



European Chamber
中国欧盟商会

European Business in China

POSITION PAPER 2021/2022

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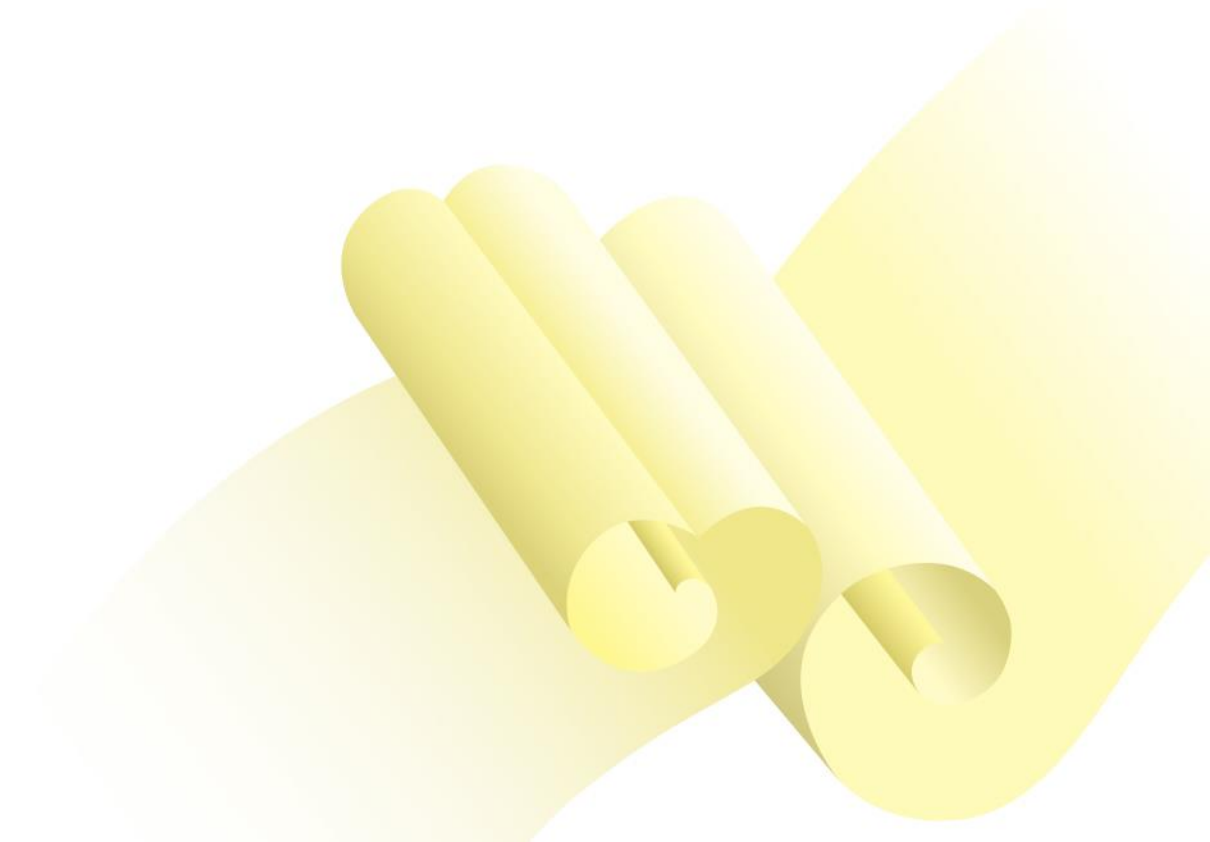


China a Pillar for Global Operations

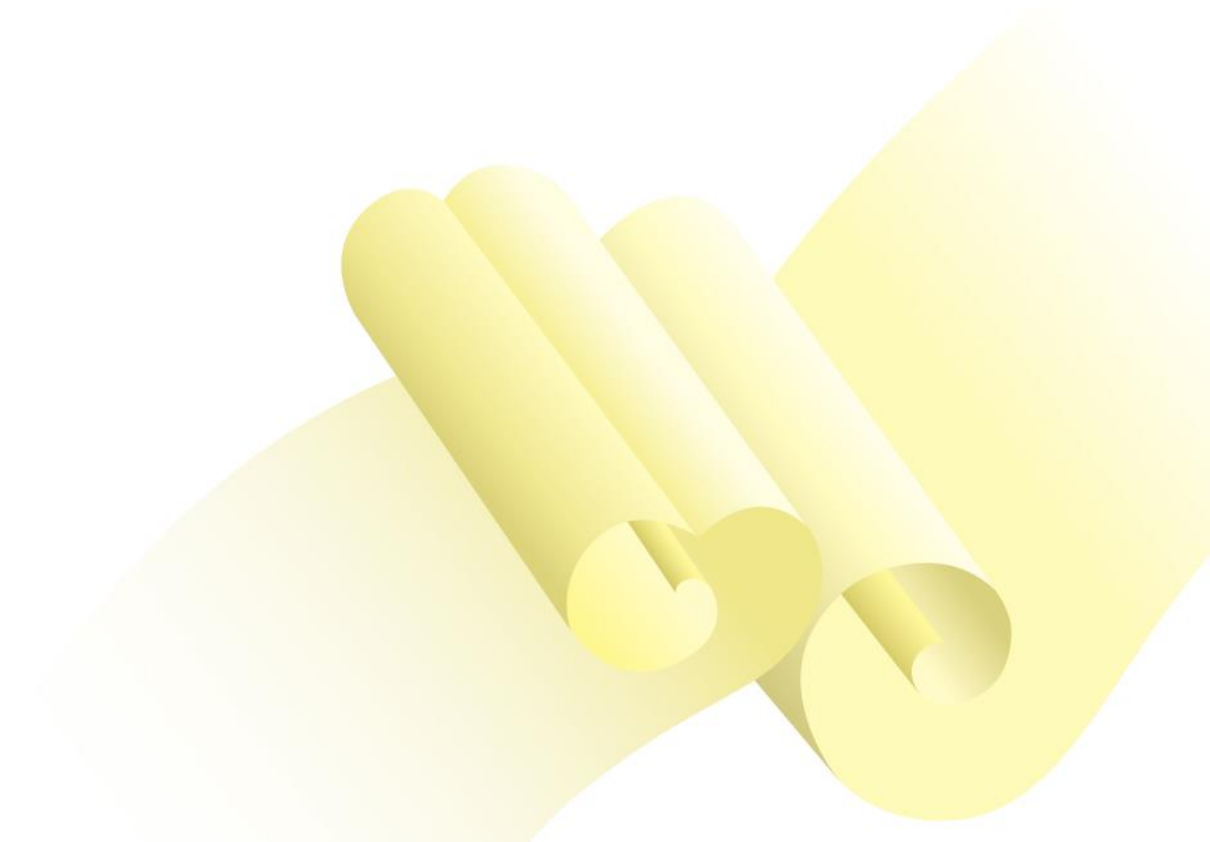


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- Strong COVID recovery and weakness in Q 3, 2021
- European companies firmly committed to China market
- Strong growth prospects



- 14FYP and dual circulation
- The contradiction between self-sufficiency and openness
- Not all companies are welcome
- Geopolitical tensions fuel 'self-sufficiency drive' and nationalism
- Rapidly decreasing foreign population a cause for alarm

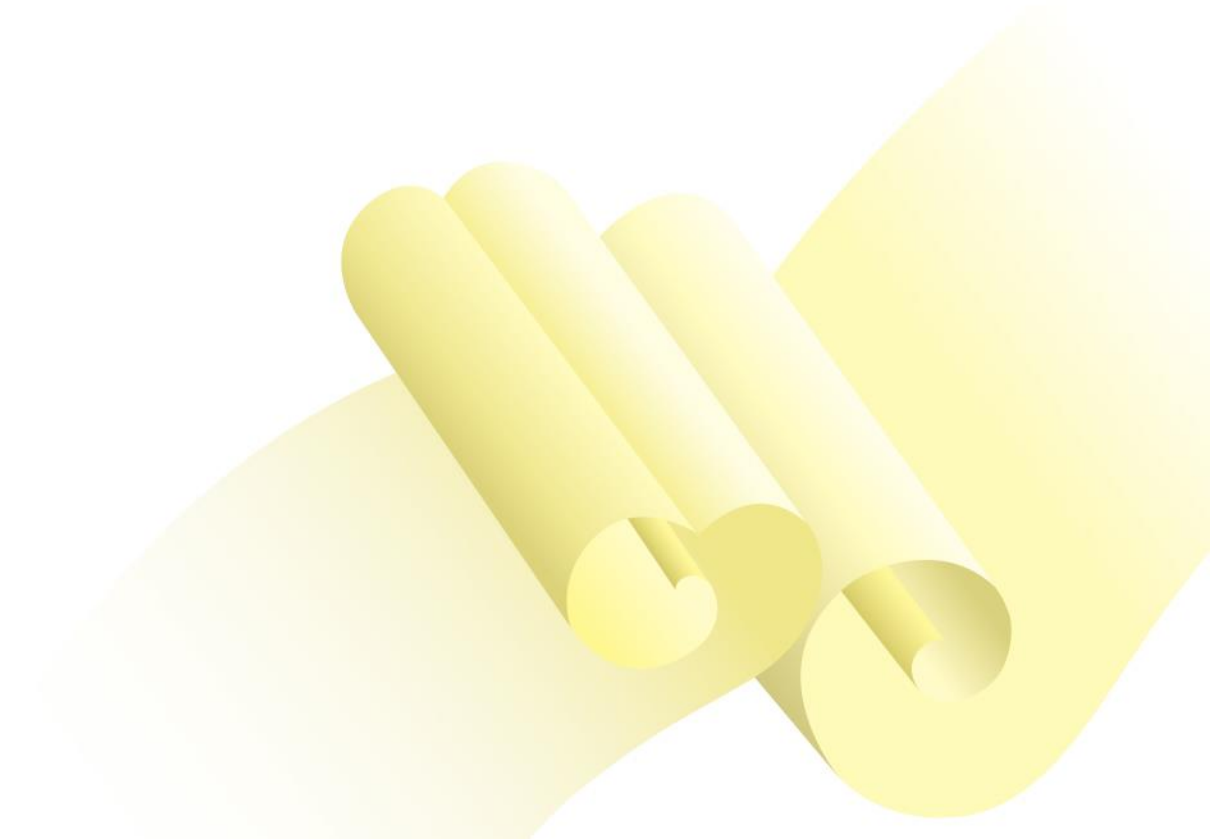


The Costs of Self-sufficiency



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- Decrease in FDI
- Deceleration of innovation capacity
- More challenges for Chinese companies expanding overseas
- Significant misallocation of resources
- Reduced access to core technologies
- Challenges to meet decarbonisation goals
- Further deterioration of trade and political relations

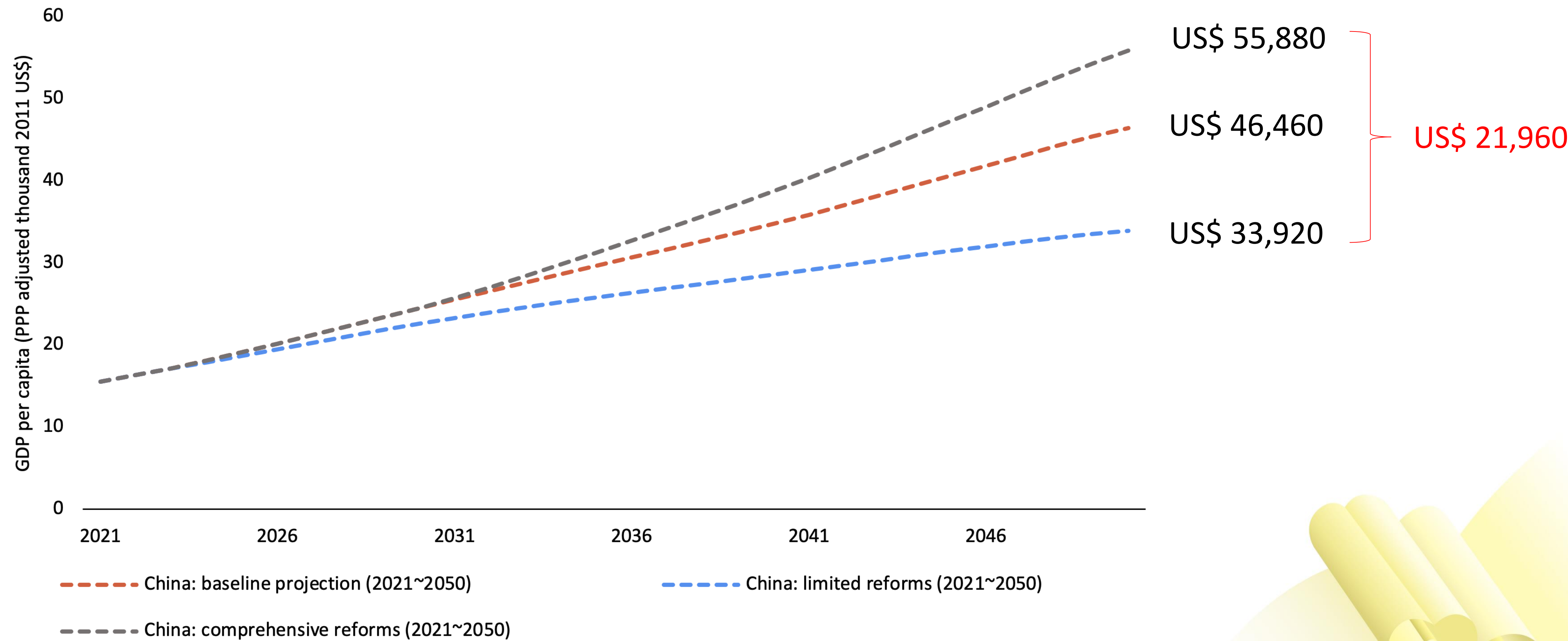


The Impact of Self-sufficiency on China's Growth



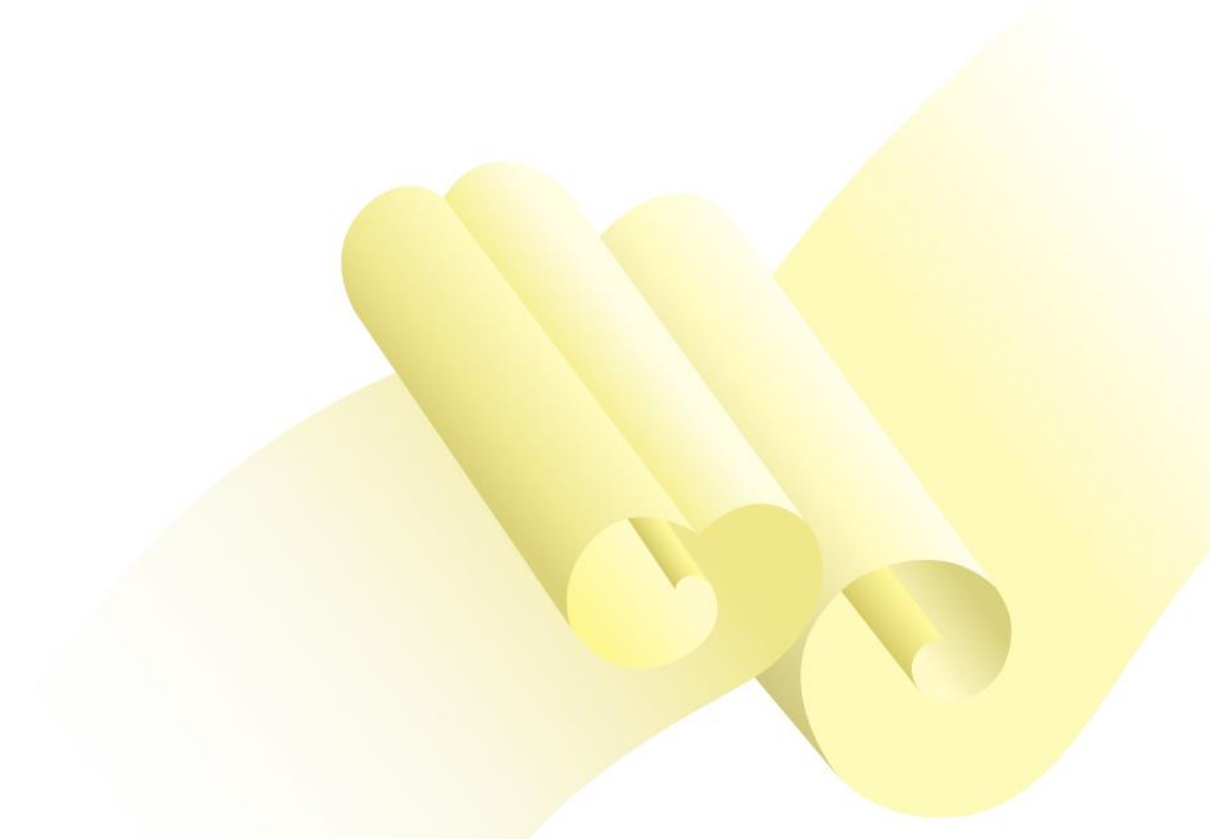
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Output-side real GDP per capita (PPP-based) with 3 projections: limited reforms, baseline and comprehensive reforms

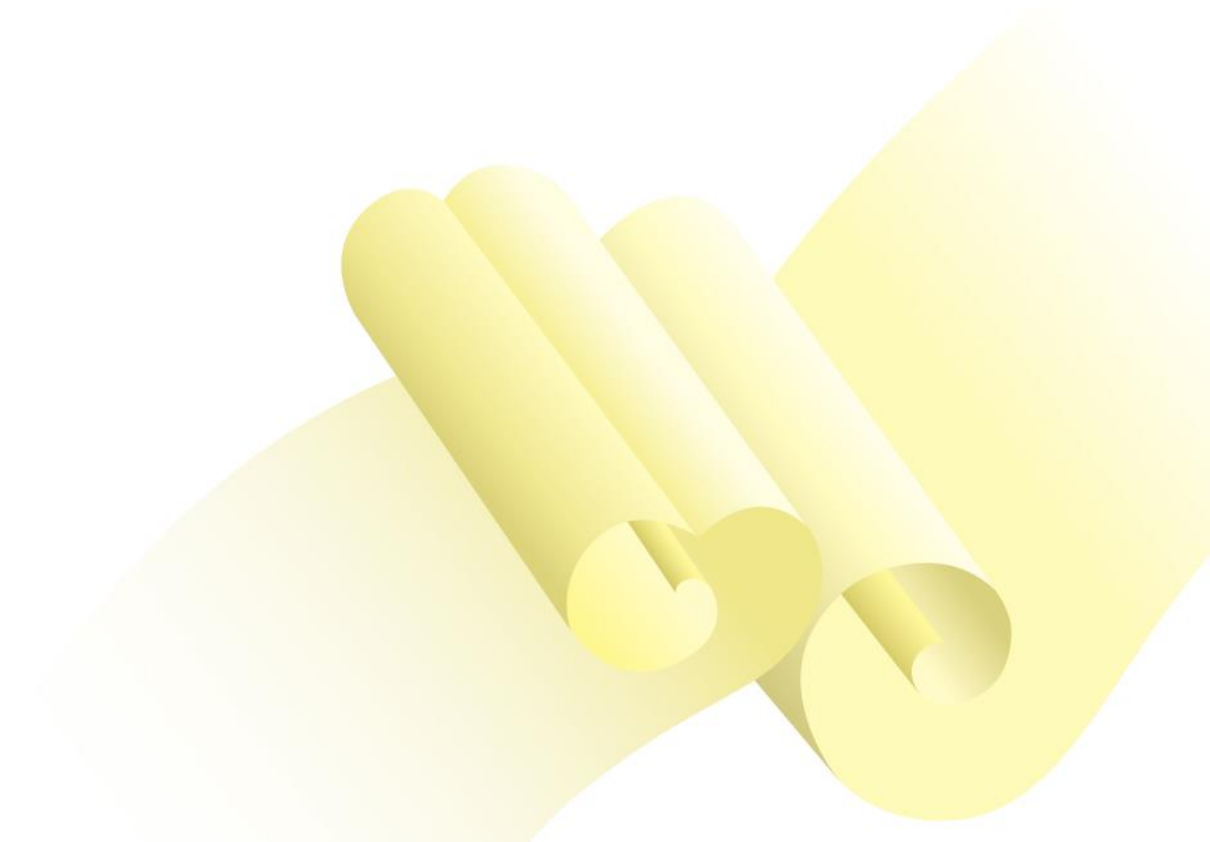


Source: World Bank

- China's expanding definition of 'national security' multiplies challenges for European companies
- Extensive requirements under Cybersecurity Law will push some European companies out of China
- Some companies China wants to keep will be forced to leave
- Reducing the role of European companies play in its economy will impact China's innovation capacity



- The continued favouring of SOEs will blunt growth prospects
- China's race to catch up in semiconductors intensifies
- Throwing good money after bad in aerospace
- Becoming an innovation leader and upgrading value chains demands collaboration
- Standardisation to become a key 'battleground' in the fight to dominate emerging technologies

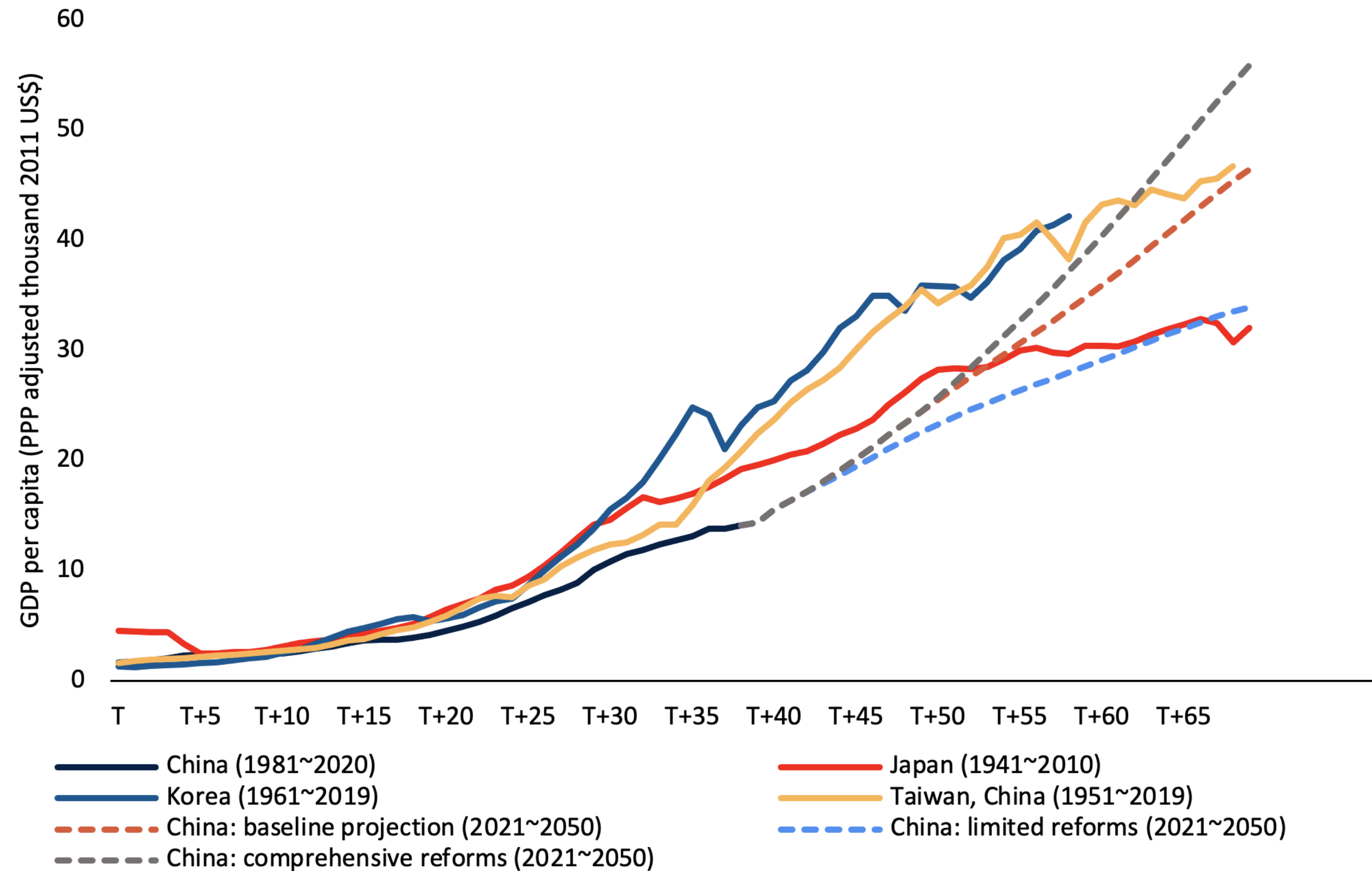


China's Growth Trajectory

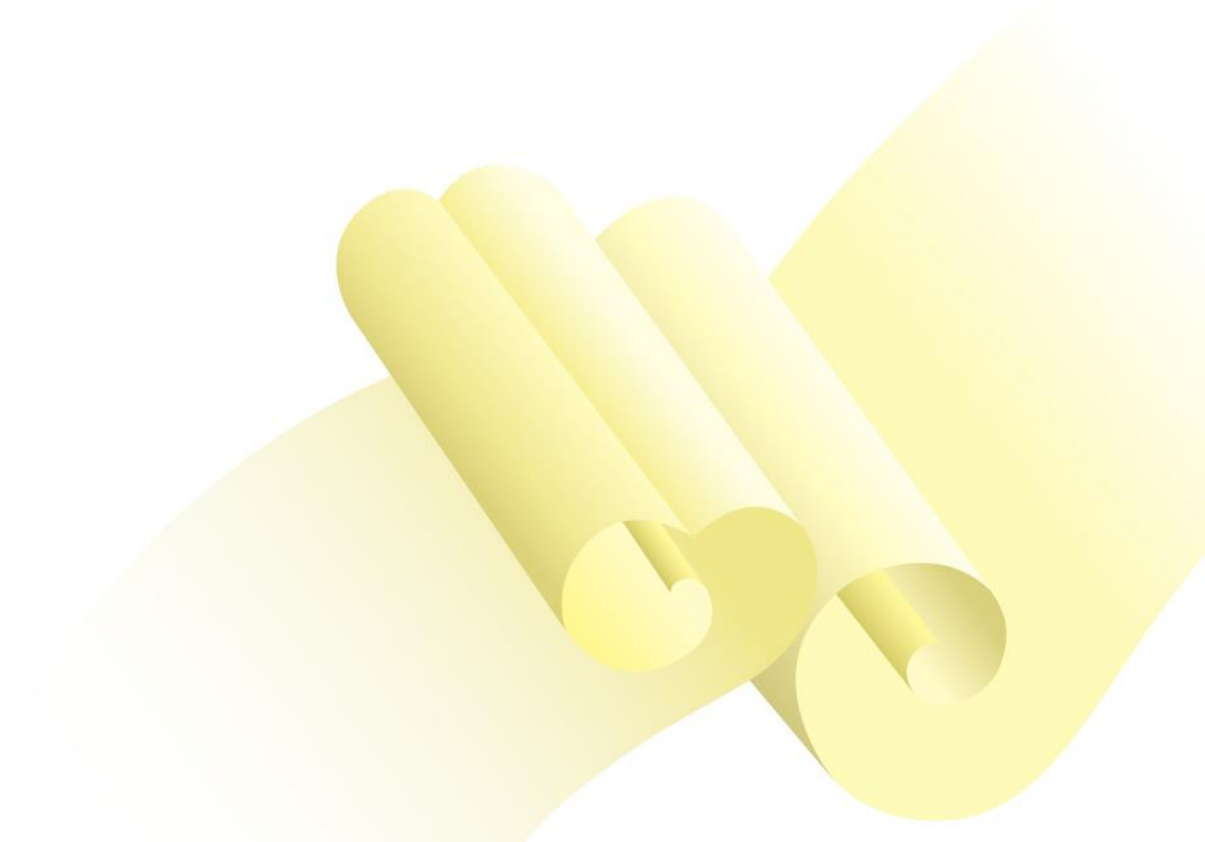


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Output-side real GDP per capita (PPP-based) with 3 projections



Source: World Bank

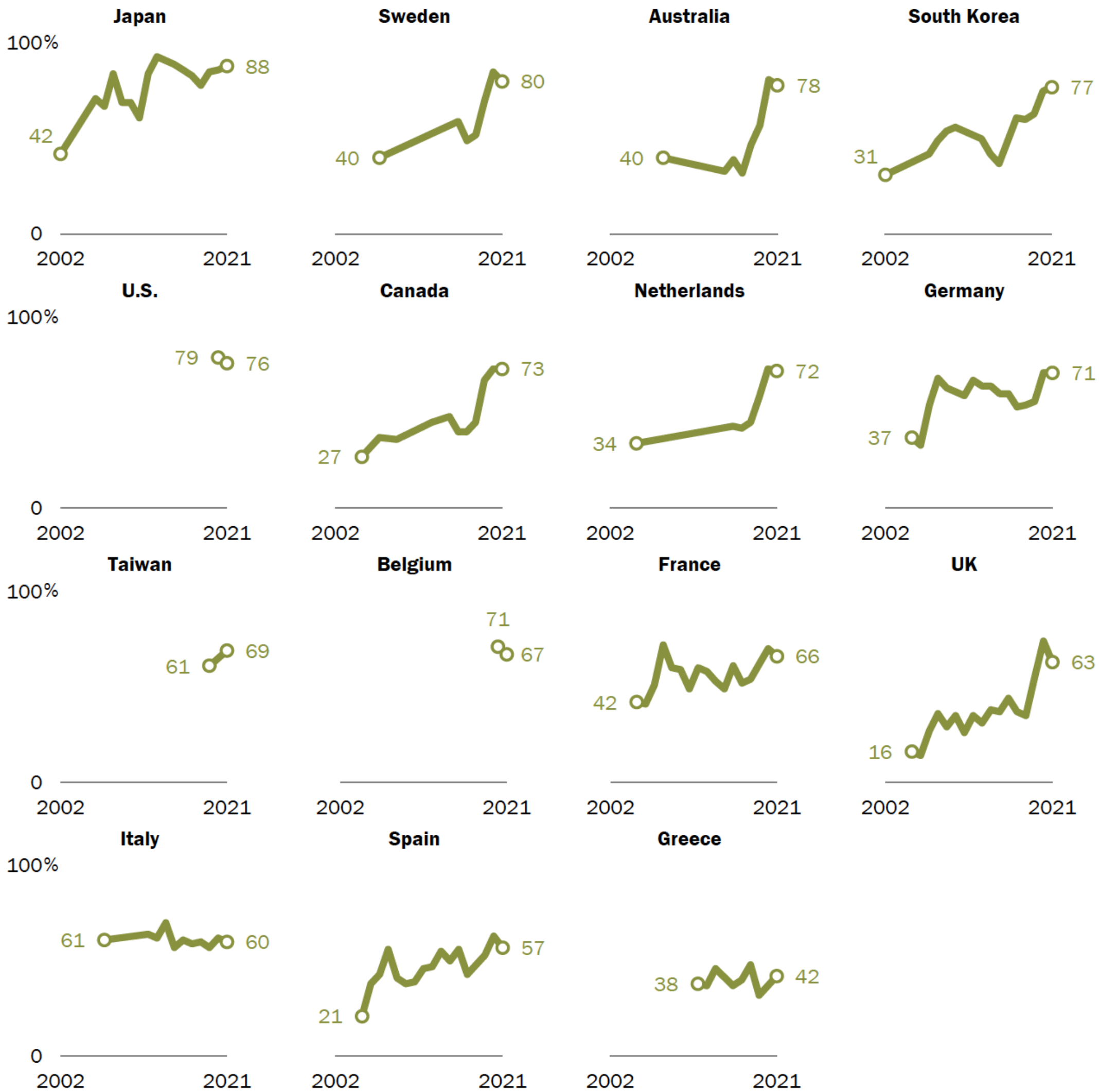


China's Declining Soft Power

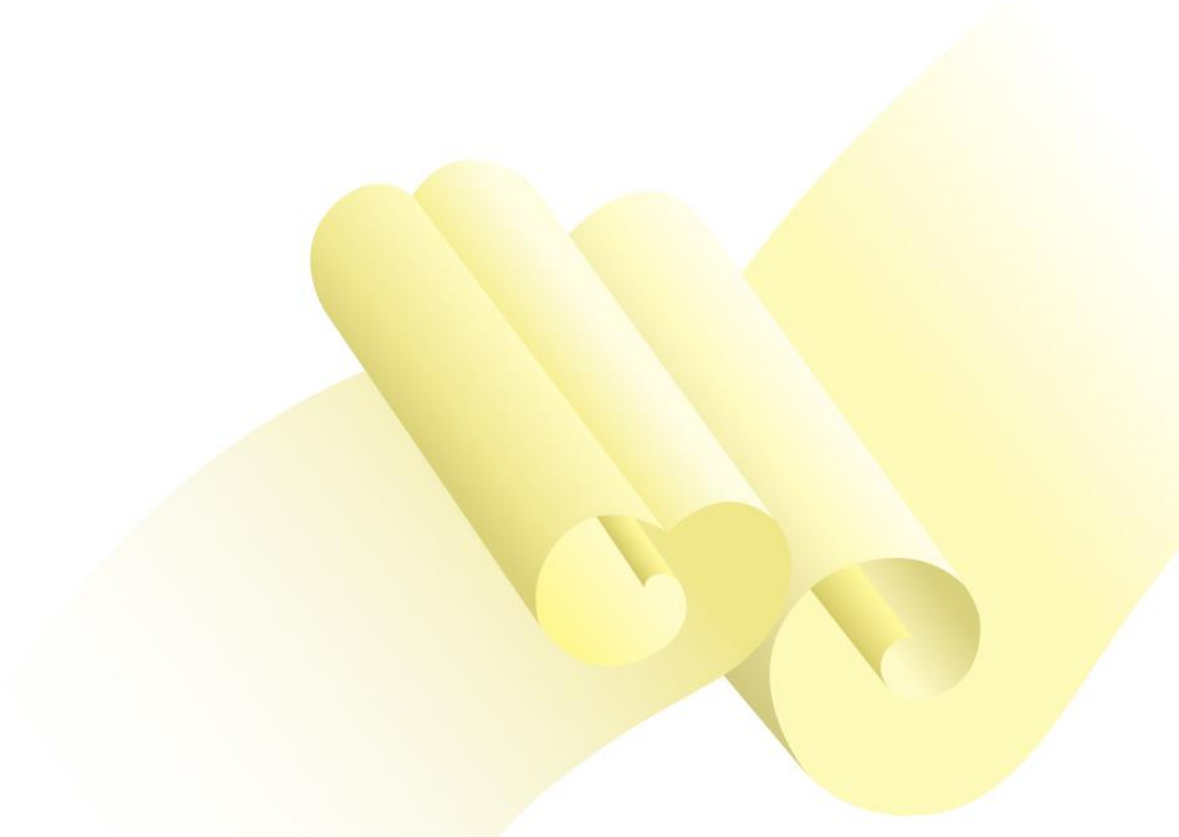


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Unfavourable views of China remain at or near historic highs in many places



Source: PEW Research Center

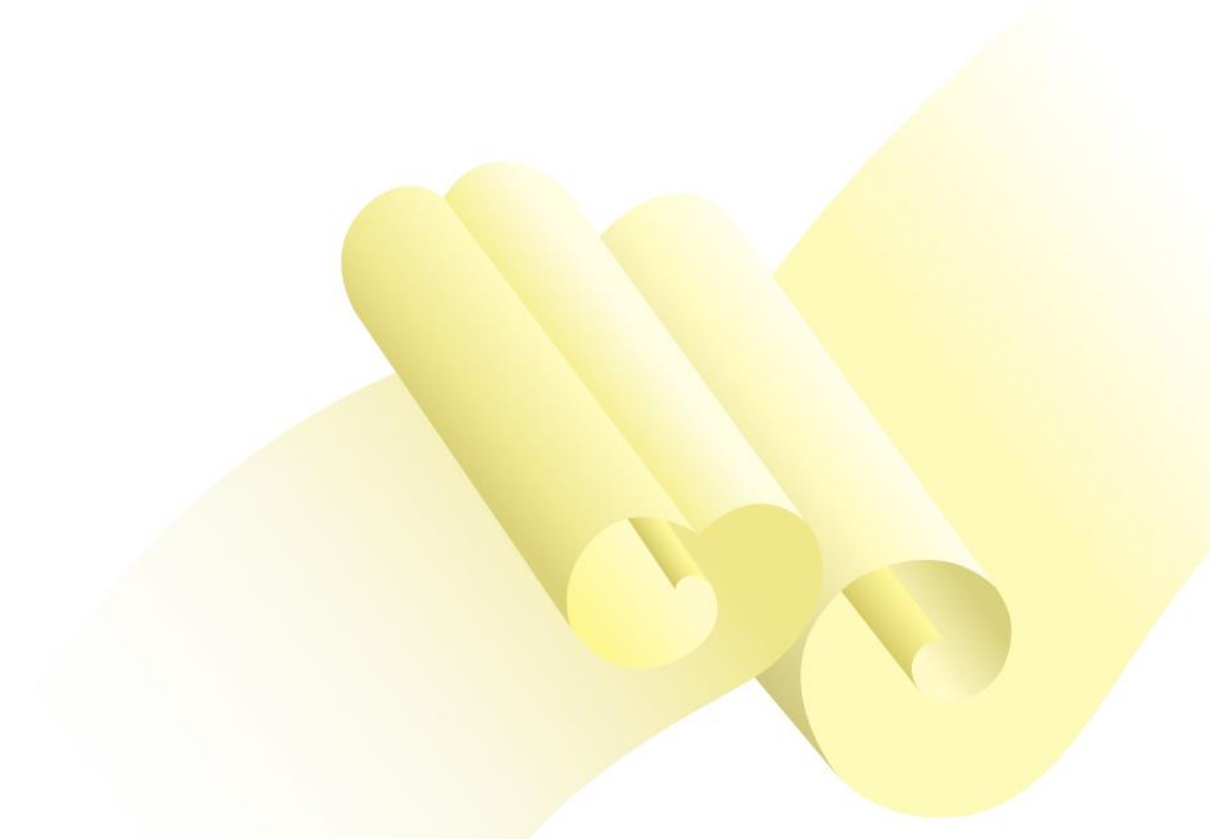


Recommendations - China



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- Steer away from self-sufficiency and embrace globalisation
- Avoid investing in the manufacturing of goods that are already globally available
- Take a proportionate approach to ‘national security’ and ‘CII’
- Continue with market reform and opening
- Build a sound institutional framework
- Avoid politicising the business environment
- De-escalate sanctions imposed against EU officials and entities
- Rebuild international relationships

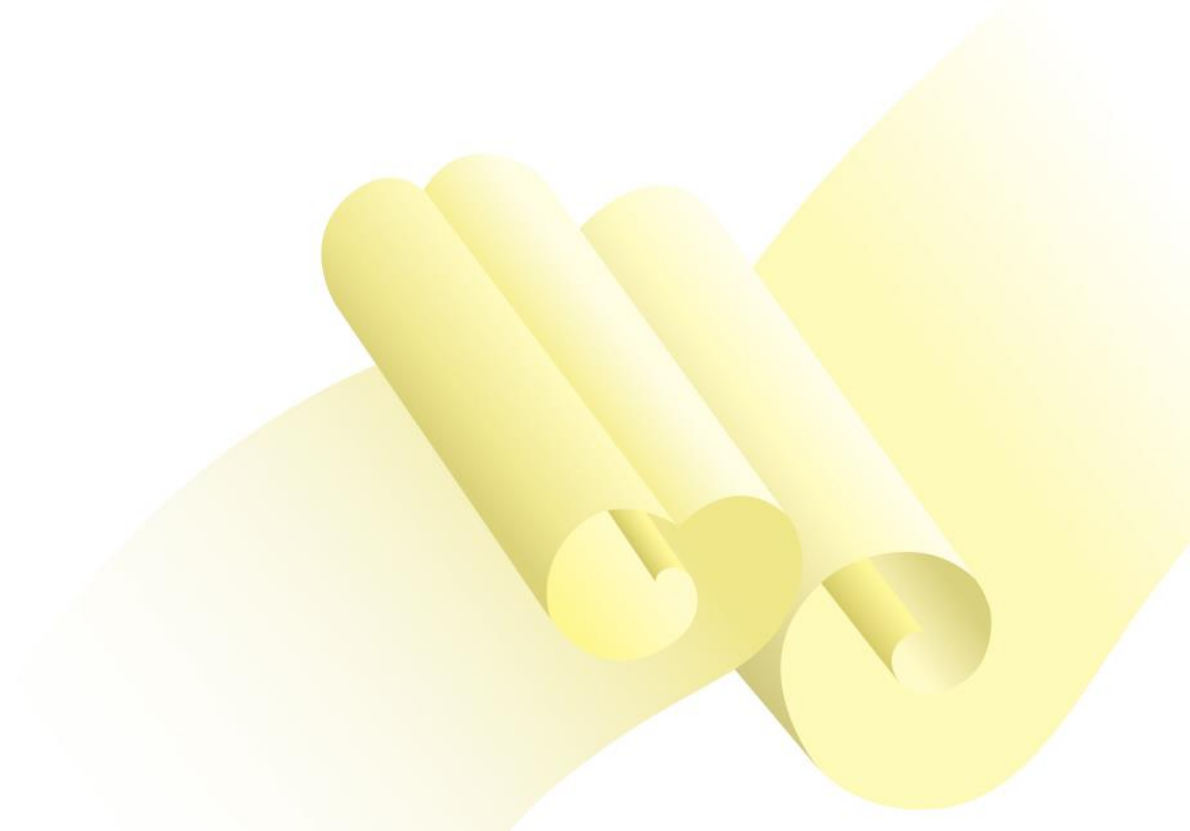


Recommendations - EU



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- Form a coordinated response among all member states to build a robust, united approach to China
- Strengthen European competitiveness by developing bottom-up industrial policy
- Continue to develop mechanisms to shield European stakeholders from unfair practices, and guarantee a level playing field in the Single Market
- Continue to cooperate with China in areas of mutual interest
- Develop global connectivity strategy based on concrete, transparent and sustainable projects

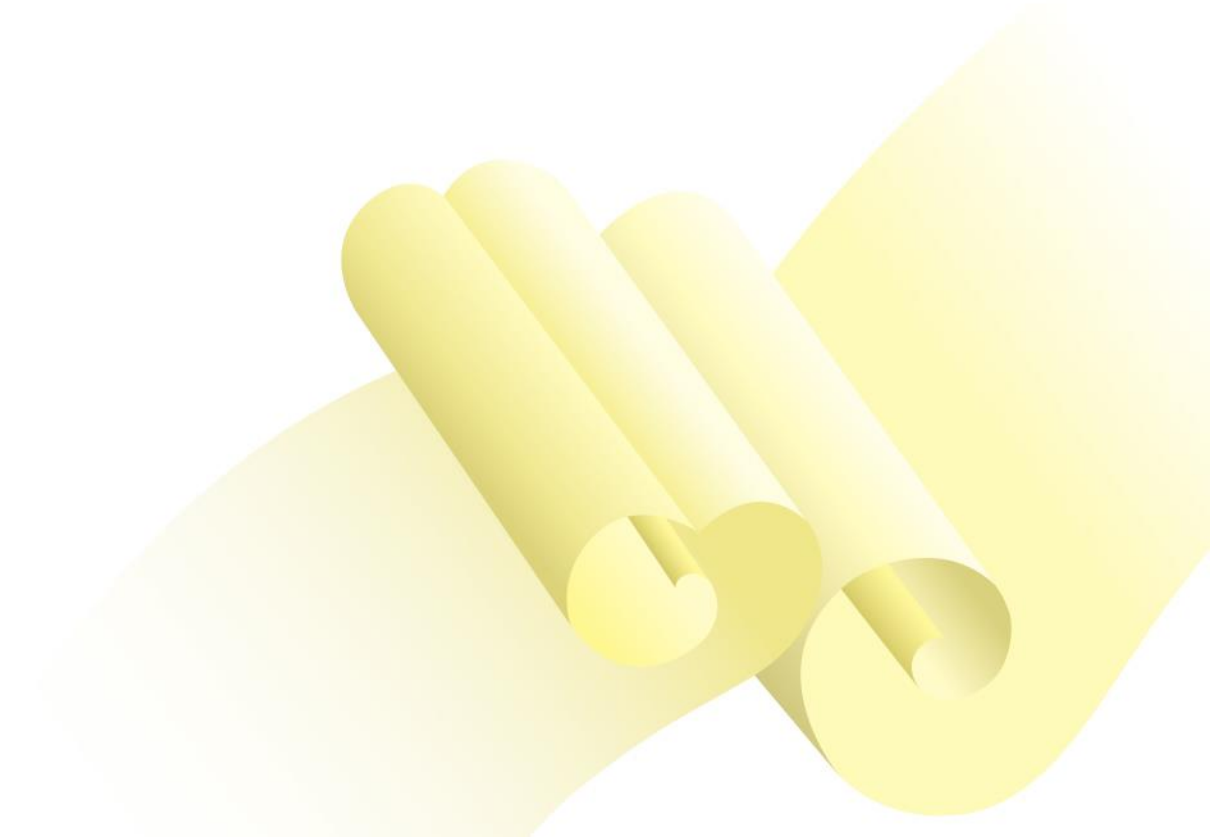


Recommendations – European companies



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- Continue to integrate foreign staff into China operations, as well as Chinese staff into global operations
- Strengthen links between China and global teams
- Establish 'decoupling teams' and develop cost/benefit analyses to determine whether and how to separate China operations from the rest of the world
- Audit supply chains thoroughly and determine potential exposure to sanctions
- Develop flexible decarbonisation strategies that can be adjusted



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Q&A