Chinese businesses in Europe

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In this special report, EURACTIV takes a look at a survey commissioned by the Chinese Chamber of Commerce to the EU and dives into the views of Chinese companies in Europe on the due diligence directive and the recently proposed forced labour products ban.
Chinese companies worried about EU due diligence proposal, survey find
Decoupling from China should never be EU's pursuit
According to a survey commissioned by the Chinese Chamber of Commerce to the EU (CCCEU), Chinese companies are concerned about the impact of the EU’s directive on corporate sustainability on their business operations and called for a revision of the proposed rules that are partly targeted at tackling human rights abuses in China.

According to the survey, an increasing number of Chinese companies in Europe are concerned over the due diligence proposal currently negotiated at the EU level to make businesses accountable for human rights violations throughout their value chain.

The report calls for a revision of the directive “to prevent it from aggravating enterprises’ concerns on the requirements for value chain due diligence and increasing uncertainties.”

Based on answers from 150 Chinese companies, the report claims the due diligence rules currently under discussion “may raise compliance costs for Chinese textile and photovoltaic entities to enter the EU market.”

“It would be quite overwhelming for the companies,” Liang Linlin, director of communication and research at CCCEU, told EURACTIV, adding that the rules would put a “very high burden on the companies to abide by the rules.”

A Commission official
acknowledged that companies might face additional costs due to due diligence procedures and investments to address adverse impacts.

However, the official also said companies could reduce these costs through collaboration, while sustainable practices will likely attract more consumers and help secure investors.

**Market fragmentation**

According to the report, Chinese companies are also concerned that the new rules on corporate accountability “may lead to market fragmentation.”

However, according to the Commission, market fragmentation is caused by the lack of EU-wide rules. An official said a European framework would provide legal certainty to companies and help their financial performance.

Asked what the Commission should do to reassure Chinese companies while also ensuring supply chains are free from human rights violations, Linlin asked the executive to “listen to the concerns and the voice of Chinese companies in the EU.”

“We would like to have a more open and fair dialogue,” she said, adding that the CCCEU will submit the survey findings to the Commission.

**Forced labour products**

The report also mentioned the recently proposed ban on products made with forced labour, which was put forward by the EU Commission on 14 September to avoid goods tainted by human rights abuses reaching the internal market or being exported.

The prohibition would also apply to products manufactured in Xinjiang. In this Chinese region, several reports have uncovered mass surveillance, detention, and persecution of the Muslim Uyghur minority by the Chinese state.

Recently, a UN report said China’s “arbitrary and discriminatory detention” of Uyghurs and other Muslims in the region might constitute crimes against humanity, and numerous rights groups have accused China of using forced labour in internment camps.

While the CCCEU study reports that the ban could lead to market fragmentation, similarly to due diligence rules, it does not look into the specific reasons of concern regarding the ban for European Chinese companies.

Linlin did not answer EURACTIV’s question on whether Chinese companies were worried about possible limitations to sourcing from Xinjiang due to human rights violations.
On September 30, 2022, the China Chamber of Commerce to the EU (CCCEU) and global consultancy Roland Berger jointly released the chamber’s annual report on the development of Chinese enterprises in the EU.

Xu Haifeng is the Chairman of the CCCEU.

The CCCEU represents some 1,000 Chinese companies in the bloc. Its 2022 flagship report, entitled “Striving for a Common Future”, is based on two-month surveys and intensive interviews of some 150 Chinese companies and organisations, with findings both revealing and thought-provoking.

On one hand, it is surprising and surely welcoming that, despite headwinds and challenges in 2021, the aggregate revenues of Chinese companies in the EU were estimated to reach 163 billion euros, translating into 8.4% yearly growth. On the other hand, business sentiment drops to a three-year low as Chinese companies are concerned about the EU’s unilateral trade tools and Brussels’ rhetoric on reducing reliance on its biggest goods-trading partner, China.

First of all, it is good to have
China has stayed as the EU’s biggest trading partner in goods ever since 2020. The two sides now trade more than 2 billion euros per day on average. In 2021, 38% of the EU’s high-tech imports were sourced from China, including electronics, products of aerospace, pharmacy, and scientific instruments.

Bilateral investment is also ballooning: according to the Chinese Ministry of Commerce, the first eight months of this year saw a stunning 123.7% year-on-year increase in the EU’s investment in China.

Perhaps more is to come, though. For instance, just in September, China’s battery giants CATI and EVE Energy announced battery supply deals with German auto behemoth BMW; under their 10-billion-euro agreements, four gigafactories will be established, two each in China and Europe, serving China and Europe’s green transitions and carbon neutrality missions.

For this year, the confidence of Chinese enterprises in their profitability in the EU market rises: 40% of respondents expect their 2022 earnings before interest and tax (EBIT) to increase slightly or significantly, about half of them expect theirs to remain at about the same level as the previous year; and only 19% forecast a potential decrease, less than the 26% in 2021.

It is worth noting that more than 80% of employees in Chinese firms in the bloc came from EU Member States in 2021, up by 3% from 2020; half of surveyed enterprises plan to hire more European employees in 2022, up from 30% a year ago.

Another key finding of the report is that Europe’s significance to Chinese companies has been rising, as agreed by more than 80% of respondents. The European market’s allure has been boosted by its vitality and China-EU’s complementary strengths. No wonder that 70% of surveyed Chinese companies believe that their presence in the EU will benefit corporates’ global branding.

Chinese companies also appear willing to plough more funds and resources into the EU: approximately 80% of the surveyed Chinese enterprises have developed EU investment plans for the coming year, mostly via the industrial chain.

The other side of the same coin is the worrisome decline in Chinese companies’ ratings of the EU’s business environment, which the chamber and Roland Berger have tracked since 2019.

The evaluation focuses on the EU’s ease of doing business in political, research, economic and industrial, human resources, infrastructure and support, and business service dimensions. Unfortunately, the overall rating from 2019 to 2022 was 73, 70, 68, and 65, respectively, pointing to a downward trend.

Behind the decrease lies the common struggle of the surveyed Chinese enterprises: the EU’s overall policy, unilateral economic and trade instruments, and relatively negative public opinion of Chinese enterprises render the efforts of Chinese enterprises somewhat futile when they try to integrate into the local market.

The geopolitical dynamics, the Covid-19 pandemic and supply chain disruptions have been taking a mounting toll on the global economy and also on Chinese enterprises operating in the EU, as confirmed by more than 80% of the surveyed enterprises.

Chinese enterprises are concerned that the EU’s unilateral economic and trade tools might morph into protectionist measures. For instance, the EU’s new rules on foreign subsidies may put Chinese investment activities under triple scrutiny, and an overwhelmingly 96% of respondents said they were worried about its negative impact. Similarly, 27%, 40%, and 35% of respondents negatively rated the EU’s foreign investment screening, international procurement instrument, and a directive on corporate sustainability due diligence, respectively.

In addition, Chinese enterprises in the EU find themselves surrounded by increasingly unfavourable public opinion and attacked by unfounded statements related to data security and competition. More than half of all surveyed Chinese enterprises confirmed that the negative public opinion in the EU has hampered their business activities.

The EU and its “liked-minded allies” have been calling for “near-shoring”, or “friend-shoring” to reduce its dependency on China. The scope of supply chain reshaping has gradually expanded from 5G, rare earths, and semiconductors to emerging industries such as photovoltaic and renewable energy, highlighting the tendency to generalise the concept of security. According to the chamber’s survey, 81% of Chinese enterprises are concerned about the negative impact of supply chain disruptions on their business.

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