yu

Company: One Sunland Serviced Suites managed by Lanson Place
Business Title: General Manager
Year Joined: 2011
Location: Shanghai, China
Main Business: Serviced Residences
Number of Employees: 70

Can you share with us more about the Lanson Place Group? What is the brand concept behind it?

Lanson Place operates unique hospitality concepts in the heart of Asia's most exciting cities - Hong Kong, Shanghai, Chengdu, Kuala Lumpur and Singapore, providing high-quality service and city-centre convenience with the exclusivity and comfort of a private home. Our strengths, in essence, are our impeccable service culture and well-appointed accommodation that is rich in style and sophistication.

With so many serviced residences brands, how does Lanson Place keep its edge over its competitors? What do you love most about Lanson Place?

Our competitive edge lies in the contemporary, home-from-home accommodation and our hallmark of warm and attentive guest services. At Lanson Place, every staff member goes the extra mile by providing personalised services that make our residents feel truly at home. What I love most about the Group is our team's commitment to embracing and demonstrating our core values – Hospitality from the Heart; Respect; Excellence; and People Care. We strive to create the fondest memories and to build a long-lasting relationship with our residents, treating them as our own family.

One Sunland Serviced Suites managed by Lanson Place is the Group's most recent property in Shanghai. Why did it choose to situate itself in this location?

We are the first high-end serviced apartment strategically located in Pudong and serving the booming Waigaoqiao Free Trade Zone. With rapid expansion and development of the zone, we see great business potential in the growing demand for service apartment units here. Within the neighborhood is a shopping mall complex with shops and restaurants, an international school and cultural centre, which enables the growth of an expatriate community. It enjoys close proximity to the Zhouhai Road station of Shanghai Metro Line 6, which offers excellent links to the heart of Shanghai city.

Can you tell with us a bit more about your property? What do you think is the most attractive feature?

We offer 188 spacious units from studios to expansive duplexes ranging from 49 to 228 sqm in size, offering a home-from-home accommodation for foreign and local expats with different family sizes. We also offer a wide range of business and leisure facilities suiting different needs, such as a multi-purpose meeting room, a fully-equipped exercise room with sauna and jacuzzi, a residents' lounge with pool table, children's playground and landscaped gardens, providing a perfect and restful haven to unwind and relax.

My favourite feature of the property is the lobby atrium. Coming from the reception area, you could immediately sense the contrast of the cosy reception against the airy atrium beyond. With a partial transparent ceiling and floor-to-ceiling windows, our atrium thoughtfully incorporates cabana lounge seating where you can sit back and enjoy and unwind after work.

HOW IS IT COMING TOGETHER?

The Executive Summary from the Position Paper 2017/2018

During his January 2017 speech at the World Economic Forum in Davos, Switzerland, President Xi Jinping presented China as strongly committed to economic globalisation. President Xi also stated that China would expand market access for foreign investors and level the playing field to make China's market more transparent and better regulated.[1] Later that month, the State Council released the *Notice on Several Measures on Promoting Further Openness and Active Utilisation of Foreign Investment* (Guofa [2017] No. 5, State Council Document No. 5 or Circular 5).[2] European business recognises the level and significance of these public commitments.

In particular, the European Chamber attaches great importance to State Council Document No. 5, and sees it as the overarching principle that will guide foreign investment reform for the short to medium term. In it, 20 broad policy goals are categorised under three key themes:

1. Take further steps to open up to the outside world.
2. Further create an environment of fair competition.
3. Further strengthen efforts to attract foreign investment.

It is only natural that China now advocates this view of globalisation, having benefited so much from it since its WTO accession in 2001. However, while European business fully embraces the basic framework of State Council Document No. 5, it is suffering from accumulated 'promise fatigue', having witnessed a litany of assurances over recent years that never quite materialised. By supplanting words with concrete actions and providing reciprocal access to its market for both trade and investment, China can send a strong signal that they are following through on their commitments to further open up to the world and establish a level playing field. This would also help to drive forward the economic reform agenda announced at the Third Plenum in 2013.

While there have been a number of highly positive developments clearly indicating that China's leadership understands the task at hand, the *Position Paper 2017/2018* shows many areas where more can be done, and provides constructive recommendations to the relevant authorities in order to help them achieve their objectives.

Take further steps to open up to the outside world

In terms of its openness to foreign direct investment, the Organisation for Economic Cooperation and Development (OECD) ranks China in 59th place out of the 62 countries evaluated.[3] There are reasons to be hopeful, however. For example, significant improvements have been seen over the past year in the pharmaceutical industry, with authorities streamlining regulations and improving accessibility. As with the anticorruption drive, European business fully acknowledges the real progress China can

1 President Xi's Speech to Davos in Full, World Economic Forum, 17th January, 2017, viewed 6th June, 2017, <https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>

2 *State Council Document No. 5 is provided in English on page xx immediately after the Executive Position Paper.*

3 *FDI restrictiveness (indicator)*, OECD, 2017, <https://data.oecd.org/fdi/fdi-restrictiveness.htm#indicator-chart>

make when there is consensus for reform.

This positive and forward-looking approach should now be applied to other industries that are potentially facing market closure. For example, in the agriculture, food and beverage industry, shipments of food products, including some low risk ones, will require an official inspection certificate from a foreign government as of 1st October 2017.[4] Since certification requirements for low-risk food products are out of line with international practice, this has the potential to dramatically reduce food imports.

Further create an environment of fair competition

The overall sentiment of 'fair competition' aligns perfectly with one of the European Chamber's core advocacy points: achieving a level playing field for all businesses in China. However, there is a great deal that still needs to be done in this respect. For example, in some areas foreign-invested enterprises (FIEs) are still only permitted to play a limited role in setting standards, or are barred altogether, and face difficulties fully taking part in preferential policies that support research and development. In fact, overall, 54 per cent of European companies perceive they are treated less favourably compared to their Chinese counterparts.[5]

China could go some way towards rectifying this situation by broadly adopting a more open and even-handed approach to communicating regulations, as displayed by the State Administration of Foreign Exchange (SAFE) in 2017. The SAFE met directly with European business to solicit feedback regarding the impact of tightened capital controls. The European Chamber also encountered this kind of open communication when the National Development and Reform Commission (NDRC), the Standards Administration of China (SAC) and the local Departments of Commerce in Beijing, Chengdu, Nanjing and Shanghai separately engaged European businesses in dialogue about State Council Document No. 5 and its impact at the local level.

Further strengthen efforts to attract foreign investment

There is a right and a wrong way to attract foreign investment. European businesses make investments when capacities need to be established or expanded in response to market demand, not because an investment zone offering short-term financial incentives has been set up. Companies are far more interested in the basics of predictability, transparency and the rule of law. Likewise, talented individuals are more interested in the soft environment, where air quality, access to schools and medical facilities, and a convenient transportation infrastructure meet their and their family's needs. Therefore the best approach is to embark upon a programme of deep economic, people-centred reforms that will enable sustainable growth – once this has been undertaken, more investment should follow.

If greater market access were granted, 56 per cent of respondents to the *European Chamber's Business Confidence Survey 2017* would be more likely to increase their investments.[6] But the Chinese authorities continue to ring-fence foreign investment with administrative measures, including the *2017 Foreign Investment Catalogue* and the *2017 Free Trade Zone Negative List*, while progress on the EU-China Comprehensive Agreement on Investment is left waiting in the wings. When weighed against the 'tone at the top' it is not clear why special rules and catalogues governing foreign investment are still being maintained at all, as they only serve to complicate China's business environment and deter foreign investment. It would be preferable instead to amend China's Company Law so it applies equally to domestic enterprises and FIEs, and to establish a concise national negative list.

Conclusion

European business needs China to succeed and is prepared to expand operations in the country. However, investment plans must be based on certainty. The European Chamber will therefore continue to monitor the implementation of State Council Document No. 5 and related legislation, providing constructive feedback and cooperating with the Chinese authorities as they strive to establish China as an exemplar of economic globalisation.

4 *EU-China Seminar on Harmonised Certificate for the Food Imports to China*, Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), 26th July, 2016, viewed 12th April, 2017, <http://jckspaqj.aqsiq.gov.cn/xwzx/xw/201607/t20160728_471079.htm>

5 *Business Confidence Survey 2017*, European Union Chamber of Commerce in China, May 2017, p. 43, <http://www.europeanchamber.com.cn/en/publications-archive/516/Business_Confidence_Survey_2017>

6 *Business Confidence Survey 2017*, European Union Chamber of Commerce in China, May 2017, p. 50, <http://www.europeanchamber.com.cn/en/publications-archive/516/Business_Confidence_Survey_2017>

BUILDING A SUSTAINABLE FUTURE

Recent results from the European Chamber's 2017 Sustainable Business Awards in Shanghai

On 12th September, the European Chamber held its inaugural Sustainable Business Awards in Shanghai, to commend China-based companies on the excellence of their sustainability and corporate social responsibility (CSR) initiatives. **Max Merkle**, the communications and business manager at the European Union Chamber of Commerce in China (European Chamber), and **Laura Alvarez Mendivil**, senior membership and events manager, European Chamber, and **Tiantian Qi**, senior business manager the European Chamber, provide a review of the awards ceremony and announce the winners.

On 12^{th} September, the European Chamber of Commerce in China (European Chamber) held its inaugural Sustainable Business Awards in Shanghai, to reward excellence in sustainable and corporate social responsibility (CSR) initiatives and to raise awareness about sustainable business practices and responsible operating models. Awards were given out in the following three categories:

- **Innovation Leadership** – an award was given to a European Chamber member company to recognise its strategic pioneering role in developing and implementing innovative practices, including but not limited to innovative approaches applied to production processes, materials, technology and the product itself. The award was also given for advancing the creation of shared business values and responsible competition.
- **Best Responsible Business Model** – this award was given to a European Chamber member company to recognise their development and implementation of responsible business practices.
- **Outstanding Sustainable Performance** – this award was given to a European Chamber member company to recognise its facilitation of multiple stakeholders' realisation of the United Nations' 2030 Sustainable Development Goals, while operating in China. Some of their efforts included engaging in cross-sector collaboration and finding beneficial solutions for all parties involved.

The European Chamber understands the importance of sustainable and environmentally-friendly business practices for China's continued economic development. Sustainability needs to become a strong driver for future development, aligning with the European Union's Horizon 2020 targets and China's 13^{th} Five-Year-Plan. The topic is also important for China's ambition to achieve its United Nations 2030 Sustainable Development Goals.

We are proud to announce the winners in the above three categories:

1. Innovation Leadership: SAP
2. Best Responsible Business Model: L'Oréal
3. Outstanding Sustainable Business Performance: Tetra Pak

The European Chamber would like to thank our technical partners, GIZ and German Cooperation, along with our media partner, the *Shanghai Daily*, and all the professionals on our judging panel, that evaluated shortlisted companies' performance and chose the final award recipient in each category.

EUROPEAN CHAMBER IN THE MEDIA

GMIS Event on Industrial Challenges and Opportunities for Global Manufacturing

On 21st August 2017, the Global Manufacturing and Industrialisation Summit (GMIS) organised an event to discuss the challenges, opportunities and outlook for the global manufacturing industry. European Chamber President Mats Harborn and Jörg Wuttke, former European Chamber president, participated on a panel. A total of 16 different people from the media attended the event, with nine original articles published and a large number of republications taking place as well. President Harborn and Mr Wuttke evaluated the challenges the manufacturing industry faces as it continues to expand and innovate and suggested that the Chinese Government try and open domestic markets even further to help these industries develop. President Harborn's statement, in the event's official press release, was also quoted.

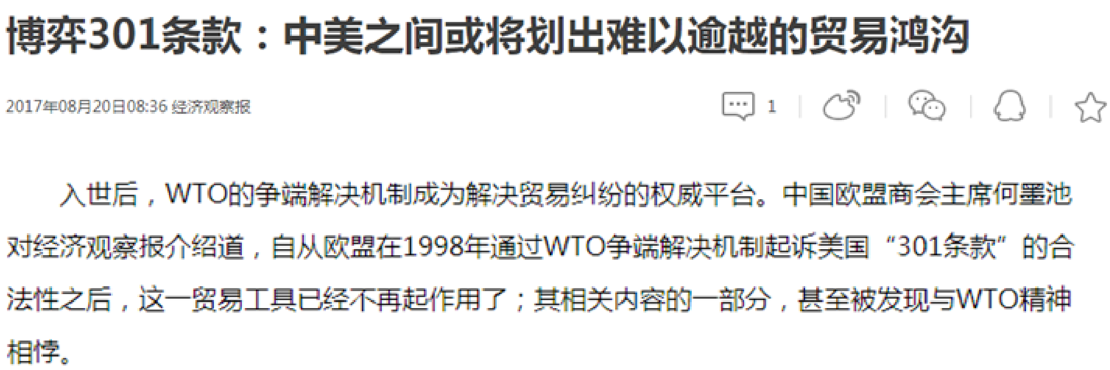
"The success of CM2025 hinges on its integration into global supply chains and the BRI will flourish only when it is embraced by the rest of the world and seen as a global project. We have always been clear on this," said President Harborn. "Thus, both CM2025 and the BRI can be major achievements provided they are predicated on open markets, balanced trade, transparency and reciprocity."

The European Chamber's Stance on the Strengthening of Existing VPN Restrictions

"In a statement, the European Chamber of Commerce in China told AFP it 'has not seen any updated official document concerning restrictions on VPN use by companies,' adding that in a recent survey of its members almost half expressed concern that the 'continued strengthening of measures to tighten Internet control and access are having an even bigger negative impact on their companies'."


China's web users fear losing tools to bypass 'Great Firewall'

President Mats Harborn's Interview on the US' Trade investigation into China


博弈301条款：中美之间或将划出难以逾越的贸易鸿沟

2017年08月20日08:36 经济观察报

入世后，WTO的争端解决机制成为解决贸易纠纷的权威平台。中国欧盟商会主席何墨池对经济观察报介绍道，自从欧盟在1998年通过WTO争端解决机制起诉美国“301条款”的合法性之后，这一贸易工具已经不再起作用了；其相关内容的一部分，甚至被发现与WTO精神相悖。

(The President of the European Chamber Mats Harborn took an interview with The Economic Observer and stated that since the EU's trade dispute regarding the legality of Section 301 of the United States Trade Act of 1974, this trade policy tool has not been used.)

European Chamber Discusses Party Structures in JVs

In response to a media inquiry from *Reuters* regarding the outcome of a meeting held by the European Chamber, which discussed if party structures are being formally introduced into the governance of joint ventures (JVs), Carl Hayward, the general manager of the European Chamber Beijing chapter, provided a short statement.

Exclusive: In China, the Party's push for influence inside foreign firms stirs fears

Carl Hayward, general manager and director of communications at the European Chamber's Beijing chapter, acknowidged the meeting was held to "understand from our members if party structures are being formally inrtoduced into the governance of joint ventres."

"We have not noted any formal change of policy that reflects this. This is as we would expect since such a change would act as a deterrent to foreign investment in China,"he said.

Follow-up Coverage of the Business Confidence Survey 2017


Bloomberg | Quint India's BQ Markets Business Law And Policy Politics

Australia Shuns Investing in China Despite Trade Dependence

Indeed, European companies in China are increasingly frustrated with the authorities. They're reporting unfair treatment compared with domestic firms in areas such as environmental rules being enforced strongly on foreign companies and less so against domestic ones, according to a survey released by the European Union Chamber of Commerce in China and Roland Berger Strategy Consultants.

"Chinese companies face few, if any, limitations in investing in European industries like construction, healthcare, insurance, logistics and media, yet European companies in China continue either to be fully barred from participation or limited to holding a minority position," it said.

Australia Shuns Investing in China Despite Trade Dependence, Bloomberg

"European companies in China are increasingly frustrated with the authorities. They're reporting unfair treatment compared with domestic firms in areas such as environmental rules being enforced strongly on foreign companies and less so against domestic ones, according to a survey released by the European Union Chamber of Commerce in China and Roland Berger Strategy Consultants.

'Chinese companies face few, if any, limitations in investing in European industries like construction, healthcare, insurance, logistics and media, yet European companies in China continue either to be fully barred from participation or limited to holding a minority position,' it said."

CHAMBER NEWS

The European Chamber is a people-based organisation whose operational success depends on the hard work and dedication of its staff. We are particularly proud to honour those staff who are celebrating milestones in service to the European Chamber. In this issue, we recognise and thank:

Jessica Yuan
Senior Government Affairs Desk Manager
Beijing Chapter
Five years of service

Jojoe
Events Manager
Shanghai Chapter
Five years of service

Zhao Yang
Events Manager
Shanghai Chapter
Five years of service

EUROPEAN CHAMBER EVENTS GALLERY

BEIJING CHAPTER


1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4

Financial Services Conference: Balancing Control and Liberalisation (1)
The European Chamber's Financial Services Conference took place on 13th July. Pan Gongsheng, deputy governor of the People's Bank of China and administrator of the State Administration of Foreign Exchange keynoted it.

International Media in China Panel Discussion (2)
On 25th August, the European Chamber held a seminar, where speakers shared their insights on challenges and opportunities for international media in China.

China Healthcare Reform: the 'Two-Invoice System' (3)
On 29th August, the European Chamber hosted a seminar discussing the impact of purchasing reform on multinational pharmaceutical companies.

How to Integrate Marketing Automation into Business Development (4)
On 29th August, the European Chamber along with BesChanels organised a sponsored seminar, which illustrated how marketers can utilise the latest marketing automation technology to drive business development.

NANJING CHAPTER


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Joint-discussion on Royalty Payments in China (1&2)
On the 31st August, the European Chamber of Commerce in China, Nanjing chapter, together with KPMG, hosted a seminar on making royalty payments in China.

SOUTH CHINA CHAPTER


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2017 Dongguan & Shenzhen Managers' Networking Dinner (1)
On 31st August, the South China chapter held the 2017 Dongguan Shenzhen Manager Level Networking Dinner in Shenzhen, with 78 manager participants from 54 companies attending.

A Workshop on WeChat for Marketing in Shenzhen (2)
On 24th August, South China Chapter, held a workshop with Ashley Galina Dudarenok from ChoZan and Alarice International who gave a talk on how to market effectively using WeChat.

SHANGHAI CHAPTER

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Your Pain… the Environment's Gain! The Environmental Protection Tax Law and How It Impacts Business (1)

On 15th June, the European Union Chamber of Commerce in China, Shanghai chapter, held a dialogue on the new *2016 Environmental Protection Tax Law of the People's Republic of China*, which provided participants with an overview of the law's impact on a company's operations in China.

Intelligent Logistics: Visit to Yangshan Port and KLG's Smart Warehouse (2)

On 5th July, the European Chamber's Shanghai Chapter organised a trip to KLM-ITM's warehouse and Yangshan Port. During the trip, participants were able to get a closer look at the port's terminals.

Factory Tour to ThyssenKrupp Elevators (3)

The visit to ThyssenKrupp Elevators Songjiang took place in Shanghai on 3rd August. During this tour participants learned more about China's elevator market.

SOUTHWEST CHAPTER

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Philips LED Lighting Plant Visit (1&2)

In 2013, the Philips LED lighting (Chengdu) demonstration park was established in the Chengdu High-tech Development Zone. The Southwest Chapter conducted a guided tour on 25th July to the plant. Approximately 30 members attended the tour and learned, from the plant's general manager, about the company's history.

Shuangliu FTZ Visit and Government Meeting (3&4)

Since Chengdu has officially become a free trade zone (FTZ) trial city starting April 2017 and because of this, the European Chamber organised an event on 29th August to the Shangliu FTZ. The European Chamber met with the FTZ's governor to discuss various policies being implemented in the area.

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