Adam Dunnett – Secretary General, EU Chamber of Commerce in China

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Adam Dunnett, secretary general of the European Union Chamber of Commerce in China (European Chamber) outlines the organization's three key roles of advocacy, providing business intelligence and strengthening the European business community. He also details an extraordinarily productive past six months – during which the European Chamber held meetings with Premier Li Keqiang and Vice Premier Hu Chunhua, and published six key papers – and talks about his hope for stronger commercial ties between the EU and China.

Adam, could you provide a brief introduction to the European Union Chamber of Commerce in China (European Chamber) and its mandate for your members in China?

The mission of the European Chamber is to improve market access and to create a better business environment overall. It was formed subsequent to China's accession to the World Trade Organization (WTO) in 2001, to oversee and report on China's progress in meeting its WTO obligations from the perspective of European stakeholders. The key services that the Chamber provides are defined simply as 'A, B, C': 'A' for advocacy, 'B' for business intelligence, and 'C' for community.

The past six months, in particular, have been significant. First, we held two successful high-level meetings, one with Premier Li Keqiang and one with Vice Premier Hu Chunhua. Being able to receive this sort of access and having the opportunity to conduct real dialogue with such high-level Chinese leaders twice in such a short period shows the importance that China attaches to EU-China relations, and to the European Chamber as a platform for such dialogue.

Second, we released six high-quality publications, which is also a first. This is a reflection of the important developments that have taken place in China recently, and the European Chamber’s need to analyze them to ensure that our members are fully aware of what is taking place.

The first of these publications was our annual *Business Confidence Survey*. It came as a real wake-up call to the European business community when it was revealed that over 60 percent of our members believe Chinese companies to be equally or more innovative than their European counterparts. China is much more innovative than many people realise and are willing to give it credit for. For many companies, it is essential to be in China just to keep up with what is happening in their field, and the impacts that any developments could have globally.

We also released a special thematic report entitled *18 Months Since Davos*, which evaluated the reforms that have been implemented since President Xi Jinping’s famous 2017 Davos speech. President Xi’s emboldened call for globalization and openness was something of a watershed moment. It was even more remarkable as it took place while certain of the world’s most open economies were showing signs of becoming protectionist. The European Chamber embraced his message at first and called on its members to be patient: we said we would allow 18 months for the ideas in that speech to be translated into policy and action. Our report chronicles that process.

We then published our annual *Position Paper*. This flagship publication provides prescriptive policy recommendations across nearly every sector of the economy where Europeans are active in China or would like to be. This year, our focus was on China’s ‘reform deficit’ – the gap between China’s rapid growth and the relatively slower speed of opening and regulatory reform that is necessary to meet the market demands of both businesses and consumers.

Finally, we published three local position papers detailing the specific issues experienced by our members in the business environments of Shanghai, Chengdu and Chongqing respectively, and providing detailed recommendations to the respective local governments.

That is indeed very productive. Could you share some key findings in your special report ‘18 Months Since Davos’?

The day after President Xi's Davos speech, the State Council released the *Notice on Several Measures on Promoting Further Openness and Active Utilization of Foreign Investment*.

This document, also known as *Document No. 5*, is one of the most impressive documents related to the opening of China's economy that we have seen in the past decade. It was trickled down to the local level with twenty-two different provinces releasing similar government policy papers. Individual ministries at the central level then also developed vertical policies at a sectoral level to enhance China's opening.

Our key question was then to identify how, or if, these government reforms were actually impacting business. We saw a variety of tangible changes in those 18 months: there was some degree of opening up through the removal of joint-venture (JV) requirements in the manufacturing sector; some improvement of administrative measures, such as through the reduction in the time it takes to register a business; a greater focus on and access to R&D through subsidies; and a significant decrease in import tariffs, including for pharmaceuticals. In short, we clearly saw more reform had taken place in the preceding 18 months than in any previous period in the past decade.

But the ultimate question was whether these actions would be enough to spur increased investment flows from foreign companies into China since that was a key goal of the document itself. This is where the story gets more complicated. The reality is that European investment into China has been decreasing for the past four years. Many of our member companies told us in private that while these reforms were significant in theory, very few said they had had a practical, positive impact on their business. Furthermore, when we asked them if these reforms had encouraged or would encourage them to invest more in China, the overwhelming and surprising answer was actually 'no'.

The reason we found is that doing business entails more than just a single document, ballyhooed announcement, or one or two policy changes. The whole environment needs to actually improve across many areas for it to be felt. For the companies on the ground, opening up needs to manifest at various levels in more concrete terms, from getting the necessary licenses, permits and approvals from the relevant local authorities to expediting registration processes for products and reducing duplicative requests from multiple ministries for the same information.

Business confidence can also be easily eroded when bilateral relations sour and tariffs are increased, or when political developments occur that result in negative repercussions for businesses and individuals. However, some new deals that have taken place are encouraging. For instance, British Airways (BA) announced a GBP 4.5 billion (USD 5.9 billion) investment in China;

BMW is making use of the removal of the previous 50/50 JV restrictions to increase its investment in their JV to 75 percent; and several petrochemical companies, such as BASF, Shell and Exxon, have also announced new investments due to some of the reforms that have recently taken place. But while there are some green shoots belatedly now appearing, the question is, will it be enough and will other companies follow?

How would you characterize the commercial and business relations between the EU and China at the moment?

All countries have the potential to benefit from international trade and investments depending on their comparative advantage. EU-China relations are strong but not without their challenges. China and the EU have both benefited from immense bilateral trade growth until recently when it plateaued and is now being impacted further by the US-China trade war as well.

In a recent survey of our members, over 50 percent said they were impacted by the trade war and around five percent reported that the impact was significant enough that they had decided to move their operations out of China.

The frustrations felt by the US, related to reciprocity, IPR infringements, and technology transfer obligations, are by no means new issues – the European Chamber has been raising them consistently for the last 15 years.

Unfortunately, the reality is that if both sides are unable to really listen to each other and find a way to solve the problems raised, then other solutions are going to be sought, as we are already seeing. The US has clearly decided that dialogue is not working and they have therefore taken a different route. This has had an interesting impact and they have certainly brought the issue of China to the forefront of global attention.

For now, dialogue remains our preferred approach, but we need to start seeing results or general sentiment may change. For example, in the EU there are already more and more voices asking if the relationship we now have with China is fair, and if China is truly committed to becoming a market economy. This has led to steps being taken to implement a national security screening mechanism for third-country investments into the EU (China already has this, and the US has recently implemented something similar). Our position is that this screening mechanism is understandable and desirable if it is there to ensure that European markets function properly, that investments entering the EU are legitimate and that there are no genuine security concerns related to them.

Last summer, the EU also raised a case against China with the WTO on technology transfers. In the meantime, China has introduced legislation in the upcoming Foreign Investment Law that forbids technology transfer requirements, so we will have to wait and see if the situation improves.

Things are likely to remain complicated for some time, but the European Chamber is still confident that China will remain a growing and important market for our members and that the EU will continue to attract Chinese investment.

How significant are the healthcare and life sciences industries to your membership?

Hugely significant. Pharmaceuticals, medical devices, R&D and cosmetics are some of Europe's biggest industries. They have contributed a significant amount to China and also performed quite well within the Chinese market. Here, the biggest challenge is definitely the regulatory aspect.

China has gone through major healthcare reforms in the past two years. Some of the changes have been positive, such as the update of the national drug reimbursement list, greater recognition of clinical trials, and a decrease in the time for drug registration. However, some of the policies are also adversely affecting foreign companies.

For instance, there is a volume-based purchasing policy for pharmaceuticals that is being implemented as a pilot in some Chinese cities, which basically gives 60 percent of the market for a particular drug to the lowest bidder. From a value perspective, European companies are very competitive, but they find it difficult to compete based on price alone. Furthermore, this policy objective is not only to lower costs, but also to strategically replace originator drugs with generic drugs. This will have a huge impact on these companies' activities in these cities. It is understandable that the Chinese Government is trying to keep healthcare expenditures low, but they need to look at the at full costs and efficacy of pharmaceuticals as well.

It is important for China to consider whether the ultimate goal is to sustain the hundreds of local industries in the pharma sector or to facilitate consolidation by allowing the more innovative, cost-effective and compliant companies to prevail. There are currently too many companies that are being sustained simply through preferential local government policies and not enough focus on letting the market drive innovation.

From your most recent Position Paper, are there a few headline policy prescriptions for China and/or the EU that you are most passionate about? What are your top priorities for the next few years?

On a bilateral basis, our focus remains on the Comprehensive Agreement on Investment (CAI) between China and the EU, negotiations for which started in 2012. If successfully concluded, this would be a major breakthrough in terms of investment and trade between the two countries. The progress of negotiations has been slower than we would have liked but with the new momentum (President Xi mentioned it as a priority last autumn), I think we see more opportunities to move forward on this.

As a European, I hope that European companies can come to China and do well here. At the same time, the EU has not and will not put all its eggs in one basket. China is not the only country with whom Europeans are keen to do business. Yes, China is still the market with the biggest, long-term potential, so all foreign companies have to keep their eyes on China, but we know that they are also looking at other markets in the region like Australia, Vietnam and Singapore, who are willing to sign Free Trade Agreement (FTAs). Everyone has options and choices when it comes to commercial activities. This is what we have seen in our membership survey, with some companies saying that China is still very important to them but less so than before. If the CAI can be signed, I think that would send an extraordinarily positive signal to the world.

The second priority is to continue and deepen engagement. If people do not speak up, things will not happen. I think people can become complacent or apathetic about reform in China because they have been dealing with it for so long. But we are beginning to see more signs of action and change now. China is gradually becoming more transparent in terms of its regulation and reforms – there are more calls for comments and consultations with businesses and foreign entities than ever before. We even have Chinese ministries calling the European Chamber to obtain the views of European business on certain issues. That is very positive.

At the same time, European companies have an obligation to get involved in the reform process. We want to help prevent our members from disengaging from the Chinese market. China has made it very clear that opening up has become a significant priority so we should welcome the opportunity to play our part in that process.

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