BRITISH CHAMBER OF COMMERCE IN CHINA
中 国 英 国 商 会

BRITISH BUSINESS IN CHINA: POSITION PAPER

2023

ABOUT THE BRITISH CHAMBER OF COMMERCE IN CHINA

The British Chamber of Commerce in China is a collective of membership organisations in the Chinese mainland focused on providing advocacy, knowledge, business support and networking opportunities for British business in China. We operate as independent, not-for-profit organisations with a strong and diverse membership.

The British Chamber of Commerce in China was established in Beijing in 1981 shortly after reform and opening up was launched. It has brought the British business community together to help them thrive in one of the world's fastest growing markets. Our current chapters across Beijing, Guangdong, and Southwest China build a sense of community for member companies through social and informative events held across the country.

Our advocacy work seeks to promote a strong, inclusive, and prosperous operating environment for businesses of all backgrounds to succeed in China. Two important annual advocacy initiatives include the publication of the *Business Sentiment Survey* and the *Position Paper*. The former takes the pulse of British businesses in China on a series of issues, including their reflections on the past years' business environment, their most pressing market access issues and their views on current events that affect their business. Our *Position Paper* lays out the key recommendations of British business operating on the ground in China to the Chinese and the British government and aims to improve the business environment for British companies in China.

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BRITISH CHAMBER OF COMMERCE GUANGDONG 广东英国商会

ABOUT THE POSITION PAPER 2023

The *British Business in China: Position Paper 2023* represents the views of the British Chamber of Commerce's members across China on the regulatory challenges for companies operating in the business environment.. It offers recommendations to both the Chinese and British governments on how to level the playing field for British companies in a range of industries and regions. It also identifies areas of mutual opportunity where businesses can complement the sustainable development of the economy.

The cross-sector challenges addressed in this report were drawn from the regulatory challenges identified in the *British Business in China: Sentiment Survey 2022-2023* with some adjustments in the data collection phase based on companies' responses. The entries are ranked in order of severity, with hiring challenges and talent development presenting the greatest challenge for British businesses, followed by navigating cybersecurity and IT regulations, and formulation and enforcement of laws and regulations. Analysis within the paper is drawn from the data provided in the *Business Sentiment Survey 2022-2023* and industry roundtables and interviews.

Roundtables and interviews were held with British companies from Beijing, Shanghai, Guangdong, Chengdu and other regions between February 2023 and March 2023, providing input from companies across various revenue profiles and years of experience in the market.

Following China's reopening at the beginning of this year, geopolitical risk, economic prospects, and regulatory uncertainty have risen as a key issue underpinning many of our members' responses. The pandemic's impact on the international talent pool continues to impact all sectors, and contributes to our top cross-cutting issue of hiring challenges and talent development.

Exchange rate used: GBP 1 = CNY 8.30 = USD 1.20

The recommendations in this Position Paper are indicative of priority areas as expressed by members during the data collection period and are not an exhaustive assessment of the issues faced by foreign businesses in China. The British Chamber of Commerce in China does not assume legal liability or responsibility for the accuracy and completeness of the information provided in this paper.

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CHAIRS' FOREWORD

JULIAN MACCORMAC
British Chamber of Commerce in China

JEREMY SARGENT
British Chamber of Commerce Guangdong

This year marks the fifth edition of our annual Position Paper. As with each year, this paper is made possible through the dedication and hard work of a small team and the significant contributions of the British Chamber membership throughout China. Each year we are reassured by the feedback from the many meetings before and after publishing, that the paper is welcomed and provides a rich and valuable insight into the business environment in China.

As we go to press, the relief following last year's COVID-19 policy shift is still palpable. While the testing booths, scanning, quarantine and lockdowns have all disappeared, we shouldn't underestimate the time it takes for pressure to dissipate. As a Chamber our priorities this year have been on stability and engagement. The flow of foreign visitors into China's cities from overseas is now growing rapidly. Our reward in 2023 has been to reconnect with people round the world, refresh our relationships and recalibrate our perspectives. Few relationships can endure three years of isolation without signs of strain and fatigue. We venture the same applies to China's relationships internationally. We wonder the extent to which the lack of a regular drumbeat of face-to-face meetings and communication has compounded some of the challenges we see today?

The UK's Integrated Review Refresh, and most recently the Foreign Secretary's Mansion House speech on China are welcome in this respect. The UK recognises engagement with China is a necessity, regardless of differences, and is prepared to challenge any sense of inevitability about the trajectory of China's relations with the world. There have been moments over the past months where such conviction could easily have been called into question. It is reassuring, therefore, that we have today much more clarity on the UK's position. It is also reassuring that increasingly the narrative coming from our leaders on China is more clearly expressed in terms of de-risking. In business all dependencies bring risk and it is prudent to take steps where appropriate to mitigate against such risk. There are always trade-offs, however: Diversifying supply takes time and resources. For such a de-risking strategy to be implemented, decisions will need to be taken on the scope, and on where the balance between cost and diversity should rest. How this will be achieved is not yet clear, nor is it clear what it could mean for British business in China.

Amongst foreign businesses in China you will find perhaps some of the strongest advocates of healthy relationships between China and the world. We want a vibrant environment where companies can compete on equal terms, and where resources are channeled efficiently to bring the best ideas to life. In the chapters of this paper you will find a rich assessment of the business environment in each sector and some of the measures that can be taken to enable and enhance markets. These steps, if taken, will help remove obstacles, further optimise markets and help enable China to realise new and greater potential. Importantly they will bolster business confidence that was so badly dented in 2022 and help restore a greater sense of optimism. We are proud to present this to you for 2023.

JOE WHITE
British Chamber of Commerce Southwest China

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EXECUTIVE SUMMARY

In late 2022, 42% of businesses reported a pessimistic outlook for the China market, surpassing 10% for the first time in the history of our surveying.[1] However, with the welcome announcement of the end of China's dynamic zero-COVID policy in December 2022, we are now witnessing a cautious yet conditional return in optimism. In our most recent survey conducted in April this year, 76% of businesses reported feeling more optimistic for the coming year following China's reopening.[2] The resumption of travel has paved the way for the restoration of crucial people-to-people exchanges with headquarters, global offices and international clients. Furthermore, China's market potential and economic prospects, compared to those of other countries, provide further reasons for this renewed optimism.[3] However, optimism is conditional on being able to restore the trust and certainty needed to fully realise China's undoubted market potential. Short- and long-term outlooks are clouded by challenges posed by rising geopolitical tensions, a slowing global economy, increased talk of self-sufficiency, shifting investor perceptions, and an increasingly unpredictable business environment. While some of these challenges are beyond the control of any single actor, for its part the Chinese government should take concrete actions to deliver on promises of support for foreign business, establish clear objectives and guidelines regarding policies and regulations, and maintain open communication channels with businesses. These steps would help further restore confidence and reduce uncertainty that continues to weigh heavily on business in China.

Business sentiment has undeniably become more positive since the end of 2022, thanks largely to the Chinese government's shift in policy. Yet the abrupt cancelling of the zero-COVID policy has served to reinforce a relatively newly-formed perception of China as an unpredictable market. Often it is the manner in which changes are

1 'British Business in China: Sentiment Survey 2022/23', British Chamber of Commerce in China, December 2022.

2 'Post-COVID Recovery Survey 2023', British Chamber of Commerce in China, April 2023.

3 'Post-COVID Recovery Survey 2023', British Chamber of Commerce in China, April 2023.

introduced rather than the intention that can present the greatest challenge for business. China's ability to continue to grow optimism and restore its position as leading global investment destination may depend largely on the ability to regain a reputation for certainty, stability, and trust - and this is conditional on taking steps to address the challenges and concerns that stand in the way of businesses. We call for:

- Actions to support proposals and statements related to further opening up, specifically to:
    - Establish clear and specific timelines for implementing policies designed to improve the business environment, address long-standing market issues related to intellectual property rights and data security, and create a more welcoming environment for foreign investment.
    - Continue to reduce the negative list for foreign investment and communicate these changes effectively to potential investors.
    - Develop and adopt comprehensive guidelines for interpreting and implementing policies consistently across the country, to ensure a level playing field for all market players.
    - Ensure faithful implementation of policies that support opening up, including lifting foreign ownership limits on passenger car companies, issuing debt underwriting licences to foreign banks, and addressing difficulties in obtaining design licences for foreign built environment firms, with specific timelines and metrics to measure progress.
    - Accelerate negotiation of entry into international partnerships such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and align with international standards where possible, such as in the carbon market, in ESG requirements, and cross-border data rules.

- Measures to improve transparency and competition for business which addresses the unequal playing field between state-owned enterprises (SOEs), domestic private companies and international businesses;
- Clarity to reduce compliance uncertainty for businesses navigating the changing regulatory environment;
- An open and inclusive consultation process in the development and implementation of policies; and
- Clear and increased lines of communication at all levels.

CONCRETE ACTION TO INCREASE FOREIGN INVESTMENT

This year's parliamentary session of the National People's Congress (or "Two Sessions") in March delivered mixed messages to the international business community. British businesses welcome the emphasis on foreign investment, the commitment to "comprehensively improve the business environment", and a recognition of a need to "regain market confidence" by addressing long-held market concerns. Equally well-received are China's intentions to accede to international economic trade agreements, such as the CPTPP, its commitment to further shortening the negative list for foreign investment, and proposals to address long-held market concerns such as intellectual property rights protection. However, the suggestion that national security and self-reliance were also at the forefront of these policy decisions has served to dampen business confidence and introduce concerns about the long-term prospects for international business in China. 70% of the businesses we surveyed say they are adopting a 'wait-and-see' approach to understand what specific policy support will be put in place, and to understand just how exactly the government will act in order to revitalise and stimulate the market.[4]

Concrete action to support a number of the positive statements made will help shore up business confidence and encourage new investment from abroad. Currently, a number of sectors report inconsistencies in implementation and policy development. The automotive industry has yet to see faithful implementation of the government's removal of foreign ownership limits on passenger car companies, which came into effect in 2022. Despite moves to open up China's bond market, in 2022 only eight foreign-funded banks held interbank bond underwriting licences in relation to non-financial enterprise debt financing instruments. This runs in clear contradiction of the intent to increase foreign direct investment and commitments to ongoing market opening. The Chinese government can help ensure consistent implementation and development of policies across the country in keeping with stated intentions of further opening up.

HIGH QUALITY NATIONAL DEVELOPMENT THROUGH FAIR COMPETITION

Despite efforts to open up the Chinese economy to foreign investment and participation, foreign businesses still report being at a significant disadvantage when competing with SOEs and their domestic private counterparts.

4 'Post-COVID Recovery Survey 2023', British Chamber of Commerce in China, April 2023.

SOEs have access to a much larger amount of capital, resources, and opportunities, often provided by the government, and as a result are often able to undercut their competitors on price, R&D, and expansion. Likewise, favouritism towards local suppliers, both overt and hidden, is hampering some foreign enterprises operating in China today and making it difficult for new entrants to establish themselves in the market. Healthcare businesses, for example, report continued barriers to fairly competing in public procurement processes and, in particular, discriminatory treatment by local governments prioritising local brands and companies. Multinational companies in the energy sector have only minimal participation in China's rapidly expanding offshore wind sector due to ongoing government restrictions, despite having significant expertise. Meanwhile, obtaining grade A design licences needed for large-scale projects in the built environment sector requires partnering with a local firm, increasing costs and reducing benefits for those British businesses in the sector. To unlock China's market potential, policy measures can be taken to level the playing field and enhance competition in key sectors currently dominated by SOEs and other local companies.

SIMPLIFY AND CLARIFY COMPLIANCE TO IMPROVE THE ECONOMY

In the Chamber's communication with the Chinese government this year, we have heard much about the intention to improve the business environment in China. However, navigating the ever-changing and complex regulatory landscape, particularly around cybersecurity and data protection legislation, remains a challenge for companies. Despite some progress in clarifying key requirements for cross-border data flows in the past year, ambiguity persists over what constitutes 'important data' and 'sensitive personal data', creating compliance concerns for businesses across different sectors. Navigating cybersecurity and IT regulations remains among the top three cross-cutting regulatory challenges facing British businesses for the coming year.[5] British businesses therefore call for the release of industry-specific catalogues for important data, and the establishment of data categorisation and classification systems as soon as possible. We also hope that the government unlocks data's full potential, and help foster innovation in the China market - benefiting foreign and domestic businesses alike.

Compliance with specific industry policies also poses challenges for British businesses. In the consumer goods sector, discrepancies in customs procedures across ports cause ongoing delays in customs clearance. Unclear regulations on foreign curricula, particularly all-round education, hinder British education organisations and EdTech companies from fully and confidently supporting young people in China. Future tightening of risk asset categorisation rules, set to take effect on July 1st, is also a concern for commercial banks and their lines of credit – though the provision for a transition period until 2025 in the policy was warmly received.

Greater clarity and specificity in policy would help in addressing these compliance concerns, increase profitability, and reassure British business that they can take full advantage of the opportunities that exist in the China market.

INCLUSIVE CONSULTATION TO FOSTER GROWTH

Unlocking China's market potential and increasing foreign direct investment requires a deep understanding of the opportunities and challenges that foreign businesses perceive in the China market. The British Chamber welcomes the efforts made by Chinese regulatory authorities to engage with foreign business spokespersons and stakeholders. However, we hope to see this translate into meaningful consultation with British businesses in the development of industry-specific policy initiatives. With their extensive experience across various sectors and markets, British businesses can make valuable contributions to China's standards setting processes, including, for example, hydrogen applications and ESG reporting.

Moreover, British businesses hope to be involved in the consultation process when the government develops or improves policy initiatives or regulations, such as the volume-based procurement scheme in the healthcare industry, and cyber and data security related regulations. Taking business interests into account and ensuring that policies are feasible and practical will serve to increase the efficiency of daily business operations.

While all sides may agree on a policy objective, it is important to implement that policy in a way that reassures businesses and reinforces market certainty. Seemingly sudden policy changes – such as the U-turn on the dynamic zero-COVID policy, the last minute postponement of the Individual Income Tax (IIT) in 2021, and the Cyberspace Administration of China's retroactive application of the Personal Information Protection Law on local transport operator Didi –all serve to heighten concerns over regulatory risk in China. Whilst the postponement of the Individual Income Tax was welcome relief for all British businesses

5 'British Business in China: Sentiment Survey 2022/23', British Chamber of Commerce in China, December 2022.

that rely on foreign talent, the last-minute nature of the postponement amplifies concerns over uncertainty, and prolongs anxiety over enactment on January 1st 2024. British businesses continue to report a lack of guidance and support in navigating newly-implemented policies, where ambiguity inevitably raises compliance concerns and costs in foreign-owned enterprises.

Clearer implementation timelines, compliance guidelines and open lines of communication would go a long way to addressing these concerns. By doing so, the government would improve transparency to the benefit of all businesses (domestic and international alike), increase opportunities for collaboration with foreign businesses, and facilitate sustainable economic growth.

CLEAR LINES OF COMMUNICATION TO INCREASE TRUST, CERTAINTY AND STABILITY

The disruption in inter-government communication caused by COVID-19 travel restrictions and an increasingly tense geopolitical environment have had a significant impact on the UK-China relationship. Unsurprisingly, geopolitical issues rank as the biggest challenge facing businesses in the coming year.[6] With China's borders now open comes the prospect of increased bilateral communication and recalibrated perspectives. Whilst the UK-China relationship has shifted to one of strategic competition, the relationship continues to be underpinned by a strong bilateral trade relationship, and there remains opportunities for collaboration in areas of mutual interest. The UK-China trade relationship has been one of the fastest growing trade partnerships for the UK in recent years, with bilateral trade rising 9% year-on-year to GBP 103.5 billion in the year to October 2022, accounting for 6.3% of total UK trade.[7]

Whilst the list of challenges remains long, opportunities for collaboration continue. Where emerging demand in China is aligned with the products and services offered by UK business, trade between the UK and China can and should prosper. Bilateral trade continues to grow and the potential remains for China and the UK to foster more productive and beneficial commercial relationships. We welcome the clarity provided by the Integrated Review Refresh released by the UK government in terms of engagement with China, particularly in regards to trade and investment. From sustainability and climate change, to healthcare and education, there are significant areas of opportunity for business to deliver greater value and unlock new potential that is in both the UK and China's shared interests. However, to realise the benefits that exist in areas where UK-China interests converge, structured and regular dialogues between the two governments is an essential enabler. This will help to allay growing concerns within the business community over an increasingly challenging global political environment, and will support further growth and development of British business in China.

Our *British Business in China: Sentiment Survey 2022-23* highlighted the value of government-to-government dialogues for British businesses: facilitating direct dialogue between businesses themselves and the Chinese government; addressing market access barriers; benefitting business relationships; opening up opportunities with domestic Chinese companies; and increasing demand for products and services.

CONDITIONAL OPTIMISM

The year 2023 brings with it a degree of conditional optimism, which is contingent upon further and tangible measures to address the key challenges facing international business in China. If undertaken, we believe that measures such as those outlined in this year's position paper will help unlock the country's vast market potential and enable British businesses to navigate China's complex business environment with renewed confidence.

6 According to 90% of respondents to our *'British Business in China: Post-COVID Recovery Survey.'*

7 'Trade and Investment Fact Sheets: China', The UK Department for Business & Trade, April 2023.

AT A GLANCE: INDUSTRY REPORTS

AUTOMOTIVE

SUB-SECTORS:

Automotive components suppliers | Original equipment manufacturers

KEY CHALLENGES:

- More clarity needed around important data and the graded and classified data system for the auto industry
- Concerns around the implementation of new shareholding rules on passenger cars
- Uneven playing field created by parallel imports

KEY RECOMMENDATIONS:

- Provide more clarity over the graded and classified data system for the auto industry as soon as possible
- Fully implement the liberalisation measure on foreign ownership rules in auto sector
- Simplify testing and certification requirements for cars distributed by authorised domestic dealers to allow fair competition between domestic distributors and parallel importers

KEY MUTUAL OPPORTUNITIES:

- New energy vehicles

BUILT ENVIRONMENT SERVICES

SUB-SECTORS:

Architecture | Construction | Engineering | Project management

KEY CHALLENGES:

- Barriers to obtaining appropriate design licences
- Localisation of procurement and contracting
- Market uncertainty and instability

KEY RECOMMENDATIONS:

- Provide clearer guidance and timelines on licence applications
- Improve access channels and information for SMEs wishing to access online government procurement platforms
- Increase consultation with industry stakeholders in order to develop a comprehensive plan to support the property market and address uncertainty by providing clear guidance on the future of policy direction

KEY MUTUAL OPPORTUNITIES:

- Targeted Regional Geographies
- Human-centric development and technology
- Specialisations in modular construction
- Training and transnational education
- Sustainable construction and green growth

CONSUMER GOODS

SUB-SECTORS:

Alcoholic beverages and soft drinks | Retail and consumer goods

KEY CHALLENGES:

- Customs procedures and rising shipping costs
- IP rights and trademark issues
- Lack of protection of lot codes where they exist

KEY RECOMMENDATIONS:

- Improve harmonisation of customs procedures, including in terms of compliance and processing times, across ports to reduce discrepancies, ensure consistency, and reduce delays and difficulties across different ports
- Strengthen investigations into and punishment against trademark registrations that are made in 'bad faith' to reduce malicious pre-emptive registration of trademarks
- Where they are used by manufacturers, outlaw and sanction the removal, defacement, or tampering of lot codes

KEY MUTUAL OPPORTUNITIES:

- 'Brand Britain' - consumer confidence in British products
- Hainan Free Trade Zone
- Digitisation of the Chinese economy

EDUCATION

SUB-SECTORS:

Early years education | K-12 | Higher education | Non-Profit Organisations | English language training | EdTech | Certification and accreditation bodies

KEY CHALLENGES:

- Challenges in attracting and retaining international talent
- China's proposed Individual Income Tax reform
- Concerns about Chinese students global competitiveness

KEY RECOMMENDATIONS:

- Postpone or cancel proposed income tax reforms to demonstrate stability in the education sector, and to encourage restoring the number of international talent within China by making it an attractive and financially beneficial place for international talent to live and work
- Ensure equal treatment of private and public education institutions, clarifying the role that the private sector (and foreign education) has to play in the future of the Chinese education system
- Allow and encourage foreign qualifications, competitions and non-core subject activities to contribute to enhancing the competitiveness of Chinese students in the global market

KEY MUTUAL OPPORTUNITIES:

- Two-way study and student exchanges in schools and universities
- Vocational Education and Training
- All round education

ENERGY

SUB-SECTORS:

Natural gas | Renewables | Power | Carbon market

KEY CHALLENGES:

- Low power generation from renewables, accounting for 30% of China's total electricity generation (as opposed to 41% in the UK)
- Slow progress and limited liquidity of the carbon market
- High costs and lack of policy support for energy storage, hydrogen and carbon capture, utilisation and storage (CCUS) projects, hence challenges in commercialisation

KEY RECOMMENDATIONS:

- Increase the share of electricity generation from renewable sources through a range of measures including integrating green power into the grid, increasing green power trading and improving energy storage capacity
- Continue to develop carbon market by enrolling more sectors and institutional investors
- Offer more policy support to energy storage, hydrogen and CCUS projects

KEY MUTUAL OPPORTUNITIES:

- Clean energy
- Circular economy
- Upskilling

FINANCIAL SERVICES

SUB-SECTORS:

Asset management | Banking | Insurance

KEY CHALLENGES:

- Limitations of QDII Quotas and China's Negative List
- Difficulties with cross-border payments
- Difficulty setting up operations in China

KEY RECOMMENDATIONS:

- Increase the maximum allocated capital restrictions to allow QDII funds to raise more capital
- Continue to streamline cross-border payment processes including disclosure requirements, reducing waiting times, and lowering fees
- Streamline the process for obtaining business licences and certificates for foreign financial services companies

KEY MUTUAL OPPORTUNITIES:

- Digital finance
- Green finance and ESG
- Hainan Free Trade Port and Greater Bay Area

HEALTHCARE

SUB-SECTORS:

Medical technology | Pharmaceuticals

KEY CHALLENGES:

- The need to continue to improve the Volume-Based Procurement (VBP) system
- Unfair treatment of Foreign-Invested Enterprises (FIEs) in public procurement
- Challenges around cross-border data transfers

KEY RECOMMENDATIONS:

- Greater focus on value-based procurement in order to build a sustainable healthcare ecosystem
- Reinforce fair treatment in public procurement
- Allow secure and efficient outbound transfers of clinical data

KEY MUTUAL OPPORTUNITIES:

- Demographic trends and healthy ageing
- Rare diseases and innovative solutions

CROSS-SECTOR CHALLENGES

HIRING CHALLENGES AND TALENT DEVELOPMENT

2022 was another challenging year in terms of hiring and talent development, with hiring foreign staff retaining its position as the single biggest cross-cutting issue for British businesses this year.[1] 51% of businesses reported being unable to recruit the talent needed to operate and/or grow their business in 2022. This challenge spans across both local and international talent, with only 22% of businesses reporting being able to recruit and hire both the international and local talent they need.[2] Although firms report that the pandemic has left long-lasting impacts on foreign talent recruitment, there is hope amongst the business community that recent shifts in China's visa regulations should alleviate some of the issues faced.

Whilst COVID-19 undoubtedly exacerbated challenges around hiring and talent, non-COVID-related factors have also continued to add to concerns of British businesses. Similarly, whilst the issues around recruitment and hiring are felt more keenly in terms of international talent, they are not limited to this, extending to include local talent as well. The ongoing shrinking of the international talent pool continues to impact local talent due to the decline in knowledge transfers between foreign and local staff.

China's reopening brings with it the hope of renewed and increased flows of talent and job openings alike. Decisions to restart issuing all types of visas for foreigners, the resumption of direct flights between China and the UK, and China's economic growth forecasts all offer reasons for this hope and optimism. However, China's position as an international destination for talent has been threatened by COVID-19 controls and heightening geopolitical tensions in the past few years, resulting in decreased understanding and increasingly negative perceptions of China. This, coupled with practical challenges including difficult requirements for junior staff to receive a work permit and the looming date of the Individual Income Tax Reform being enacted, means that if China wishes to fulfil its ambitions in upgrading its industries and supply chains, and upskill its local workforce, these issues will need to be addressed.

1 CHALLENGES AROUND HIRING FOREIGN STAFF

Last year, 56% of businesses reported being unable to recruit and hire the necessary international talent. Whilst international border restrictions as a result of COVID-19 were a primary driver, other factors including the attractiveness of other countries and geopolitical tensions also played into these challenges.

1 *'British Business in China; Sentiment Survey 2022-23'*, British Chamber of Commerce in China, December 2022.

2 *'British Business in China; Sentiment Survey 2022-23'*, British Chamber of Commerce in China, December 2022.

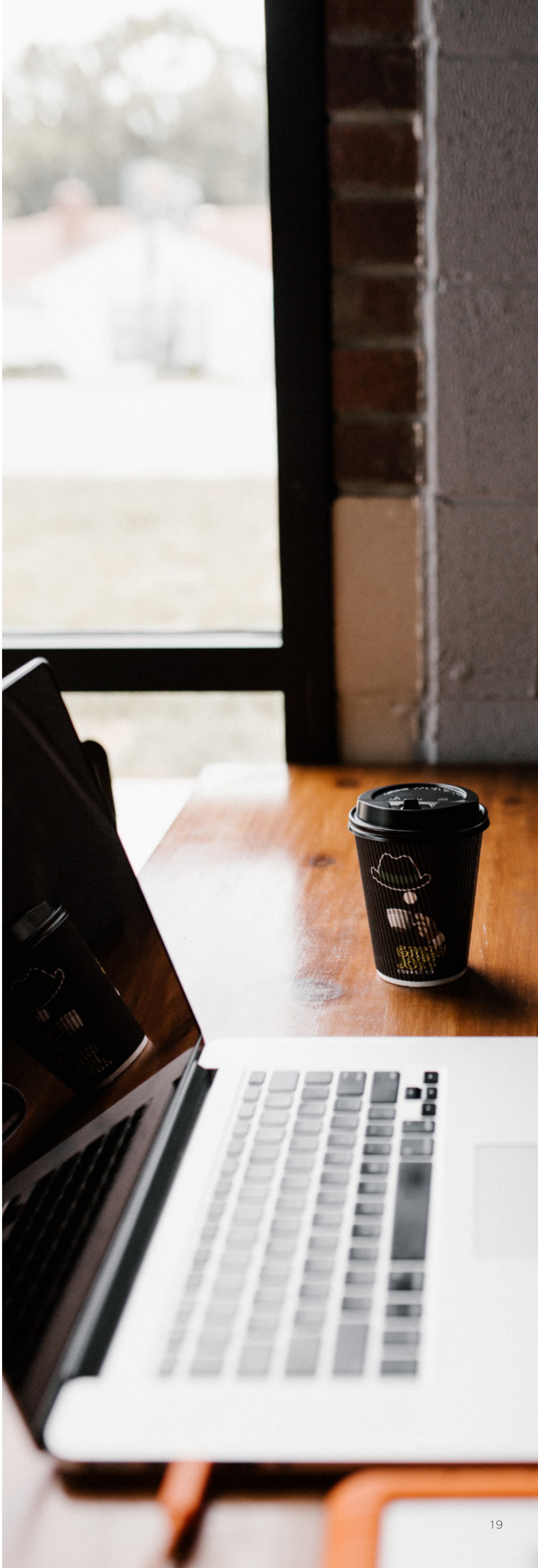
1.1 THE IMPACT OF THE COVID-19 PANDEMIC ON HIRING FOREIGN STAFF

The COVID-19 pandemic continued to pose challenges for British businesses seeking to recruit and hire foreign talent in 2022. COVID-19 border control measures, including flight availability, ongoing and often changing quarantine and testing requirements, and visa issues, have all played a role in limiting the ability of companies to hire the necessary talent. In last year's *Business Sentiment Survey: 2022-2023*, uncertainty around China's COVID-19 policies and their implementation was cited by 67% of businesses as a limiting factor, closely followed by 65% who cited international travel restrictions.

Quarantine requirements for those travelling into mainland China from overseas remained a significant barrier to foreign staff travelling to China for work in 2022, despite announcements of some easing of China's restrictions on international travel. In October last year, 81% of businesses cited quarantine time as a deterrent for international travel.[3] However, the resumption of domestic and international travel has been made easier following China's reopening announcement, which has been a major driver for renewed optimism in businesses outlook for the coming year.[4]

Reduced flights and high travel costs have also continued to be a challenge for foreign talent interested in exploring opportunities in China. The resumption of direct flights between the UK and China, as well as notable changes in visa policies and testing requirements, has been welcomed by the Chamber and the business community. Importantly, the Chamber welcomed British Airways and Virgin Atlantic's announcement that direct flights between London and Shanghai would restart on 23rd April.[5] However, an increase in the number of daily flights and expedited visa processes will be necessary to enable businesses to begin to replenish their foreign talent.

The impact of obstacles in hiring foreign talent has been most strongly felt by British businesses in the education sector, as considerable numbers of foreigners left China and so too did the families that international schools rely on. Employing foreign staff was also ranked as the biggest challenge for professional services and creative sectors. Other sectors such as built environment services, energy, and healthcare were less affected, likely due to the higher degree of localisation in these sectors.



3 'British Business in China: Sentiment Survey 2022/23', British Chamber of Commerce in China, December 2022.

4 British Business in China: Post-COVID Recovery Report 2023, The British Chamber of Commerce in China, April 2023.

5 'British Airways and Virgin to Fly Daily from UK and China Again', The Guardian, February 2023

It is clear that the resumption of direct flights between China and the UK, coupled with notable changes in visa policies and testing requirements, will contribute to the ability of businesses to replenish their foreign talent. However, the cost of flights will need to continue to decrease, and the number of daily flights will need to increase to truly assist businesses that rely on international talent to meet their staffing needs. Furthermore, non-COVID-related factors will need to be addressed in order to fully restore the flow of international talent to China.

1.2 THE IMPACT OF NON-COVID-19 RELATED RESTRICTIONS ON HIRING FOREIGN STAFF

Non-COVID-related factors continue to present obstacles for businesses operating in China that wish to hire foreign staff. Qualifying requirements for work permits have led to difficulties in employing junior personnel, with businesses raising concerns over the need for two years of work experience to acquire a work permit and some foreign degrees not being recognised. This has long stood in the way of businesses who wish to transfer their junior staff to China, although the process is relatively straightforward in other countries. International businesses often rotate personnel between several global locations to get experience and understanding of other markets, and addressing this challenge would promote information sharing and the building of cross-cultural connections and mutual understanding. This issue does not just exist in the realm of transferring or hiring staff located outside of China, it also impacts businesses who wish to transition foreign interns already based in China into full-time roles within their company. With China's borders now reopened, and international students returning, addressing this would allow businesses to capitalise on young international talent who have already indicated an interest in and affinity with China, rather than having to incentivise talent who perhaps have not.

The lack of recognition of UK-awarded professional qualifications in China is another ongoing issue that has impacted the talent pool for many service industries, including financial services, education, and built environment services. While the UK has avenues by which to either recognise Chinese credentials or relatively easily convert them to UK equivalents, businesses report a lack of the same here in China. This limits the opportunities and attractiveness of the Chinese market for foreign experts, who are often faced with being relegated to consultant roles. In the built environment sector, for example, British design professionals are unable to gain full credit for working on national design Grade A projects. Similarly, the education sector reports limited acceptance of specialist qualifications such as diplomas in early childhood education or non-degree level certifications for computer scientists. The mutual recognition of professional credentials or holding of conversion exams by the government would help remove major obstacles to the significant contribution of British professionals in the China market.

1.3 CHINA'S PROPOSED INCOME TAX REFORM

The proposed income tax reform in China, which is expected to take effect in January 2024, has raised concerns among foreign nationals and businesses. China has been successful in attracting skilled professionals from around the world with attractive salary packages and fringe benefits, such as housing and school fees. However, if the proposed tax reform is implemented, the exemption on fringe benefits, which excludes school fees, accommodation costs, and other living expenses from taxable income, would be removed. As a result, foreign nationals working in China could face significant increases in individual income tax burdens, with potential losses of over 40% of their current income. This could exacerbate the shortage of international talent by making it more difficult for China to maintain its appeal as a destination for foreign talent. If the reform is implemented, many businesses may struggle to attract and retain foreign nationals, particularly those with children. This could have a negative impact on the Chinese economy and disproportionately affect international schools, which are among the largest employers of foreigners in the country.

2 CHALLENGES AROUND HIRING LOCAL STAFF

The challenges of hiring foreign nationals in China have implications for the local labour market. The limited number of foreign nationals working in China has reduced the opportunity for knowledge and skills transfers between foreign and local staff. This exchange is particularly important in highly advanced industries, where foreign personnel play a significant role in training local staff through knowledge transfers. China has been working to expand its high-end manufacturing and high-tech sectors and internationalise its service sector, and engaging highly trained international workers can facilitate knowledge and skill transfers to local staff, making the local workforce more innovative and efficient.

However, there are significant restrictions on foreign businesses that also hinders their ability to hire local staff. For example, in the built environment sector, the difficulty in obtaining Grade A design licences means that international built environment businesses are limited in their capacity to take part in big projects, negatively impacting their appeal to local talent. This, combined with rising geopolitical tensions and negative commentary, has

seen foreign businesses report a decline in appeal as an employer, with 19% of businesses sharing that this decline in appeal has contributed to their difficulties in recruiting and hiring the necessary local talent.[6]

3 OPPORTUNITIES TO COOPERATE ON TECHNICAL AND VOCATIONAL EDUCATION AND TRAINING

Businesses identify Technical and Vocational Education and Training (TVET) as a crucial tool in developing a highly trained workforce that can keep pace with the rapidly shifting demands of the modern labour market. The ageing demographic and educational disparities in the labour market, highlighted by China's seventh national population census, emphasises the need for mechanisms by which to upskill the workforce.[7] This is echoed on a global level by the World Economic Forum, which predicts that by 2030 one billion people will require upskilling due to the impact of the fourth Industrial Revolution on employment.

British businesses hope to leverage TVET to develop and recruit talent in China, following ongoing promotion of TVET as a national priority by the Chinese government. Collaboration with top-tier British educational institutions, qualification suppliers, and teacher training programmes at various stages of education would go a long towards assisting in upskilling China's labour market and addressing regional skill gaps. Opportunities exist as well for apprenticeship ties with British companies in the China market. Such collaboration would also help meet the specific needs and demands of companies, whilst simultaneously developing a highly qualified local workforce, adding value to the Chinese people, Chinese graduates, British companies, and entire industries alike.

Recommendations:

- Address non-COVID-19-related restrictions on hiring foreign staff, including qualifying requirements for work permits that hinder employing talent, particularly junior personnel.
- Continue to increase the number of daily flights between the UK and China to allow for the easier movement of foreign talent to and from China.
- Postpone or remove the Individual Income Tax Reform to ensure China can continue to attract and retain foreign talent.
- Promote information sharing and the building of cross-cultural connections and mutual understanding to address the decline in knowledge transfers between foreign and local staff.
- Enable businesses to transfer their junior personnel to China, allowing for the promotion of information sharing and cross-cultural connections and mutual understanding.
- Improve the visa process for foreign talent to make it easier for businesses to replenish their foreign talent pool.

6 'British Business in China: Sentiment Survey 2022/23', British Chamber of Commerce in China, December 2022.

7 'China needs 11.8m workers. Here's how to close its labour gap,' The World Economic Forum, 2021

NAVIGATING CYBER AND DATA SECURITY REGULATIONS

Cybersecurity regulations and IT restrictions have continued to rank amongst the top 3 regulatory challenges facing British businesses in the past year. According to the Chamber's British Business in China: Sentiment Survey 2022-23*, around 40% of British businesses reported being negatively impacted by China's cybersecurity and IT regulations. Increasing difficulty in accessing online resources located outside the Chinese mainland is the most cited challenge (24%). This relates to the authorities' blocking of foreign websites which reduces foreign companies' ability to access information overseas and connect with global colleagues and clients. Meanwhile, 14% of companies report being affected by a lack of clarity over key concepts such as important data and critical information infrastructure operators (CIIOs) which has reduced confidence in the business environment. A further 13% cite negative financial impact due to increasing costs in ensuring compliance.*

1 REGULATORY IMPROVEMENTS IN THE PAST YEAR

Whilst British businesses continue to face challenges navigating cyber and data security related regulations, the past year has nevertheless witnessed a number of regulatory updates that have offered more clarity in the space.

These new regulations include the *Security Assessments Measures for Outbound Data Transfers*, the *Implementation Rules of Personal Information Protection Certification*, and the *Administrative Measures of Standard Contract for Outbound Transfer of Personal Information*. Several key requirements on cross-border data flows were clarified as a result.

For example, it is made clear through the *Security Assessments Measures for Outbound Data Transfers* that the outbound transfer of personal information will be subject to external security assessments when an organisation in China:

1. sends personal information of more than 100,000 people overseas since the beginning of the previous year;
2. sends sensitive personal information of more than 10,000 people oversea since the beginning of the previous year; or
3. has handled more than one million people's personal information cumulatively in China and is sending any data across borders.

Data exports that fall into any of the above categories require the data sender to submit relevant materials, including a self-assessment report, to the relevant provincial branch of the Cyberspace Administration of China (CAC) which will then forward these to the central CAC for final review and approval. The self-assessment report must provide details as to the scale, scope, types, and sensitivity of the data that is to be transferred outside of China. Meanwhile, organisations that do not fall within one of the above scenarios are able to sign standard contracts or become certified in order to compliantly send data, including personal data, overseas. As a result of these regulatory updates, businesses now have an improved understanding of the concrete steps that can be taken in order to compliantly conduct cross-border data transfers in China.

2 GAPS IN CROSS-BORDER DATA REGULATION AND ENFORCEMENT

Whilst we appreciate the release of these implementation details that have provided more guidance for British businesses' in China, areas of ambiguity continue to exist in both the current regulations and their enforcement.

More transparency and clarity continue to be needed as regards what constitutes important data, sensitive personal information, and in certain cases, personal information. We call for the competent relevant authorities to publish their industry-specific important data catalogues and identification guides for sensitive personal information. In addressing the lack of clarity around these definitions authorities can further alleviate businesses' concerns. For example, in the auto industry, the vehicle identification number (VINs) is a unique code assigned to each motor vehicle when it is manufactured. It is used throughout the life cycle of a vehicle for identification purposes and to provide the owner with sale and after-sale services. Currently, it is unclear whether VINs will be considered personal information. Our hope is, however, that given the importance of the VINs, this information will be allowed to be sent overseas with relative ease so that foreign car makers are able to efficiently provide their Chinese customers with the support and services they may need.

Meanwhile, clearer and increased communication is needed between the cyber authority and businesses. The *Security Assessments Measures for Outbound Data Transfers* stipulated that the provincial CAC is responsible for checking the completeness of the submission of an organisation's security assessments for cross-border data transfers. Our members hope that in Beijing, in instances where submissions are returned for amendment, that they would also be accompanied with specific guidance as to what areas need amending. A faster review process, where submissions requiring amendments are returned quicker alongside follow up questions in one or two batches would also go a long way towards addressing reports by members that the current completeness checking process takes too long and is inefficient.

Some industry participants, especially those in key sectors such as financial services, suggest that the CAC and the competent authority should offer more clarity over the exact scope of data that would or would not be allowed to be sent across borders through formulating a whitelist or blacklist.

Additionally, we hope that both the central and provincial CACs provide written guidance addressing several key questions for businesses, which include

1. whether 'collection' of personal data from China-based individuals by offshore entities shall be subject to security review; and
2. whether the deadline (1 March 2023) for entities to become compliant with their existing outbound data transfers should apply to the submission date for their external assessment reports.

While officials of the Beijing CAC made comments on these questions through offline events (answering yes to both questions), we believe that addressing these questions in the form of an official notice will offer business more assurance and guidance on how to proceed with their cross-border data transfer activities.

Last, but not least, inconsistency of enforcement between provinces and a lack of coordination between government departments continues to present challenges for businesses. For instance, it is widely believed that the Shanghai CAC is more business-friendly than the Beijing CAC when checking the completeness of submissions. For certain industries, when they transfer data across borders, not only do they need to submit relevant materials to the CAC but also to competent authorities overseeing specific industries such as the Ministry of Science and Technology and the National Medical Production Administration when it comes to human genetic information and clinical data. Therefore, coordination between different government departments and the CAC is needed to achieve uniformity in regulations and their enforcement.

THE IMPACT OF DATA LOCALISATION

China's emphasis on data security, especially with regards to cross-border data, has prompted many British businesses to localise personal data or data that can potentially be classified as 'important data' as much as possible. This is having an impact on businesses' operational costs and efficiency, as well as the innovation landscape.

Localising data means that organisations need to opt for different IT infrastructure than that which is used by their other global offices so that their data is able to be stored locally instead of on the global network. This has resulted in businesses being required to spend additional resources on a separate IT system outside of those that they are able to use in other global markets in order to prevent Chinese data from being integrated globally, slowing down companies' operational efficiency on a global level.

The restrictiveness of sending certain data overseas is also negatively impacting businesses' ability to efficiently innovate. Health-related data, especially human genetic information, for example, is particularly sensitive for Chinese regulators and subject to much stricter control when it comes to cross-border data flows. A foreign pharmaceutical company stated that human genetic data and clinical data are the two main types of personal data they would usually send across borders for research purposes. However, they have mostly paused their outbound transfers of human genetic data due to lengthy procedures and unclear requirements for sending relevant information outside of China. For clinical data, while businesses report that they are able to share this data with global R&D centres overseas, they hope for improved efficiency in the approval processes for their outbound data transfers. Clinical data, including data relating to patients' reactions to and side effects of a drug, gives insights to how the drug can be improved and lies at the heart of innovation. It is therefore important that as the government reviews organisations' essential cross-border data transfers, it allows data essential to innovation to be sent overseas efficiently.

3 CLASSIFICATION AND CATEGORISATION OF DATA

China's *Data Security Law* which came into effect in 2021, requires that a data categorisation and classification system be established.[8] The *Guidelines for Categorisation and Classification of Network Data* was subsequently released by the National Information Security Standardisation Technical Committee of China ('TC260') in late 2021, setting out general principles on data categorisation and classification.[9] From the perspective of data security, the guidelines divide data into three types: general data, important data, and national core data based on their impact on individuals, organisations, national security, and public interest. The *Guidelines* also provide guidance for industry-specific regulators when they draft their own sectoral data security management rules and important data catalogues.

However, different industry regulators have yet to publish these industry-specific data documents. Many businesses are therefore unsure how different types of

8 'Data Security Law of the People's Republic of China',The National People's Congress of the People's Republic of China, June 2021.

9 'Cybersecurity Practices Guidelines - Guidelines for Categorization and Classification of Network Data', National Information Security Standardisation Technical Committee, December 2021.

data they process will need to be managed in the future as the law requires that different levels of security measures are applied for different types of data. For some industries it is particularly important that clarity is given in this area as soon as possible. In the automotive industry, for example, as intelligent connected vehicles (ICVs) are being developed which collect and process a large amount of data in their operations, such as personal information and geographical data, clarity on this key question will provide businesses practical guidance on how to handle different types of automotive data. Companies also hope that in order to promote the development of ICVs, the government ensures that data can be collected by automotive companies freely so long as it does not affect national security.

4 PROMOTING DATA'S ROLE AS A FACTOR OF PRODUCTION

Last December, the Central Committee of the CPC released the *Opinions on Building Basic Systems for Data to Maximise the Role of Data as a Factor of Production* (also known as the 'Twenty Data Rules') in the hope of promoting data's role in accelerating economic growth.[10] The document puts forward key steps for the government to take in order to further develop the digital/data economy. These steps include:

- Establishing a classified and graded system of right confirmation and authorisation for public data, corporate data and personal data
- Clarifying data rights, which include the right to hold data resources, the right to process and use data, and the right to operate data products
- Building data trading platforms and formulating data trading rules.

Since then, BritCham members have noted positive progress in the market. However, currently good-quality data suitable for commercial use are still scarce in the Chinese market, which limits the potential of many organisations that derive their strength and value from data analysis. BritCham members therefore encourage the government to allow market mechanisms to fully play out when it comes to developing the data economy and promote open access and free flow of data.

Additionally, during the 2023 Two Sessions it was announced that the National Data Bureau (NDB) will be set up to oversee the drafting of the digital economy plan and to promote the development of the Digital China initiative. British businesses are encouraged that a single government body will be established in order to accelerate the data economy. In this process, we hope that the NDB focuses on its designated responsibilities – spearheading initiatives focusing on data-driven growth - and is able to make breakthroughs in promoting data's role as a production factor. The NDB will also need to coordinate with the CAC on data security requirements in order to ensure smooth execution of relevant plans.

Recommendations:

- More transparency and clarity are needed on 'important data', sensitive personal data, and the criteria that the Central CAC uses when reviewing and approving organisations' materials and requests for cross-border data transfers.
- The competent authorities should publish their own industry-specific important data catalogues and identification guides for sensitive personal information as soon as possible.
- Allow data essential to organisations' operational efficiency and innovation to be sent overseas efficiently, such as clinical data in the healthcare industry and VIN in the auto sector.
- The National Data Bureau should focus on its designated responsibilities – promoting data's role as a factor of production.
- CAC should address frequently asked questions by businesses through official notices including 1) the 'collection' of personal data from China-based individuals by offshore entities shall be subject to security review and 2) the deadline (1 March 2023) for entities to become compliant with their existing outbound data transfers should apply to the submission date for their external assessment reports.
- Increase efficiency of the completeness checking process for cross-border data security assessments including quicker returns with questions in one or two batches
- Increase consistency and coordination between provinces and different government departments on the enforcement of cybersecurity related regulations.

10 'Opinions on Building Basic Systems for Data to Maximise the Role of Data as a Factor of Production', The CPC Central Committee and the State Council, December 2022.

FORMULATION AND ENFORCEMENT OF LAWS AND REGULATIONS

Of the companies that noted that they would be decreasing their investment in the Chinese mainland in the Chamber's Business Sentiment Survey 2022-23*, 40% noted that issues surrounding regulatory challenges had influenced their decision to do so – the joint-third reason for decreasing investment after COVID-19 and economic uncertainty.*[11] *For businesses as a whole, enforcement of laws and regulations were the fourth-most cited challenge for member companies; financial services, education, retail and consumer goods, and hospitality, travel, tourism and leisure all cited the issue as the second-biggest challenge for businesses in China. Though the challenges of zero-COVID and uneven approach to local pandemic regulations have been removed as a result of China's reopening policies, post-pandemic interviews with businesses still highlight the formulation and implementation of laws as a key challenge for British businesses in China.*

British businesses have highlighted the need to be involved at the outset of policy formulation, through consultation processes, in order to ensure that they are practical - taking into account both client needs and the realities of working in the market. Members in the healthcare sector highlight a move to volume-based procurement as one such example, where price has become a major deciding factor in public procurement; industry participants have advocated for greater consultation on procurement to consider value-based decisions that evaluate the whole life cycle of a product, rather than ones that focus most strongly on finding low-cost solutions. Greater consultation with industry stakeholders would help find healthcare solutions that prioritise patient welfare. In education, questions surrounding the double-reduction policy continue to exist, with companies still unsure as to whether subjects such as drama fall under the remit of the policy. Businesses across sectors cite concerns over the proposed reform to individual income tax as another area where consultation would be useful; with the potential to exacerbate an already difficult hiring situation, greater consultation on proposed laws such as these would help regulators understand the challenges of new policies under consideration.

Efforts to streamline requirements where possible have largely been welcomed by members where they decrease the burden on businesses; members call on the Chinese government to continue in this regard where one government authority already holds information required by another. For example, the recent financial reforms promised by this year's Two Sessions – to consolidate financial supervision, centralise some aspects of banking regulation, and to lessen the burden of compliance on financial companies – are a welcome step in the right direction. Even though changes to the regulatory regime may cause short-term challenges, the long-term benefits of only needing to provide information to as few authorities as possible benefits both businesses and government. In some other cases, British Chamber

11 *'British Business in China: Sentiment Survey 2022-23',* British Chamber of Commerce in China, December 2022.

recommends that more coordination is achieved between different government departments. Cybersecurity has been flagged as one area where this coordination might be useful; some members in pharmaceuticals report having to comply with requirements of not only the CAC but also from the Ministry of Science and Technology, and the National Medical Products Administration, when it comes to sending health-related data across borders. Incresaing coordination between government departments will ensure companies are more easily able to meet their compliance requirements.

When laws are formulated, members additionally highlight an uneven approach to enforcement across provinces and cities. In the consumer goods sector, members highlight differing approaches to customs regulations across ports as a key challenge in the sector. In particular, clearance wait times have been repeatedly flagged as a challenge for businesses; even with the same products and same documentation, processing times can vary massively across ports of entry. Further, ongoing consultation with businesses on new laws would hugely assist them in ensuring that businesses are compliant from the introduction of a new law, saving time for both businesses and regulators. In the financial services sector, members highlighted challenges complying with new data security laws before the deadline introduced by the regulator. Where members have engaged with authorities to seek further clarity on stipulations relating to cross-border data transfers, such as whether collection of personal information of individuals in China by 'overseas entities' falls under the remit of the regulation, informal guidance has been offered but no formal written updates have been issued.

Recommendations:

- Increase consultation with industry stakeholders during policy formulation to ensure that policies are practical.
- Streamline requirements to decrease administrative burdens on businesses, particularly by centralising requirements and increasing coordination between government departments.
- Ensure uniform enforcement of laws and regulations across different provinces and cities.
- Increase clarity and guidance on new laws and regulations, specifically in areas such as cross-border data transfers, by issuing formal written guidance.

ACCESSING COMPANY FINANCES

Accessing and moving company finances remains a concern across the sectors of international business in China. Even amongst pilot projects carried out by the State Administration of Foreign Exchange (SAFE), obstacles remain that prevent effective capital and financial transfers between businesses and their overseas subsidiaries, sister companies, or other affiliates. In particular, when attempting to contact regulators to address issues, our members report unpredictable administrative processes and bureaucratic difficulties.

In 2022, SAFE expanded its cross-border transfer pilot scheme to include more provinces.[12] The cross-border payment data for 2022 demonstrates the success of this with a 32% volume increase from 2021.[13] Although encouraging, there remain numerous obstacles for companies in accessing and moving funds across the Chinese border. One area of contention is Chinese restrictions on cash-pooling. In July 2022, the state announced the expansion of its cash-pooling services for MNCs across more regions to better integrate domestic and foreign currency.[14] Although this means greater access for foreign businesses, one MNC can only establish one of each regime and there remain limits on both the total scale of currency and the requirement that the pool header must be a domestic company.[15] This is in line with challenges faced by our members on the necessity of having a physical presence in China.

Another concern on accessing and sending company finances cross-border is the difficulty of converting capital for usage. Due to increasingly intense regulations around capital utilisation over the past two or three years, this has become particularly challenging. There are a number of ways to convert capital, but the most common one—the so-called 'petty cash conversion' in which a certain amount is transferred to the RMB Basic Account to be used—has come under stricter regulation. As a result, these funds can now only be used for very specific expenses (such as reimbursements, office supplies, etc.) and in very small amounts (e.g., transactions smaller than RMB 10,000). Other capital-based payments, such as those for the purchase of goods, payment of rent, payment of suppliers, payment of salaries, IIT, and social securities all rely on a different conversion method in which fapiao/receipts or other documents are required in advance, and only this particular amount is converted to RMB and transferred directly to the bank (this is referred to as 'direct capital account conversions'). The biggest drawbacks of so-called 'direct capital account conversions'' are the time requirements, as they usually take at least 2-3 working days and are therefore not suitable for urgent payments. This is further exacerbated by the administrative burden of having to gather all documents in advance, and particularly the fapiao which not all suppliers want to provide prior to payment.

Profit repatriation remains a challenge for British business in China. Although foreign firms can now legally repatriate up to 90% of their annual profits from China, this remains contingent on meeting several conditions from SAFE before such repatriation can take place, including filing fourth quarter tax returns, creating a reserve account

12 'China to expand cash-pooling program to integrate currency management', CGTN, July 2022.

13 'China's RMB cross-border payments post steady growth in 2022: report, The State Council of the People's Republic of China, March 2023.

14 'China will Expand its Cash-pooling Program, For Better Currency Management', Indrastra, July 2022.

15 'A brief introduction to China's cash pooling regime', IBA, July 2021.

of at least 10% net profit, and establishing a local office in China.[16] This is in tandem with the tax agreement between the UK and China which determines the rate of withholding tax.[17] Due to the current geopolitical tension, foreign businesses have concerns about the withholding tax rate and other agreement terms that may be subject to change. To address this concern, many businesses choose to apply to the local tax authority to lower the rate of withholding tax, but there is no assurance of approval.[18] This uncertainty presents a challenge for businesses.

Accessing company assets located in China also remains an issue because China has resisted the call to liberalise the capital account.[19] This is in part to protect China from external effects in the global financial system, particularly those caused by geopolitical friction. However, this resistance to liberalisation is causing concerns for the growth of the renminbi as an international currency for British businesses in China.

Additionally, even when meeting all the requisite SAFE standards, the process of repatriating China profits through dividends can be lengthy and take up to four weeks.[20] Moreover, SAFE can legally stop the repatriation of funds out of China at any time even if the company fulfils all the conditions and prepares all its documents.[21] Thus, the uncertainty of accessing and transferring funds outside of China remains a restriction.

Accessing company funds cross-border remains a significant problem for both local and foreign-invested enterprises particularly due to the lack of clarity and communication of legislation. Chinese domestic firms are not always familiar with this legislation, so they frequently state that they cannot transfer abroad. This also includes bureaucracy, including specific applications to be eligible to engage in cross-border transfers at the bank account registrations, as well as administrative and time-consuming processes of actual checks as per SAFE guidelines, burdening both businesses and banks. As a result, a number of international banks have stated they will no longer open bank accounts in Chinese mainland.

Recommendations:

- More communication with businesses (both domestic and international) providing guidance on changes to legislation in advance
- Remove in-person requirements and ensure commissions across the country all accept online procedures.
- Increase access to cash-pooling services by relaxing restrictions on foreign companies from establishing cash-pooling regimes in China.
- Simplify capital conversion methods.
- Encourage profit repatriation to assist in boosting the renminbi's growth as an international currency.
- Ensure consistency in SAFE regulations across both local and foreign-invested enterprises to reduce confusion and increase transparency.

16 'Profit Repatriation', WealthHow.

17 'China Profit Repatriation', Horizons, March 2023.

18 Ibid.

19 'China's Evolving Financial Regulation in the Shadow of the US', Chambers, April 2023.

20 'China Profit Repatriation', Horizons, March 2023.

21 Ibid.

STANDARDS-RELATED CHALLENGES

On standards-related challenges, British businesses have highlighted that greater alignment with international standards and consultation with industry participants when standards are formulated would greatly assist companies with adhering to crucial regulatory standards that ensure a level playing field for the market and increase efficiency in the industries.

Businesses note that adhering to widely-recognised international standards will not only allow greater market access for international companies in China, but for greater export opportunities for Chinese businesses across the world. In the consumer goods sector, members report that an alignment of product standards for whisky – especially a change in rules around ageing standards and removal of the technically-focused grading standards – would not only allow foreign businesses to become even more trusted by the Chinese market, but also support the burgeoning domestic Chinese whisky market in gaining global recognition for high-quality spirits. In the automotive sector, intelligent and connected vehicles (ICVs) would benefit from greater regulatory alignment across borders, preventing the need for different models to comply with different standards and regulatory systems. Meanwhile, on carbon markets, with the EU implementing the Carbon Border Adjustment Mechanism (CBAM) planning on imposing carbon tax on exports into the bloc, further developing China's carbon market and increasing alignment with the EU carbon market would ensure the competitiveness of Chinese suppliers and exports.. Thinking about how best to align global markets in these exciting new areas for mutual cooperation will allow for greater market access, research and development links, and ease of doing business for both sides.

In addition, when standards are devised and revised, greater consultation with businesses would go a long way to ensuring that standards are adhered to upon promulgation of regulations, rather than needing to seek greater clarity post issuance. For example, despite lobbying for a number of years, it is still unclear whether the provisions of GACC Decree 248 apply to products bound for sale in Hainan; though informal advice through industry groups suggest that items on sale in the island's duty-free market do not need to meet the standards laid down in the decree, businesses would like greater public, written clarity that the decree does not apply to duty-free products. Furthermore, engagement with industry experts and market participants during formulation of standards also ensures that the finalised standards are scientific, practical and reliable. In the healthcare industry, members have highlighted a desire for greater consultation of the foreign business community on the volume-based procurement system, requesting that they are consulted when rules are being formulated so that the government has a better understanding of its impact on the industry participants and how to best design the system to Chinese patients' benefits. In support of China's important push towards carbon peaking and neutrality, UK companies across sectors would appreciate more consultation on developing robust guidelines for climate-related standards, such as definitions on green products, ESG standards, and standards around a series of green technologies such as carbon capture, utilisation and storage (CCUS) and hydrogen applications. Post-implementation focus groups, clear lines of discussion to government sources for extra clarity on policies, and a willingness to openly publish clarification documents or statements on new policies would assist businesses in implementing new standards.

Recommendations:

- Greater alignment with international standards through increased consultation with industry participants in order to help align standards where possible to assist companies with compliance.
- Greater consultation with the foreign business community and businesses in general to ensure that standards are adhered to upon promulgation of regulations, and that policy impacts on industries remain in consideration.

OBTAINING BUSINESS LICENCES AND CERTIFICATES

The issue of obtaining business licences is a major challenge for many foreign companies operating in China. The lack of clarity and consistency in the procedures associated with obtaining necessary licences and permits results in significant anxiety for organisations and hinders their ability to thrive in the China market. According to the British Business in China: Sentiment Survey 2022-2023, *obtaining business licences was among the top five regulatory challenges facing operations in the education, financial services, and consumer goods sectors.*

Companies struggle with a lack of clarity or guidance in terms of the procedures associated with obtaining the necessary licences to allow them to operate legally. Businesses in the education sector continue to report a lack of clarity regarding which licence the teaching of non-academic subjects in English should fall under. Furthermore, British education organisations and EdTech companies face challenges in obtaining internet content provider (ICP) licences, particularly for organisations that are seeking to shift to direct-to-consumer models. In addition to this, businesses report that rules and procedures vary considerably from location to location.

The issue around obtaining business licences is closely linked with that of unfair treatment of foreign companies when compared to Chinese companies. In the built environment sector, companies continue to face long-standing barriers to applying for design licences, which means they have to operate in partnership with Chinese companies in order to deliver services. Without Grade A licences, international firms are largely relegated to advisory positions in terms of concept and basic design. Detailed design work is unavailable to them without the correct licences and permits. Without major changes to this process, international firms are forced to either enter into joint ventures with clients or maintain a consultancy role in projects. This issue is also reflected in the financial services industry, specifically China's interbank bond market (CIBM). Due to strict legislation on CIBM licences, only locally-incorporated foreign banks are currently authorised to fully access the CIBM and issue debt securities and onshore asset-backed securities. It is therefore unsurprising, that only eight foreign-funded banks had obtained CIBM underwriting licences in 2022 to issue non-financial enterprises debt financing instruments.

Recommendations:

- Standardise procedures for obtaining business licences across different provinces.
- Provide clear, sector-specific guidance and timelines to companies seeking to obtain business licences.
- Provide clarity on licencing requirements pertaining to the education sector, specifically what licences are required for teaching non-academic subjects in English.
- Level the playing field for foreign and domestic companies in the built environment sector by addressing long-standing barriers to obtaining national Grade A design licences.
- Extend legislation on CIBM licences to allow foreign bank branches to issue debt securities and asset-backed securities.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

China has demonstrated a sustained commitment to strengthening its intellectual property (IP) protection over the past few years, which has led to significant improvements in the area. British Chamber members who are IP law practitioners commented that transparency has increased notably in China's IP regime, including in the patent and trademark examination and review processes. There has been more support and protection for IP owners, with increased government assistance to provide proof of violation of parties in dispute during IP litigation. BritCham members also observed a great willingness on the government's part to further improve the IP system, increase international exchanges, and learn from international best practices.

The release of the draft amendments of two related laws in the last year was noteworthy. The *Draft Amendment to the PRC Trademark Law* released in January 2023 aims to address gaps in the 2019 version of the *Trademark Law* and to crack down on bad-faith filing, simplify certain examination procedures and address the long-standing issue of TM-registration-not-for use. The *Draft Amendments to the Anti-Unfair Competition Law* published by The State Administration for Market Regulation (SAMR) in November 2022 proposes supplementary protection measures for IP, including regulating commercial logos and other unregistered trademarks.

Nevertheless, a considerable proportion of British businesses in China (40%) continue to encounter challenges in this area, with trademarks being the most significant issue area – experienced by 20% of UK companies last year, followed by challenges relating to patents (10%) and counterfeits (10%).[22] Businesses in healthcare (64%), consumer goods (64%), creative (58%), and food and beverage (50%) sectors are most likely to experience IP-related challenges.

Despite progress in China's IP regime, British businesses hope that transparency continues to improve where Chinese lawmakers engage in more robust consultation with relevant stakeholders during the drafting process of IP legislation. In fact, the *Trademark Law* went through the latest round of amendments in 2019 and some hold the view that more extensive and robust deliberation should have allowed it to stand the test of time.

Furthermore, uniformity is needed in the enforcement of IP legislation and regulations. Some companies report inconsistency in the patent and trademark review processes and in court rulings. Businesses have also observed a regional disparity on the robustness of IP systems with some commenting that obtaining key evidence on IP violation is more challenging in northern cities such as Beijing, as opposed to southern cities such as Shanghai and Hangzhou. It is therefore important that governments in northern cities enforce IP rights more robustly and efficiently.

Meanwhile, British pharmaceutical companies put forward specific suggestions around the patent extension system and the data exclusivity rights with the goal to improve IP protection for the industry. The former, introduced through the latest amendment of the *Patent Law*, allows a patent to be extended for up to five years to compensate for the time taken for drugs to obtain market authorisation. BritCham members hope that this rule can be

22 'British Business in China: Sentiment Survey 2022-2023', British Chamber of Commerce in China, December 2022.

retroactive to cover new drugs marketed before 31 May 2021, which would demonstrate China's commitment to encouraging innovation in the pharmaceutical market, and is also consistent with the principle of 'retrospective operation of beneficial provisions' in the Chinese law. On data exclusivity, our members suggest that Chinese lawmakers should learn good practices from developed economies and release related regulations and guidelines on protecting clinical trial data as soon as possible in order to better protect and promote innovation in the industry.

Recommendations:

- Continue to improve transparency and engage in more robust consultation with relevant stakeholders during the drafting process of IP legislation.
- Increase uniformity in the enforcement of IP legislation and regulations.
- Continue to increase IP protection in a wide range of sectors including in the pharmaceutical industry where China should establish data exclusivity rights.
- Continue to improve measures for IP rights on the Internet for the need of the cross-border transaction and data transfers.

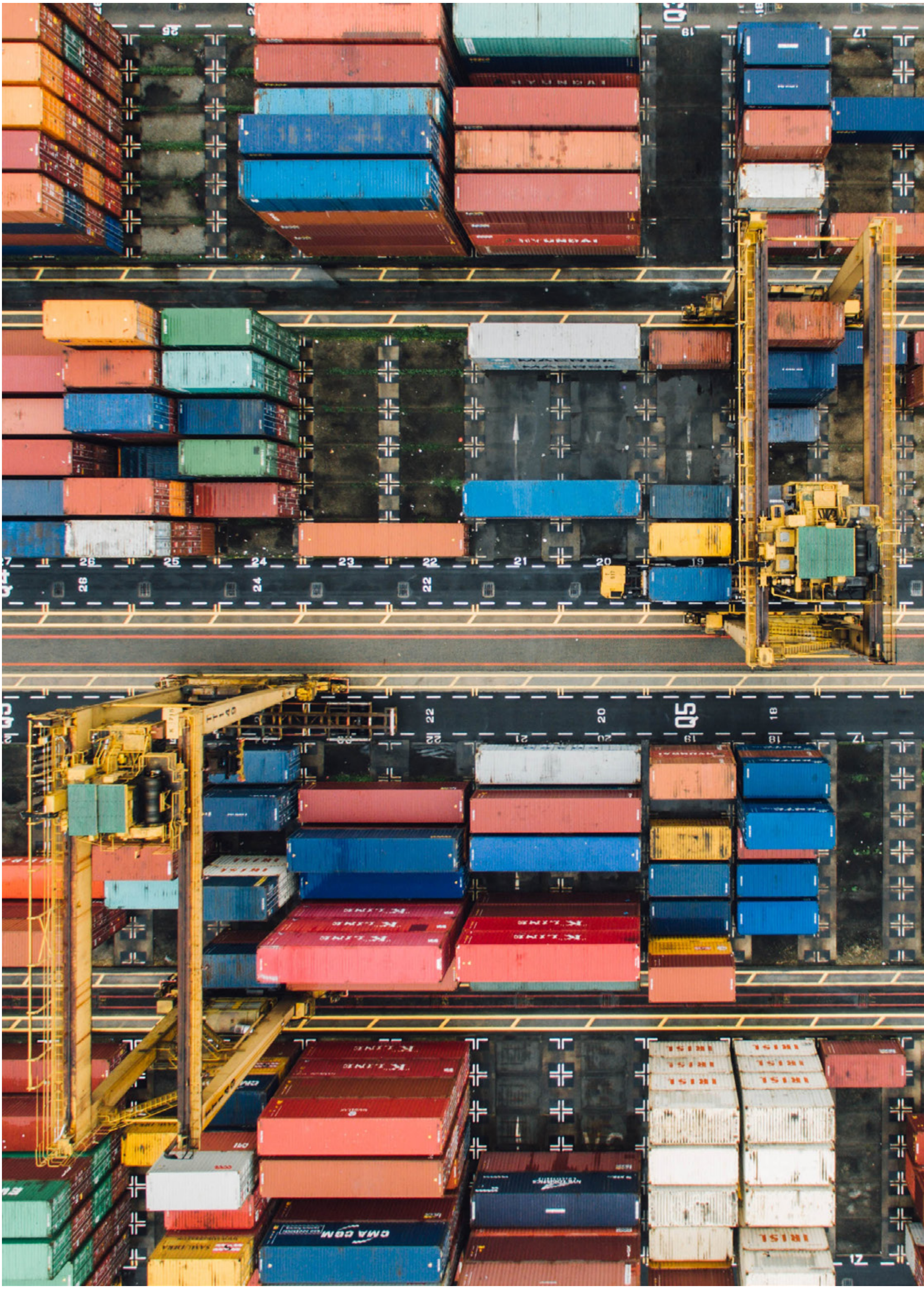
RECOMMENDATIONS

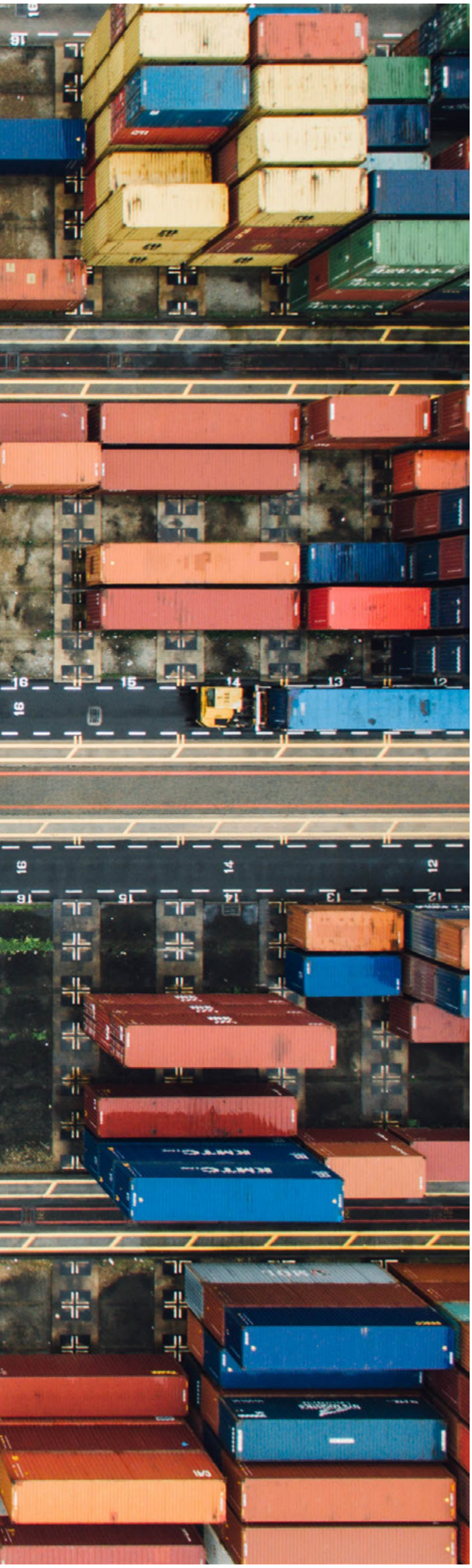
KEY CHALLENGE	RECOMMENDATION
Hiring challenges and talent development	▪ Address non-COVID-19-related restrictions on hiring foreign staff, including qualifying requirements for work permits that hinder employing talent, particularly junior personnel. ▪ Continue to increase the number of daily flights between the UK and China to allow for the easier movement of foreign talent to and from China. ▪ Postpone or remove the Individual Income Tax Reform to ensure China can continue to attract and retain foreign talent. ▪ Promote information sharing and the building of cross-cultural connections and mutual understanding to address the decline in knowledge transfers between foreign and local staff. ▪ Enable businesses to transfer their junior personnel to China, allowing for the promotion of information sharing and cross-cultural connections and mutual understanding. ▪ Improve the visa process for foreign talent to make it easier for businesses to replenish their foreign talent pool.

KEY CHALLENGE	RECOMMENDATION
Navigating cyber and data security regulations	■ More transparency and clarity are needed on 'important data', sensitive personal data, and the criteria that the Central CAC uses when reviewing and approving organisations' materials and requests for cross-border data transfers. ■ The competent authorities should publish their own industry-specific important data catalogues and identification guides for sensitive personal information as soon as possible. ■ Allow data essential to organisations' operational efficiency and innovation to be sent overseas efficiently, such as clinical data in the healthcare industry and VIN in the auto sector. ■ The National Data Bureau should focus on its designated responsibilities – promoting data's role as a factor of production. ■ CAC should address frequently asked questions by businesses through official notice including 1) the 'collection' of personal data from China-based individuals by offshore entities shall be subject to security review and 2) the deadline (1 March 2023) for entities to become compliant with their existing outbound data transfers should apply to the submission date for their external assessment reports. ■ Increase efficiency of the completeness checking process for cross-border data security assessments including quicker returns with questions in one or two batches ■ Increase consistency and coordination between provinces and different government departments on the enforcement of cybersecurity related regulations.

KEY CHALLENGE	RECOMMENDATION
Formulation and enforcement of laws and regulations	▪ Increase consultation with industry stakeholders during policy formulation to ensure that policies are practical. ▪ Streamline requirements to decrease administrative burdens on businesses, particularly by centralising requirements and increasing coordination between government departments. ▪ Ensure uniform enforcement of laws and regulations across different provinces and cities. ▪ Increase clarity and guidance on new laws and regulations, specifically in areas such as cross-border data transfers, by issuing formal written guidance.
Accessing company finances	▪ More communication with businesses (both domestic and international) providing guidance on changes to legislation in advance ▪ Remove in-person requirements and ensure commissions across the country all accept online procedures. ▪ Increase access to cash-pooling services by relaxing restrictions on foreign companies from establishing cash-pooling regimes in China. ▪ Simplify capital conversion methods. ▪ Encourage profit repatriation to assist in boosting the renminbi's growth as an international currency. ▪ Ensure consistency in SAFE regulations across both local and foreign-invested enterprises to reduce confusion and increase transparency.
Standards-related challenges	▪ Greater alignment with international standards through increased consultation with industry participants in order to help align standards where possible to assist companies with compliance. ▪ Greater consultation with the foreign business community and businesses in general to ensure that standards are adhered to upon promulgation of regulations, and that policy impacts on industries remain in consideration.

KEY CHALLENGE	RECOMMENDATION
Obtaining business licenses and certificates	■ Standardise procedures for obtaining business licences across different provinces. ■ Provide clear, sector-specific guidance and timelines to companies seeking to obtain business licences. ■ Provide clarity on licencing requirements pertaining to the education sector, specifically what licences are required for teaching non-academic subjects in English. ■ Level the playing field for foreign and domestic companies in the built environment sector by addressing long-standing barriers to obtaining national Grade A design licences. ■ Extend legislation on CIBM licences to allow foreign bank branches to issue debt securities and asset-backed securities.
IPR Protection	■ Continue to improve transparency and engage in more robust consultation with relevant stakeholders during the drafting process of IP legislation. ■ Increase uniformity in the enforcement of IP legislation and regulations. ■ Continue to increase IP protection in a wide range of sectors including in the pharmaceutical industry where China should establish data exclusivity rights. ■ Continue to improve measures for IP rights on the Internet for the need of the cross-border transaction and data transfers.





INDUSTRY REPORTS

AUTOMOTIVE

AT A GLANCE

SUB-SECTORS

Automotive components suppliers

Original equipment manufacturers

KEY CHALLENGES

- More clarity needed around important data and the graded and classified data system for the auto industry
- Concerns around the implementation of new shareholding rules on passenger cars
- Uneven playing field created by parallel imports

KEY RECOMMENDATIONS

- Provide more clarity over the graded and classified data system for the auto industry as soon as possible.
- Fully implement the liberalisation measure on foreign ownership rules in auto sector.
- Simplify testing and certification requirements for cars distributed by authorised domestic dealers to allow fair competition between domestic distributors and parallel importers.

KEY MUTUAL OPPORTUNITIES

- New energy vehicles

STATE OF THE SECTOR

2022 proved to be a challenging year for China's automotive industry. Local COVID-19 outbreaks that took place throughout the year and across the country disrupted supply chains and logistics for auto original equipment manufacturers (OEMs) and component suppliers. Frequent lockdowns also negatively affected demand while the global chip shortage continued to weigh on the industry, slowing down many carmakers' production.

Given the weak demand in the first half of 2022, the government introduced a series of policies to boost auto consumption, including cutting purchase tax by half for internal combustion engine (ICE) vehicles priced below RMB 300,000 (GBP 45,000) and with 2-litre or smaller engines in the second half of the year. Some of these policies helped to stimulate demand and increase consumption to some extent.[1] By the end of the year, China's automobile production and sales reached 27.0 million and 26.9 million units, a 3.4% and 2.1% year-on-year (Y-o-Y) increase respectively.[2]

Notably, NEVs have continued to be the foremost contributor for the industry's growth. The phasing-out of purchase subsidies for new energy vehicles (NEV) at the end of 2022 prompted buyers to take advantage of the policy before it expired. Throughout the year, 7.1 million units of NEVs were produced, an increase of 96.9% Y-o-Y, while sales reached 6.98 million, an increase of 93.4% on 2021. As a result, NEVs accounted for 25.6% of new car sales in 2022, which means that the 20% target of penetration rate of NEVs as set in the The *Development Plan for New Energy Vehicles (NEV)*[3] has been surpassed ahead of time.

China's intelligent connected vehicles (ICV) market has also been developing rapidly. It was predicted that by the end of 2022, the penetration rate of vehicles with L2 driving automation and above had reached 36%.[4] Nevertheless, there is still a long way to go before the industry achieves large-scale commercilialisation. In particular, the sector would benefit from a more comprehensive regulatory framework — for instance, autonomous driving should be regulated by the *Road Traffic Safety Law* and a certification system on ICVs should also be established. The current restrictions on geographical mapping and data collection for vehicles have also limited the industry's growth momentum.

In the luxury cars market, unlike the previous two years where the market witnessed strong growth and saw many foreign brands raking in record revenues, sales of luxury cars dropped dramatically in the first six months of 2022. As this was mostly caused by COVID-related disruptions and chip shortages, with luxury car companies launching sales campaigns and the chip shortage easing, China's luxury car market improved slightly in the second half of the year.[5]

Following China's re-opening, the hope was that confidence would pick up among consumers and carmakers. The start of 2023 saw lukewarm demand in China's auto market especially as the aforementioned subsidies and purchase tax cuts came to an end and car companies raised prices. Tesla however slashed prices for some of its models which soon triggered a price war among major carmakers to stimulate demand as well as to de-stock. It remains to be seen whether the aggressive discounts will help to increase sales in 2023, and whether the government will release more measures to support the recovery of the industry for the rest of the year.

1 'Comprehensive Analysis of Policy Measures and Their Effects on Promoting Automobile Consumption in 2022', China Passenger Car Association (CPCA), January 2023.

2 'Report on the Sales of Passenger Cars in the Chinese Market in 2021', China Association of Automobile Manufacturers, January 2023.

3 'The Development Plan for New Energy Vehicles (NEV) (2021-2035)', General Office of the State Council, October 2020.

4 'Intelligent connected vehicles enter key phase for industry's development', Xinhua, September 2022.

5 'Luxury Car Market Cools Down in 2022: New Forces Stir the Scene', China News, January 2023.

KEY CHALLENGES

1 DATA SECURITY RELATED CHALLENGES

British car companies noted improved clarity in China's data security regime in the past year. The *Several Provisions on the Safe Management of Auto Data (For Trial Implementation)*[6] clarifies some of the scope of important data for the industry, requiring companies to go through external security assessments with the Cyberspace Administration of China (CAC) if they are sending important data and/or a certain amount of personal information across borders.

Whilst British companies appreciate these improvements, the solidified and tightened regulatory framework has prompted them to take a more conservative approach to data sharing and management. On cross-border data transfers, companies have been localising as much data within China as possible. Some companies decided to opt out of the customer relation management system that other global offices are using in order to minimise risks associated with data exports. This means that these multinational companies need to separate their China data from that originating from other global markets, which prevents global headquarters from better understanding their Chinese customers and lowers operational efficiency. Whilst it is clear that China's strict data security requirements will not be reversed, the negative impacts on multinational companies' efficiency and innovation are worth noting.

Meanwhile, more clarity continues to be needed. The industry awaits the release of the important data catalogue and the guide to auto data categorisation and classification. As organisations are required to apply different levels of security measures to different types of data, it is important that clarity is given on this issue as soon as possible. With ICVs being developed which collect and process a large amount of data in their operations, including personal information and geographical data, clarity on this key question will provide businesses practical guidance on how to handle different types of auto data. Companies also hope that in order to promote the development of ICVs, the government ensures that data can be collected by auto companies freely so long as it does not affect national security.

Additionally, future regulations should also define whether the vehicle identification number (VIN) constitutes personal information. Currently, it is unclear if the VIN is considered sensitive personal information and British businesses hope that, given the importance of the VIN, it will be allowed to be sent overseas with relative ease so that foreign carmakers can provide Chinese customers with needed support as efficiently as possible.

2 FOREIGN OWNERSHIP LIMIT ON PASSENGER CARS

Whilst foreign automakers welcomed the scrapping of the shareholding limit on passenger cars in 2022, any deal to increase foreign ownership in passenger car joint ventures is subject to approval by the National Development and Reform Commission (NDRC) on a case-by-case basis and a new business licence can only be issued after the approval. Currently, despite the first successful increase of stakes from 50% to 75% by BMW in BMW Brilliance Automotive Ltd. last year, foreign carmakers have commented that the NDRC is unwilling to approve other similar deals to allow other foreign companies to take control of their joint ventures.

As the Chinese government has officially removed the barrier to foreign ownership of passenger car manufacturing, it is important that this new policy is actively implemented on the ground. The difficulty that foreign investors face in enjoying any actual benefit from the policy announcement reinforces the view that China's regulatory environment is opaque and that foreign businesses are not equally treated. We therefore call on the Chinese government to approve foreign carmakers' requests to raise stakes in their joint ventures once agreement is reached with their Chinese partners internally.

6 'Provisions on the Safe Management of Automotive Data Security (for Trial Implementation)', Cyberspace Administration of China, December 2021.

3 UNEVEN PLAYING FIELD CREATED BY PARALLEL IMPORTS

Since 2015, the Chinese government has been encouraging the development of parallel imports. In 2022, further support was expressed for the industry as part of the efforts to boost domestic consumption.[7] However, British car companies in China are concerned about this trend due to the lack of consumer protection and after-sale services associated with parallel imports, which affects consumers' experiences with the relevant car brands. Furthermore, parallel imports also create an unequal playing field for authorised dealers in the country due to the former's comparatively easier testing and certification requirements. British car companies believe that cars distributed by authorised dealers in the country should at least be able to compete with parallel imports on a more equal basis especially in terms of their testing and certification requirements.

4 THE NEED TO ALIGN WITH INTERNATIONAL ICV STANDARDS

Apart from NEVs, ICVs are another key area where China's automakers are seeing increasing opportunities. Since many UK and European companies conduct their R&D activities outside of China, typically in Europe, many of their products including ICVs need to comply with European industrial standards and regulatory requirements. With China putting in place its own regulatory framework on ICVs, British businesses hope that in this process, the Chinese government increases harmonisation with international standards. This would reduce the need for foreign carmakers to customise products in order to comply with a different regulatory and standards system in China. Such alignment would also facilitate Chinese brands going into third markets.

5 BURDENSOME CERTIFICATION TESTING REQUIREMENTS

Car models that are to be imported into China need to go through the China Compulsory certification (CCC) certification process in accordance with Chinese regulations. For small importers, the costs are disproportionately high and the process lengthy, especially considering some of the models only have single digit sale volumes in a year. As a full round of testing is required for all the car models including destructive testing, some UK car companies naturally decide not to introduce certain models into the Chinese market given the burdensome requirements and high costs.

In order to allow British premium car companies to reach their full potential in the China market and benefit Chinese consumers by providing a wider range of options, we hope that the government will simplify the certification process for car models that are sold in small numbers, especially those that sell less than 1,000 units a year. Some of the solutions we suggest include granting exemptions for certain testing requirements, introducing mutual recognition of laboratory test reports produced from Europe in line with standards under Europe's ECE (Economic Commission for Europe) regulations that are technically equivalent to requirements in China, or allowing companies to conduct real-time remote witness testing in Europe's testing centres that can be certified by laboratories in China.

British Chamber members also hope to increase communication with the Chinese authority to explore the possibility of these suggestions in the coming year, especially with the Certification and Accreditation Administration (CNCA) and its affiliated China Quality Certification Center, and the Ministry of Environmental Protection and its affiliated Motor Vehicle Emission Monitoring Center (emission and noise experiment).

6 LACK OF FIES' INVOLVEMENT IN POLICY CONSULTATION

British automotive companies also hope that equal treatment is granted to foreign and domestic players when it comes to consultation on setting industrial standards and policies. Many have noted that draft regulations are often first circulated for comments within the government and domestic companies. Foreign companies in contrast are the last to be consulted on potential new policies. As the Chinese government promises to level the playing field for domestic and foreign companies, it is essential that regulators involve them in the decision-making processes equally and make sure policies and standards reflect a wide range of stakeholders in order to ensure fair competition.

7 'Parallel Import Car Industry Re-enters the "Fast Lane": The Need for a More Comprehensive Compliance System', Faren News, July 2022.

RECOMMENDATIONS

KEY CHALLENGE	RECOMMENDATION
1 Lack of clarity on data security requirements	▪ The important data catalogue and the guide to data categorisation and classification for the industry should be released as soon as possible. ▪ Data essential to facilitating R&D activities and daily operation, including vehicle identification number (VINs) should be allowed to flow across borders in order to ensure efficiency and improve innovation.
2 Concerns around the implementation of the new shareholding rules for passenger cars	▪ Fully implement the liberalisation measure on foreign shareholding limit and facilitate foreign carmakers' decisions to raise stakes in their joint ventures.
3 Uneven playing field created by parallel imports	▪ Simplify testing and certification requirements for cars distributed by authorised dealers to allow fair competition between domestic distributors and parallel importers
4 Harmonisation of ICV standards	▪ Increase harmonisation with international standards which reduces the need for foreign carmakers to customise products in order to comply with a different regulatory and standards system in China.
5 Burdensome certification tests requirements	▪ The government should consider implementing mutual recognition of laboratory test reports produced from Europe in line with standards under Europe's ECE (Economic Commission for Europe) regulations, or the exemption of certain testing requirements, or allowing companies to conduct real-time remote witness testing in Europe's testing centres.
6 Lack of FIEs' involvement in government decision-making	▪ Equal treatment is granted to both foreign and domestic players when it comes to consultation on setting industrial standards and policies.

MUTUAL OPPORTUNITIES

NEW ENERGY VEHICLES

China has been leading the world in NEV production and sales — accounting for over 60% of the global sales of NEVs in 2022. Although Chinese homegrown brands have been the industry leaders, there continue to be opportunities for foreign brands given the demand, especially in the premium segment of the market. Despite the cancellation of the purchase subsidies at the end of 2022, the China Association of Automobile Manufacturers (CAAM) predicted that the country's NEV sales in 2023 would reach 9 million units, a 35% increase Y-o-Y. Additionally, over the years, a robust NEVs supply chain has formed in China featuring a strong local network of battery suppliers and solid manufacturing capacities from which foreign carmakers are able to benefit.

BUILT ENVIRONMENT SERVICES

AT A GLANCE

SUB-SECTORS

Architecture

Construction

Engineering

Project management

KEY CHALLENGES

- Barriers to obtaining appropriate design licences
- Localisation of procurement and contracting
- Market uncertainty and instability

KEY RECOMMENDATIONS

- Provide clearer guidance and timelines on licence applications.
- Improve access channels and information for SMEs wishing to access online government procurement platforms.
- Increase consultation with industry stakeholders in order to develop a comprehensive plan to support the property market and address uncertainty by providing clear guidance on the future of policy direction.

KEY MUTUAL OPPORTUNITIES

- Targeted regional geographies
- Specialisations in modular construction
- Training and transnational education
- Sustainable construction and green growth

STATE OF THE SECTOR

2022 was an especially challenging year for companies in the built environment services sector, having faced lockdowns across China, supply chain issues arising from the pandemic, liquidity requirements on developers, and other structural challenges. Real estate investment fell by 10% in 2022, compared with the previous year; residential investment fell by 9.5%, whilst sales of commercial buildings fell by 26.7% compared to 2021.[1] Investment in Tier 2 and 3 cities were particularly hard hit, whereas in Tier 1 cities investment has remained comparatively more stable.[2] Noting the importance of the built environment sector to the Chinese economy as a whole – making up roughly a quarter of GDP in 2020 – authorities have continued to mitigate risk in the market and improve access to finance for local government and property developers.

On the buyer side, intervention by the People's Bank of China (PBoC) to lower borrowing rates and a tailoring of interest rates on a city by-city basis have slowly begun to improve residential buyer confidence.[3] Improving liquidity for developers, extending loan repayment deadlines, and a raft of measures to encourage lending from banks were part of a November 2022 package designed to further assist on the construction side. This support to businesses was more muted than previous years, however, with a much more restrained and targeted approach. Similarly, central government support for local authorities has also been more limited than before, instead relying on local government financing vehicles for extra support to purchase land unsold at auction.[4] Early signals from Q1 2023 suggest a mixed picture, with real estate investment declining by 5.8% and home sales by area decreasing by 1.8% compared with the previous year, though sales by value increased by 4.1% with home prices rising at their fastest pace in five quarters.[5] From discussions with

1 'National Real Estate Development and Sales in 2022,' National Bureau of Statistics of China, January 2023.

2 'China Country Commercial Guide,' International Trade Administration, April 2023.

3 'The PBoC Props Up China's Housing Market,' Zongyuan Zoe Liu and Daniel Stemp, Council on Foreign Relations, March 2023.

4 'China's Local Entities Splurge on Land Shunned by Developers,' Bloomberg News, February 2023.

5 'Investment in Real Estate Development for Jan-Mar,' National Bureau of Statistics of China, April 2023.

businesses, clients are still waiting to see more certainty in the market and greater support before committing to major projects and developments.

In terms of market access, developments are still largely dominated by either domestic firms or firms that have entered into joint ventures with Chinese partners; strict licensing requirements have meant very few international design firms have received Grade A licences, generally accomplished by acquiring a local firm. Recognition of international qualifications and experience still poses a challenge for many in the sector, despite pilot programmes that have provided a path for some businesses to upgrade their Grade B licences to Grade A. Further, preferences for locally-made construction materials have also grown stronger over the last year, particularly as consumers and producers become more price conscious.

Estimates for 2023 suggest some promising areas of growth in the market – especially compared to 2022 – with forecasted increases in demand for retail space and logistics services being particularly notable areas for potential growth.[6] For retail space, continued efforts by both central and local authorities to push consumption as a driver for growth will benefit this sub-sector; as for logistics, an ongoing preference for e-commerce amongst consumers and central government proposals to increase digitisation in the supply chain will likely see this sector grow. Early signals from Q1 2023 suggest that losses in the market have begun to stem, with home sales rising in February 2023 for the first time in 20 months.[7] In general, however, firms are still approaching investment in both construction and management with caution, until firm market stability in the sector can be restored and post-COVID economic growth can be assured. Whilst there is an expectation that post-COVID demand will provide some boosts to the sector, the general slowdown in the property market and continuing concerns over geopolitical issues is expected to continue to affect buyer sentiment.

China's increasing focus on sustainable, high-tech growth in the sector is a welcome approach, particularly in premium property developments. In 2022, more LEED-certified buildings were constructed in China than anywhere else in the world. This, in addition to a focus on smart city design – particularly in new development areas, such as Xiong'an New Area – are critical opportunities for both construction companies and service providers in the built environment sector. Aside from new developments, a push to retrofit older buildings and bring them up to sustainable standards also will continue to represent an important market opportunity, particularly in larger cities where development standards continue to grow more stringent. With British businesses at the forefront of developing technologically-innovative construction methods, and authorities keen to make the most of opportunities for sustainable growth, British companies are well-placed to benefit from these policy drives.

6 '2023 China Market Outlook,' CBRE, February 2023.

7 'China Home Sales Rise for First Time in 20 Months on Policy Aid,' Bloomberg, February 2023.

KEY CHALLENGES

1 MARKET UNCERTAINTY AND INSTABILITY

Last year saw three issues cause instability in the built environment sector: uncertainty surrounding the COVID-19 pandemic and the knock-on effects for offices and retail; the uncertainty in the property market surrounding developer liquidity; and the broader geopolitical environment that put off would-be investors. Whilst the COVID-19 pandemic has subsided, lending a boost to footfall in retail and resumption of demand for office space, uncertainty as a result of developer liquidity and geopolitics remains. Supportive policy measures, such as localised intervention on mortgage rates, removing restrictions on second homes, and extensions on loan repayments for developers, have provided some stability to the market. Nevertheless, damage to investor confidence from previous market instability may take some time to recover. British businesses also continue to flag an uncertain geopolitical environment as a key risk in both construction and management, with clients considering relocation outside of China for factories, office spaces, and logistics solutions. Greater stability in the geopolitical situation would allow China's built environment sector to regain some measure of certainty in the coming months. Greater consultation with businesses and other industry stakeholders on pragmatic solutions to easing difficulties in the built environment sector would improve confidence with both developers and clients in the industry.

2 BARRIERS TO OBTAINING APPROPRIATE DESIGN LICENCES

An ongoing and significant challenge to British built environment businesses remains in regard to obtaining Grade A design licences nationwide. Though pilot schemes in Shanghai and other cities offered opportunities for foreign-invested enterprises to acquire Grade B licences and upgrade them after six months to Grade A, this still has not been rolled out nationwide. Businesses also reported that the scheme's requirements were unclear and challenging to fulfil, with firms suggesting that approval would take as long as five years to achieve. Without Grade A licences, international firms are largely relegated to advisory positions in terms of concept and basic design; detailed design work is unavailable to them without the correct licences and permits. As a result of taking on a consultant role, firms are not fully recognised in the final account of the work; impacting their ability to use said projects as case studies when they later apply for Grade A licensing. Without major changes to this process, international firms

are forced to either enter into joint ventures with clients, or maintain a consultancy role in projects.

3 LACK OF RECOGNITION OF INTERNATIONAL QUALIFICATIONS AND EXPERIENCE

Qualified professionals who wish to move between the British and Chinese markets report issues in getting their international credentials and experience recognised. Whilst this does not pose an issue for international clients (who generally recognise internationally-issued qualifications), British businesses report that domestic clients and state-owned enterprises in particular are reticent to recognise architectural qualifications issued abroad, instead requiring engineering qualifications certified by the Chinese government. For example, whereas the UK offers international architects the opportunity to become certified through an examination with the Architects Registration Board, members report challenges getting international qualifications certified by Chinese registration authorities. Though some local government pilots have facilitated mutual recognition of qualifications, a clear, unified system that allows international architects to receive recognition of their design and construction qualifications would help lessen the challenges faced by international architects.

4 LOCALISATION OF PROCUREMENT AND CONTRACTING

British businesses note that lengthy procurement processes that are largely targeted towards domestic businesses are making it more challenging for foreign enterprises to win tenders for both public and private projects. Particularly for smaller members, accessing the public procurement platform and applying for contracts can be a challenge; authorities should consider making the online platform for accessing public tenders easier to use for international businesses. When tenders are won, the practice of appending an internationally-recognised FIDIC contract – standard in the construction and engineering sectors – to the domestic registration template is becoming more and more common, resulting in two different forms of contract used. Greater recognition of international contracting conventions in the built environment sector would allow for a more streamlined procurement process for international businesses, increasing client confidence and saving the burden of having one process that meets Chinese registration requirements, and another separate process for client and contractor needs.

RECOMMENDATIONS

KEY CHALLENGE	RECOMMENDATION
1 Market uncertainty and instability	▪ Increase consultation with industry stakeholders in order to develop a comprehensive plan to support the property market and address uncertainty by providing clear guidance on the future of policy direction.
2 Barriers to obtaining appropriate design licenses	▪ Roll out pilot scheme to upgrade design licences nationwide ▪ Provide clearer guidance and timelines on licence applications
3 Lack of recognition of qualifications and experience	▪ Institute a clearer, nationwide system for applying for qualification recognition in architecture, design and engineering ▪ Continue to facilitate transnational educational opportunities
4 Localisation of procurement and contracting	▪ Improve access channels and information for SMEs wishing to access online government procurement platforms ▪ Recognise FIDIC contracts for use where they meet local requirements

MUTUAL OPPORTUNITIES

TARGETED REGIONAL GEOGRAPHIES

Targeted regional geographies pose attractive development opportunities for British businesses in the built environment sector. For example, Xiong'an New Area – a key part of the Jing-Jin-Ji development corridor between Beijing, Tianjin and Hebei – holds opportunities for businesses with capabilities in smart city development, ecologically-forward construction, and sustainable management practices. Similarly, developments in the Pearl River Delta, Yangtze River Delta, Hainan Free Trade Port and other consumer-driven areas will require greater capabilities in logistics, shipping and retail as China advances consumption-driven economic growth.

SPECIALISATIONS IN MODULAR CONSTRUCTION

As one of the world leaders in modular construction, China's ability to construct hospital and isolation facilities during the COVID-19 pandemic provided crucial support to areas in need. Outside of emergency situations, however, modular construction provides a variety of benefits; shortening construction times by 20-50% and cost by 20%,[8] modular construction provides scalable solutions for housing, industry and commerce. UK-China cooperation over modular construction has already begun, with partnerships between UK housing and design firms and Chinese manufacturers already providing solutions in university halls of residence, nursing homes, and municipal housing stock. This could also be an excellent area for cooperation in disaster response and humanitarian support; combining the UK's expertise in disaster response with China's ability to quickly scale construction in emergencies could provide an area for win-win cooperation between the two countries.

TRAINING AND TRANSNATIONAL EDUCATION

With world-leading educational capabilities in architecture and design, British universities and educational providers have a particularly strong value offering for Chinese students seeking to study architecture abroad. The success

8 'Modular Construction: From projects to products,' McKinsey, June 2019

of joint venture architectural programmes, such as at Xi'an Jiaotong-Liverpool University (whose programme received validation from the Royal Institute of British Architects), shows the demand for such programmes; educational opportunities in areas such as construction materials and property management are still possibilities for expansion. Similarly, Chinese knowledge on construction logistics and modular construction presents a particular strength that UK institutions and businesses could learn from. Providing transnational opportunities at all levels in the built environment would improve the talent pool for industries in both countries, align technical knowledge, and enhance risk management capabilities for both sides.

SUSTAINABLE CONSTRUCTION AND GREEN GROWTH

As calls for immediate action to combat the climate crisis grow stronger, demand in both the UK and China for green construction technologies has continued to rise. The National Development and Reform Commission in China (NDRC) and Ministry of Commerce (MOFCOM) have added a variety of products that promote a circular construction economy to their list of encouraged industries for foreign investment, including green construction technologies, high-efficiency insulation materials, and integrated property management technology solutions.[9] As Chinese municipalities and businesses develop their own approaches to green growth, there are significant opportunities for British businesses to help Chinese partners develop pragmatic, achievable goals for sustainable development. First-tier cities such as Beijing and Shanghai have been especially proactive in pioneering construction with green characteristics, but there are increasing opportunities for lower-tier cities to develop their capabilities in this regard. Particular opportunities exist in terms of building retrofitting and improvement, where British businesses possess strong knowledge; there is significant room for growth for understanding and acceptance of green retrofit policies in China, as well as in expanding research and development of domestic green retrofit technologies.[10] Offerings that improve infrastructure resilience and that extend buildings' usable lifetimes are also being sought as China improves standards in building construction and whole life-cycle management.

Further, developments in "smart cities," which offer integrated technological solutions to improve city management and residential experiences, may also prove to be excellent chances for British businesses to capitalise on market demand for technologically-driven urban solutions. China's experience in integrating smart city concepts into the urban value chain can provide particularly good opportunities for learning for British municipalities who are looking towards a more high-tech urban landscape.

9 '2022 Catalogue of Encouraged Industries for Foreign Investment,' National Development and Reform Commission, October 2022.

10 'Building Green Retrofit in China: Policies, Barriers and Recommendations,' Liu et al, *Energy Policy* no. 139 (2020).

CONSUMER GOODS

AT A GLANCE

SUB-SECTORS

Alcoholic beverages and soft drinks

Retail and consumer goods

KEY CHALLENGES

- Customs procedures and rising shipping costs
- IP rights and trademark issues
- Lack of protection of lot codes where they exist

KEY RECOMMENDATIONS

- Improve harmonisation of customs procedures, including in terms of compliance and processing times, across ports to reduce discrepancies, ensure consistency, and reduce delays and difficulties across different ports.
- Strengthen investigations into and punishment against trademark registrations that are made in 'bad faith' to reduce malicious pre-emptive registration of trademarks.
- Where they are used by manufacturers, outlaw and sanction the removal, defacement, or tampering of lot codes.

KEY MUTUAL OPPORTUNITIES

- 'Brand Britain' - consumer confidence in British products
- Hainan Free Trade Zone
- Digitisation of the Chinese economy

STATE OF THE SECTOR

2022 was a challenging year for the consumer goods sector, with a small decrease in 0.2% of retail sales compared to 2021.[1] Continued lockdowns and a general trend away from spending – and instead towards saving – affected businesses in this sector over the past year. This was particularly pronounced in areas that rely on brick-and-mortar store sales, such as the luxury goods market; whilst the sub-sector had grown by 42% on average between 2019 and 2021, it contracted by 10% in 2022.[2]

The continued development of the digital economy – in no small part due to the pandemic and closures of physical retail outlets in many areas – helped businesses stay afloat during a challenging year. Even though year-on-year (Y-o-Y) department store sales were down by 9.3%, online retail of consumer goods increased by 5.7% during 2022.[3] The British Chamber of Commerce in China's Business Sentiment Survey 2022-23 partly reflects members' pessimism, much of which was driven by the extended lockdowns of 2022; half of members in the retail and consumer goods sector report either some or substantial market closings in the sector in the twelve months to November 2022. Customs procedures, enforcement of laws and regulations, and obtaining business licences and certificates were reported as the largest challenges faced by members in 2022. Supply chain issues from COVID-19 controls and geopolitical tensions were also highlighted by 78% of members in the sector. Though zero-COVID policies have been removed, supply chain issues still remain a concern, particularly driven by the ongoing war in Ukraine.

In terms of the UK-China trade relationship, the four quarters to Q3 2022 saw exports of GBP 31.7 billion (RMB 263.1 trillion) from the UK to China, making China the sixth largest export market for the UK.[4] During these four quarters, the largest single category of goods exported to China was cars, accounting for GBP 3.5 billion (RMB 29.1 billion) of the UK's exports to China.

With a reliance on consumption to fuel China's future economic growth, 2023 is expected to be a stronger year

1 'Total Retail Sales of Consumer Goods in December' National Bureau of Statistics of China, January 2023.

2 'Setting a New Pace for Personal Luxury Growth in China', Bain and Company, February 2023.

3 'Total Retail Sales of Consumer Goods in Society saw 1.8% Drop in December 2022', National Bureau of Statistics of China, January 2023.

4 'Trade and Investment Factsheet, China,' Department for Business and Trade, March 2023.

for consumer goods. The continued development of the Hainan Free Trade Port presents a particular regional opportunity for the sector, with increasing numbers of malls opening as the government prepares to make the whole island a free trade zone by 2025. The Greater Bay Area also continues to be an attractive location for multinational business, particularly as sites for logistics and shipping hubs. Outside of these targeted geographies, digitalisation has become increasingly important for both manufacturers and consumers. For manufacturers, China has announced plans to increase the proportion of companies using digital management, operations and research tools to 80% by 2025.[5] Previously, companies based in China had noted a strong desire to improve their front-end, consumer-facing digital offering, with fewer developing back-end operations technologies.[6] For consumers, digital offerings continue to be expected for brands; becoming all the more important during the COVID-19 lockdowns of 2022 with the closure of brick-and-mortar stores, digital offerings have remained crucial parts of any brand's overall strategy.

For brands working across the Chinese-mainland border, cross-border e-commerce trade hit RMB 2.11 trillion (GBP 253.2 billion) in 2022 – more than doubling in the space of four years.[7] Despite these optimistic figures, a number of challenges still remain, particularly those caused by the long-lasting effects of the pandemic and the ongoing war in Ukraine. These are most clear in terms of supply chains, with significant backlogs in terms of raw materials due to the pandemic-related closure of factories. Shortages in shipping containers and a rise in freight rates have also caused challenges for businesses. Costs of raw goods have increased precipitously due to this pressure, as well as due to increased energy costs caused by the war in Ukraine. Particularly for firms with products originating in Western markets, inflationary pressures have caused prices for materials and goods alike to increase across the board. Further, the impact that geopolitical tensions have on consumer spending on international goods remains a concern for British businesses. Though British products are overwhelmingly perceived as high-quality, sustainable goods, businesses report significant worries that future political rhetoric may influence consumer perceptions of such goods.

5 'China unveils action plan to further digitalize consumer goods industry', State Council, July 2022.

6 'China Retail Digitalization White Paper 2022', McKinsey and Company, September 2022.

7 'Official: China's cross-border e-commerce hits 2.11 trillion yuan in 2022', State Council, March 2023.

KEY CHALLENGES

1 CUSTOMS PROCEDURES AND RISING SHIPPING COSTS

Businesses report challenges with customs procedures and shipping costs when dealing with imports to China; with discrepancies across regulatory compliance and processing time across different ports, the Ukraine-Russia war, and COVID-19 all contributing to this issue.

Despite reports that container rates for routes between Asia and Europe dropped by 40% last year,[8] British businesses report a shortage of shipping services between the UK and China, with a consequential increase in container freight rates. Similarly, businesses are also faced with a shortage of available airspace due to the ongoing Ukraine-Russia war which has also led to a significant increase in the cost of air freight for products. A slowing global economy has also impacted the cost of supply materials, further increasing the costs faced by consumer goods companies.

Furthermore, businesses have been experiencing delays in shipping and clearance of goods at ports due to discrepancies in customs procedures and interpretations between ports. This has resulted in lengthy and cumbersome processes, with some companies reporting that their imported goods can clear customs easily in some ports but not in others, despite providing the same documentation. It is essential for customs procedures and enforcement to be standardised to reduce difficulties and delays encountered when moving operations between ports and improve efficiency. Finally, more explicit confirmation on whether GACC Decree 248 (which covers registration of food products and storage facilities) applies to products bound for Hainan would be strongly welcomed by businesses who export relevant food products to the island.

2 SUPPLY CHAIN CONCERNS

Supply chain concerns remain an issue for consumer goods businesses in China. Supply chain disruptions in 2022 resulted in some businesses facing a lack of products available on-site to go to market. Furthermore, businesses report that they face challenges in regards to domestic sourcing and raw materials when it comes to producing goods on the ground in the Chinese mainland. As regards materials in general, rising energy and ingredient prices in the UK are also impacting British companies' local productions. As the capability of businesses' UK production is impacted, so too is the amount that is exported to China, with businesses prioritising exporting to the European market which they cite as an "easier market than China".

3 IP RIGHTS AND TRADEMARK ISSUES

In the consumer goods sector, intellectual property rights have been a continued challenge for British businesses. Whilst much has already been done on protecting trademarks, counterfeit products still exist in the market, harming consumer confidence and brand reputation. British businesses report that gaining IP rights for a brand that is new to the Chinese market can often be a challenge, with malicious pre-emptive registration of trademarks common among brands that already have recognition in China. The proposed amendments to the *Trademark Law* are welcome changes in this regard, particularly on those that strengthen punishment against trademark registrations made in "bad faith." However, with public consultation on these amendments only concluding in February 2023, it is unclear when these changes will be brought into effect.

One other particular challenge reported by businesses has been that of online distributors; upon changing distributors, businesses have reported facing challenges in getting distributors to relinquish distribution rights on online platforms. To regain these IP rights, businesses report having to follow a lengthy process to prove their ownership of digital assets. Businesses call on online platforms to establish more streamlined mechanisms to stop distributors from exercising withdrawn IP rights.

8 'Shipping rates plunge as as experts say 'unprecedented' boom has peaked,' Yahoo, September 2022.

4 LACK OF PROTECTION OF LOT CODES WHERE THEY EXIST

Though China has tough regulations on food labelling as part of the *Food Safety Law*, current legislation does not address the protection of lot codes. These codes – which producers use to keep track of product batches throughout production and distribution – are essential tools to trace products' movements. In the case of food safety issues, lot codes allow for the quick isolation of affected batches, protecting consumers from potentially hazardous products.

Removing these lot codes – a practice known as 'decoding' – is a common practice in parallel importation, which allows goods to be imported from lower-cost markets to higher-cost markets. The process of decoding not only removes the manufacturer's ability to trace its products and remove affected products from shelves, but the methods themselves to achieve decoding also pose a risk to consumer safety. Glass etching devices to remove manufacturer-etched codes may introduce glass dust into the bottle, and damaging caps, corks, neck foils and other product seals may also affect the integrity of the product. Removing lot codes also opens possibilities for smuggling and counterfeit goods to enter the market. We believe the government should outlaw and sanction the tampering of lot codes where they have been used by the manufacturer, as well as outlawing the sale of tampered products. Bans on imports of products with tampered lot codes would also help ensure product and brand integrity. Lot codes could also be useful to allow traceability information to still be present on products without production dates.With Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) restrictions on mandatory production dates, the wine and spirits industry is exploring the possibility of marking lot codes as an alternative to this requirement as China considers joining the CPTPP.

5 PACKAGING REQUIREMENTS

In addition to issues surrounding lot codes, businesses also flag challenges in packaging and labelling requirements prescribed by GB 7718-2011. Article 3.11 of the regulation notes that labelling does not have to be repeated on an outer wrapper of a product if either the inner labelling can be seen through an outer wrapper, or if outer wrapping can be easily removed to read labels inside products. Businesses report that the definition of "easily removed" has been challenging to ascertain, with State Administration for Market Regulation in China (SAMR) officials unclear on what would constitute an "easily removable" packaging label, such that a business would not need to repeat information elsewhere. Clearer guidance on what would satisfy these requirements to reduce repeated labelling from SAMR would be welcomed by businesses.

6 PRODUCT STANDARDS FOR WHISKY

British businesses have requested greater engagement with stakeholder companies in the development and revision of national product standards, particularly voluntary standards which are later used for product grading. One such example reported by businesses is that of whisky, whose proposed Chinese grading standards do not adhere to other international production standards. These standards rely on technical measurements to assign quality labels to products which do not align with tasting standards; instead, they rely on measurements of elements such as acid, ester and aldehyde to assign grades, such that an award-winning whisky could receive a sub-premium rating. In addition, whisky ageing standards do not generally mirror those of other countries; whereas whisky must be aged for at least three years in most other markets, in China, whisky only needs to be aged for two years. We are glad to see that the industry's proposals for reforming age claiming rules based upon the youngest alcoholic component in a bottle has been accepted in the revised standards; whereas the standards previously allowed age claiming to be made from the oldest whisky in the bottle. This change brings China's standards into line with internationally-accepted norms. Continuing to align requirements with internationally-recognised standards would help ensure that the burgeoning Chinese whisky market flourishes as a well-respected market for domestic and international consumers alike.

7 CONSUMPTION TAX

China's consumption tax covers products across luxury goods, alcoholic beverages, high-end cosmetics, automobiles, and more. China's consumption tax continues to undergo reforms, from the top down, with the goal of driving regional economic development and improving the efficiency of the tax system. There are concerns that these reforms will result in a shift in the collection point: from collection at the import or manufacturing level, or the "point of entry into the market", to the retail stage. This would be problematic for companies that have multiple layers to their distribution system with the risk that multiple taxation points will have run on effects to profits.

RECOMMENDATIONS

KEY CHALLENGE	RECOMMENDATION
1 Customs challenges and shipping costs	▪ Streamline customs procedures and reduce processing times to improve efficiency for businesses importing goods into China. ▪ Improve harmonisation of customs procedures, including in terms of compliance and processing times, across ports to reduce discrepancies, ensure consistency, and reduce delays and difficulties across different ports.
2 Supply chain concerns	▪ Streamline domestic sourcing and production of raw materials where possible to allow businesses to produce goods locally in China. ▪ Provide support for businesses that are planning on, or in the process of, localising operations, by providing incentives, subsidies or exemptions for operations that are set up for the manufacturing of products which require a longer manufacturing time. ▪ Address market access barriers for consumer goods companies to encourage exports to the Chinese market.
3 IP rights and trademark issues	▪ Strengthen investigations into and punishment against trademark registrations that are made in “bad faith” to reduce malicious pre-emptive registration of trademarks. ▪ Implement proposed amendments to the *Trademark Law* as soon as possible to protect new brands entering the Chinese market and strengthen IP rights. ▪ Increase awareness and education on intellectual property rights to improve compliance and reduce instances of infringement. ▪ Improve the transparency and efficiency of the legal system in place to resolve IP disputes.

KEY CHALLENGE	RECOMMENDATION
4 Lack of protection of lot codes where they exist	▪ Where they are used by manufacturers, outlaw and sanction the removal, defacement, or tampering of lot codes. ▪ Enforce bans on imports of products with tampered lot costs to ensure product and brand integrity.
5 Packaging Requirements	▪ Provide clearer guidance on what would constitute “easily removable” packaging labels under GB 7718-2011 to reduce repeated labelling and packaging costs for businesses. ▪ Increase training and education efforts for SAMR officials to ensure consistent interpretation and enforcement of packaging and labelling requirements.
6 Product Standards for whisky	▪ Increase engagement with stakeholder companies in the development of national product standards, particularly voluntary standards which are later used for product grading. ▪ Align Chinese grading standards for products with internationally recognised production standards to ensure product quality and consistency. ▪ Strengthen age claiming rules for whisky in order to ensure accurate age measurements and prevent misleading claims.
7 Consumption tax	▪ Develop and provide clearer guidance on the implementation of consumption tax reforms. ▪ Ensure that the consumption tax collection point remains at the initial point of entry (i.e. point of import or manufacturing) to reduce the risk of multiple taxation. ▪ Consult with businesses in order to understand and minimise negative impacts on profits when carrying out consumption tax reforms.

MUTUAL OPPORTUNITIES

'BRAND BRITAIN' - CONSUMER CONFIDENCE IN BRITISH PRODUCTS

Despite a reportedly increasingly nationalistic approach in China that prioritises local brands, "Made in Britain" products still enjoy a strong association with quality in the China market. According to a 2021 report by Barclays, 63% of Chinese consumers have knowingly paid a premium for a British-made product in the past, compared to a global average of around one in three. Businesses are, however, concerned about the potential risks of negative rhetoric towards China in the UK media and politics backfiring on British brands here in the China market. The UK-China relationship affects consumer confidence and interest, impacting market access for certain UK food and drink products, and this is further heightened by the increasing role that social media has on consumer engagement.

Notwithstanding these challenges, businesses report that there remains a solid base of consumers in China with a big appetite for UK consumer goods, particularly among those who have lived and studied in the UK. However they note that attracting new consumers, especially younger generations, is becoming more challenging and competitive particularly following three years of decreased engagement and exchange.

The association of quality with 'Brand Britain' presents a further opportunity to businesses to establish British products as premium products in the China market. Businesses hope that more focused efforts can be made to establish the strength of "Brand Britain" as a premium product.

CHINA'S POLICY FOCUS ON BOOSTING CONSUMER SPENDING

Policy messaging from both the central and municipal Chinese government has focused strongly on promoting consumption as a key driver for economic growth. March 2023's designation as "National Consumption Promotion Month," the third edition of the China International Consumer Products Expo (CICPE) in April 2023, and the policy focus on promoting private entrepreneurship during 2023's "Two Sessions" are clear indicators of this approach. Most importantly for international businesses, Chinese authorities are keen to include foreign brands in such drives; the inclusion of over 3,300 international brands at CICPE and a push to attract more international flagship stores to cities such as Beijing show a desire to attract greater foreign business in order to increase consumer spending. Whilst British businesses are encouraged by this focus, they hope that clear and specific guidance on boosting consumption is given that explicitly includes both local and imported goods so that they can turn this opportunity into tangible results.

DIGITISATION OF THE CHINESE ECONOMY

An effective digital offering is crucial for any business considering entering the Chinese market; British businesses generally report that most of their marketing spend is spent on digital platforms. Whilst much of this spending goes to promoting products on e-commerce platforms such as TMall and JD, live-streaming platforms also represent important

avenues for retailers to connect with the Chinese market. Creating an effective localisation strategy for marketing is an important facet of retailers' Chinese market strategy – potentially doing so in collaboration with a local partner. British businesses are also pleased with moves taken by the Chinese government to break the monopoly that large name platforms had by removing the ability to require a brand to be exclusive to that platform, citing greater freedom of choice in engaging with different markets and ecosystems.

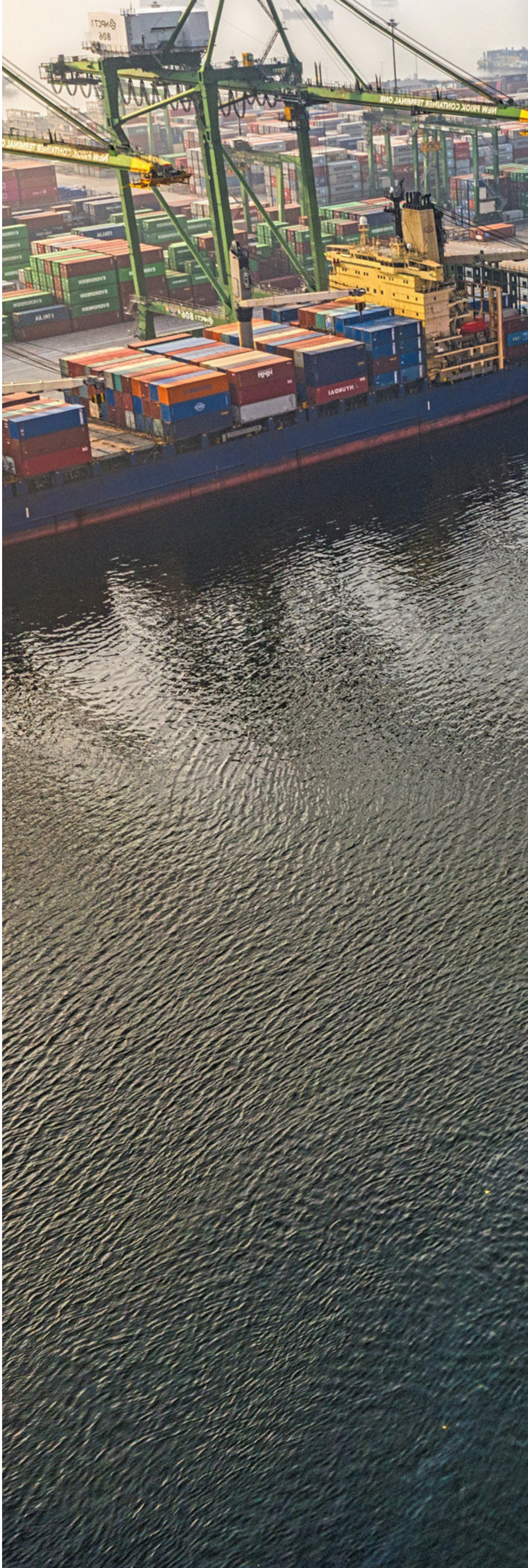
HAINAN FREE TRADE ZONE

The island of Hainan presents a particularly exciting opportunity for businesses in the consumer goods industry, with the island planning to become entirely duty-free by 2025. Even though many of the early developments took place around Sanya, developments such as the CDF Haikou International Duty Free City – the world's largest duty-free mall – show that the provincial government is still keen to expand shopping opportunities across the whole island. Both distributors and producers report a desire to make the most of this retail opportunity, particularly before the island becomes fully duty-free in three years' time. Encouraging policies towards a streamlining of sales tax for B2B sales, a much lower cap on corporate and individual income tax compared to the rest of Mainland China, and a plan for continued expansion of retail space suggest that Hainan's importance will continue to grow as a key shopping destination for both Chinese tourists and international visitors.

ESG

Environmental, social and governance (ESG) criteria are becoming increasingly important as marks of distinction for consumer brands. In one survey, over 80% of consumers from mainland cities in the Greater Bay Area noted a preference for socially-responsible brands; further, 83% would boycott products from brands that lacked good ethical standards.[9] With leading standards in ethical supply chains, sustainability and healthy living, British brands are traditionally seen as strongly invested in ESG principles. China's continued transition to green growth and emphasis on responsible consumption should prove important areas for growth for British businesses.

9 'Retail Recharged: Engaging Consumers with Technology, Purpose and Trust,' KPMG, GS1 Hong Kong and HSBC, November 2022.



EDUCATION

AT A GLANCE

SUB-SECTORS

Early years education

K-12

Higher education

Non-Profit Organisations

English language training

EdTech

Certification and accreditation bodies

KEY CHALLENGES

- Challenges in attracting and retaining international talent
- China's proposed Individual Income Tax reform
- Concerns about Chinese students global competitiveness

KEY RECOMMENDATIONS

- Postpone or cancel proposed income tax reforms to demonstrate stability in the education sector, and to encourage restoring the number of international talent within China by making it an attractive and financially beneficial place for international talent to live and work.
- Ensure equal treatment of private and public education institutions, clarifying the role that the private sector (and foreign education) has to play in the future of the Chinese education system.
- Allow and encourage foreign qualifications, competitions and non-core subject activities to contribute to enhancing the competitiveness of Chinese students in the global market.

KEY MUTUAL OPPORTUNITIES

- Two-way study and student exchanges in schools and universities
- Vocational Education and Training
- All round education

STATE OF THE SECTOR

The impact of COVID-19 and ongoing regulatory issues in the market continued to hinder the ability of British education companies to thrive in China in 2022, with 93% of British education companies reporting that business had become more difficult in 2022 as a result.[1] British education organisations have long cited 'market potential' in China as the number one reason to increase investment in the country. However, the past year has tested the patience and resilience of many companies, with 46% of businesses reporting feeling less welcome in the China market in 2022.[2] With only 24% of companies reporting plans to increase investment in 2023,[3] many companies are now focusing on other regions and countries that are considered easier to operate in.

The Double Reduction Policy and *Private Education Law* continue to challenge those operating in this sector, and as a result many companies have pivoted to adult education, parent education, careers-oriented courses, and non-academic subjects such as drama. However, demand is weaker, success is uncertain, and concerns remain about whether these fall under the banner of education and are therefore captured by these regulations. In addition, as China's birth rate continues to decline, competition will increase among all areas of the sector.

These regulatory challenges have been accompanied by the accumulation of three years of border restrictions that have contributed to staff shortages due to the unprecedented strains on hiring, return, and retention of foreign talent. Whilst the border opening in December has increased the flow of international talent, many are still leaving and others are uncertain about their future in China, leading to an overall loss of international talent impacting the recruitment of both eligible children and teachers. Furthermore, businesses are faced with the potential implementation of the Individual Income Tax Reform in January of next year which carries with it the threat of further damaging China's attractiveness as a destination for international talent.

However, despite the challenges facing the British education sector in China, there are still opportunities for growth and development. The Chinese government's focus on vocational education and innovation in its 14th Five-Year Plan provides a potential area for British education organisations to collaborate and expand their presence in the market. Additionally, there is a growing trend of 'study abroad at home' in China, which presents an opportunity for quality international schools to cater to the needs of Chinese high net-worth parents who value exposure to new ideas and enrichment of their children's lives.[4] China's high youth unemployment shows clearly the need for a modern education system that absorbs and utilises the best practices from around the world that can truly prepare young people for the next stage of China's development.

Furthermore, the British education sector in China can benefit from the significant contributions of Chinese students studying in the UK. With 144,000 Chinese students pursuing higher education in the UK, they have become one of the country's largest international student cohorts, bringing with them valuable skills, perspectives and experiences.[5] However, there is increased scrutiny on UK-China research collaborations, particularly in fields covered by the *National Security and Investment Act*, which could impact the partnership between the two countries in the future.

In conclusion, while there are challenges facing the British education sector in China, particularly as a result of regulatory reforms and pandemic-related issues, there are also opportunities for growth and development. The British education sector has a strong reputation for quality and innovation, and with the right approach and the right support, it can continue to play an important role in the education landscape of China.

1 'British Business in China: Sentiment Survey 2022/23', British Chamber of Commerce in China, December 2022.

2 'British Business in China: Sentiment Survey 2022/23', British Chamber of Commerce in China, December 2022.

3 'British Business in China: Sentiment Survey 2022/23', British Chamber of Commerce in China, December 2022.

4 "Fusion of Chinese and Western Cultures - White Paper on 2021 International Education in China", 22 March 2023.

5 'The outlook for UK-China education partnerships in 2023', China British Business Council, 24 January 2023.

KEY CHALLENGES

1 CHALLENGES IN ATTRACTING AND RETAINING INTERNATIONAL TALENT

The education sector in China faces significant challenges, particularly as a result of the COVID-19 pandemic. During the pandemic, a considerable number of foreigners left China, and this has had a significant impact on the Chinese economy. For many foreign parents, the decision to leave was directly linked to concerns about the quality and stability of the education their children could receive in China. As foreign parents left, so did foreign teachers, with forecasts in April of last year for the upcoming 2022-23 school year indicating an expected turnover rate of at least 40% among teachers in international schools that require at least one parent to hold a foreign passport. As of November last year, British businesses in the education sector were the most likely to report challenges in hiring and retaining foreign talent.[6] This negative cycle has threatened the very existence of some international schools.

Although borders have reopened, and students are studying in person again, businesses in the education sector face additional and ongoing challenges around obtaining work visas for international educators. Although flights have resumed and visa processing has become faster compared to the past three years following China's reopening and shift away from dynamic zero-COVID, difficulties continue to exist due to restrictions on hiring highly qualified teachers from non-native English speaking countries, difficulties in obtaining dependent visas for same-sex partners, and limitations in hiring recent graduates who are often the most eager to work in and engage with China. There is also limited acceptance of specialist qualifications like diplomas in early childhood education or non-degree level certifications for computer scientists. The issue around visas extends to international students in China, where those who turn eighteen while studying are also required to reapply for visas.

These challenges present significant obstacles to the recruitment and retention of foreign talent in the education sector in China. Finding solutions to these challenges is essential to ensure the sector continues to attract and retain international talent and remain competitive. Whilst optimism and trust are slowly returning, the sector needs to address these challenges to regain the trust of foreign parents and educators, promote stability, and ensure the continued growth of the sector.

2 CHINA'S PROPOSED INCOME TAX REFORM

China's proposed income tax reform, which is currently set to come into force in January 2024, has raised serious concerns amongst businesses in the education sector threatening schools and the foreign talent that they rely on. China has traditionally been able to attract the best teachers from around the world through a combination of salary, housing benefits, and school fees. However, if the proposed income tax reform is implemented, the fringe benefits exemption that allows school fees, accommodation costs, and other various costs of living to be fully excluded from taxable income when paid on a reimbursement basis would be removed.[7] As a result, teachers and foreign talent in general would face a significant increase in their individual income tax burdens, and face losing more than 40% of their current income in some cases. This could exacerbate an already-existing global shortage of talented teachers, and make it more difficult for China to maintain its position as an attractive destination for foreign talent in the education sector. In doing so the reform would threaten the survival of many schools in the country, impacting the ability of and attractiveness to foreign talent with children to come to China, and consequently hindering the growth of the Chinese economy. International schools in particular, which are some of the biggest employers of foreigners in the country, would be disproportionately affected.

6 'British Business in China: Sentiment Survey 2022/23', British Chamber of Commerce in China, December 2022.

7 'China: Individual income tax policy changes implemented', 1 March 2022, International Tax Review.

3 HESITANCY IN INVESTING IN AN INCREASINGLY 'IDEOLOGICAL' SPACE

The education sector in China was once the centre of the world when it came to investment, innovation, and dynamism in commercial education. However, this perception has changed alongside the COVID-19 pandemic, ongoing regulatory changes, and shifting government policies, resulting in a number of investors seeing the sector as 'uninvestable.' A new policy announced only in March, the *Interim Measures for Financial Management of Off-Campus Training Institutions*, stated that listed companies and foreign investors are prohibited from investing in compulsory education subject-based training institutions. As one member said: 'Before COVID, our business growth and forecast was good, and our different business lines had solid predictions for growth in the China market. Now our head office does not want to invest anymore into China.'

As businesses report increasing nationalisation of private schools, staffing issues, ongoing government rhetoric, and pandemic-related disruptions, there is a correlating increase in the perception that education in China is now wholly an 'ideological space' and has spread considerable fear among all areas of education, including university partnerships and student exchanges. As a result, many investors, both in and out of China, are hesitant to invest further in the sector, even in areas the government is seeking to improve, such as vocational education.

4 UNCERTAINTY AND LACK OF CLARITY IN REGULATORY ENVIRONMENT

The education sector continues to face instability and uncertainty as a result of the implementation of the Private Education Law and the Double Reduction Policy in 2021. In addition to these changes, members of the sector report facing frequent and unannounced visits from regulators, curriculum regulations, and uncertainty around qualifications and exam boards. There are also reports of a constant influx of new policies or updates to regulations, confusion over what constitutes tutoring, and which areas, such as drama, fall under the jurisdiction of education versus other fields like culture. Businesses report that policies are often vague, and sudden changes are common, and that these frequent changes and uncertainty make long-term planning difficult.

Implementation concerns also exist, with different bureaus, even those within the same city, reportedly having different approaches. Furthermore, businesses in the sector report being blocked in various ways, such as via banking, leading to the perception that what was legal before could suddenly become illegal. As one member summed up, they now rely on 'seek[ing] advice more and more from foreign organisations about Chinese policy because it seems so impenetrable from the inside.' These challenges have resulted in significant instability and inconsistency in the sector, with education organisations forced to change direction and provision at short notice, leading to frustration for both educators and parents. Moreover, delays in communication, last-minute notification, and lack of transparency regarding some requirements have resulted in serious costs to education organisations in both revenue and reputation.

5 GOVERNMENT VOICES IMPACTING PERCEPTIONS

The UK and China's political relationship has become increasingly strained, and education companies report that comments from governments, both in the UK and China, are adversely affecting their operations and their partnerships in China. Comments range from rumours about limiting student numbers, to closing institutions, and banning foreign curricula. There are also concerns around the recognition of degrees and threats made in regard to joint research. There are so many opportunities for British and Chinese organisations and individuals to work together, however these challenges stand in the way. Current geopolitical tensions have '[put] a dampener on academic colleagues' appetite of working with Chinese partners who often have amazing projects; sadly we are in the period when we are just not sure of the boundaries from either side.'

6 CONCERNS ABOUT CHINESE STUDENTS GLOBAL COMPETITIVENESS

There are growing concerns that English language examinations are no longer being taken by students in some Chinese cities. Historically, the development of English language proficiency has been a critical component of China's national agenda towards modernisation, reform and global engagement. English language proficiency is also essential for Chinese students pursuing overseas education opportunities, as many international universities require high English proficiency scores as part of their application criteria. The recent closures of English-language tutoring centres across the country have intensified concerns that Chinese students may encounter difficulties in the future.

UK universities, in particular, have observed that some Chinese students are already facing academic challenges due to limitations in their preparation for international study. Some of these limitations include inadequate options for undertaking standardised tests for university entrance, gaps in subject knowledge such as history, and fewer opportunities for participating in global competitions and acquiring international qualifications that can increase

competitiveness. English language proficiency plays a critical role in international education, and Chinese students run the risk of being less competitive in the global market post graduation if these issues are not addressed.

7 INABILITY TO IMPORT EDUCATION PRODUCTS FROM OVERSEAS

The acquisition of necessary products and supplies from British providers by British and international schools in China remains problematic. The challenges include prolonged port detention periods of 4-6 months, sluggish delivery times, mandatory middlemen fees, and customs delays. Customs delays are particularly common when it comes to the clearance of language exam materials. The majority of schools report facing these challenges, and that as a result they are compelled to purchase domestic products, which may not precisely align with their specifications, curriculum requirements, and/or exhibit varying levels of quality. As a result, this has created a pressing concern in the education sector in China as schools struggle to acquire the necessary resources to provide quality education to students.

8 CYBERSECURITY AND RESTRICTIONS ON EDTECH

British education organisations and EdTech companies are keen to participate in China's digitalisation of education. However, significant challenges exist in obtaining internet content provider (ICP) licences, particularly for organisations that seek to shift to direct-to-consumer models. Whilst there have been some helpful developments in supporting intellectual property (IP) and cybersecurity, IT restrictions and licensing continue to cause difficulties for some in the market.

One potential solution to the challenge regarding ICP licences has been to create joint ventures with Chinese partners. While this approach can be effective, it may feel like a step backward in terms of the opening up of the market, particularly given the need to share technology and expertise with local partners.

New regulations governing foreign curriculum and overseas teachers have also caused some complexities around compliance, particularly in curriculum areas related to all-round education where the rules remain unclear. These regulatory challenges may create obstacles for British education organisations and EdTech companies seeking to offer their services in the Chinese market, highlighting the need for proactive engagement with local stakeholders and policymakers to ensure compliance with evolving regulatory frameworks.

RECOMMENDATIONS

KEY CHALLENGE	RECOMMENDATION
1 Challenges in attracting and retaining international talent	■ Develop more flexible and efficient visa policies for foreign educators to accommodate a changing world - these should allow for passport holders from non-native English speaking countries, those with specialist qualifications, and those with same-sex partners to apply. ■ Broaden the list of certifications and qualifications that are permitted for visa processes to include those outside of undergraduate degrees. ■ Remove the two-year work experience requirement to allow fresh graduates to apply for roles in China. ■ Assist schools in the recruitment and retention of high-quality educators by providing funding, incentives and/or tax breaks. ■ Increase investment in the sector to encourage FDI, rebuild trust, and promote growth in the education sector.
2 China's proposed income tax reform	■ Postpone or cancel proposed income tax reforms to demonstrate stability in the education sector, and to encourage restoring the number of international talent within China by making it an attractive and financially beneficial place for international talent to live and work. ■ *If the reforms are enacted*, inform businesses now so they can plan most effectively. ■ *If the reforms are enacted*, consider and introduce alternative measures aimed at attracting and retaining foreign talent. ■ *If the reforms are enacted*, provide support for affected businesses and schools in the form of other exemptions, subsidies or grace periods, to help them cope with the initial impact of the income tax reform.

KEY CHALLENGE	RECOMMENDATION
3 Hesitancy in investing in an increasingly 'ideological' space	■ Increase opportunities and incentives for foreign investors and foreign education companies to invest in China's education sector. Investment opportunities should be sustainable and have long-term returns. ■ Promote and encourage partnerships between foreign education companies and Chinese education institutions that are mutually beneficial to both parties. ■ Ensure equal treatment of private and public education institutions, clarifying the role that the private sector (and foreign education) has to play in the future of the Chinese education system. ■ Increase opportunities for foreign education companies to engage positively and effectively with both the state and private education sectors in China.
4 Uncertainty and lack of clarity in regulatory environment	■ Increase transparency and consistency in policy implementation, including providing clearer guidance to businesses on regulations and requirements. ■ Provide advance notice of regulatory changes to allow for adequate planning and preparation. ■ Involve all players in the education sector in the formulation of policies, allowing for better communication and understanding of the impact that proposed policies would have on the sector. ■ Hold briefings or consultations with relevant industry groups, such as the British Chamber of Commerce, to clarify ongoing changes to the policy landscape and address concerns.
5 Government voices impacting perceptions	■ Provide clarity in regards to areas where the UK and Chinese governments are willing and able to engage with each other in regards to the education sector. ■ Publicly recognise the importance of, and encourage, learning each other's languages and the importance of collaboration and engagement between youth. ■ Actively promote joint research and exchange programs to foster positive engagement and collaboration in the education sector. ■ Provide assurances regarding the recognition of degrees earned by Chinese students studying in the UK and vice versa.

KEY CHALLENGE	RECOMMENDATION
6 Concerns about Chinese students global competitiveness	■ Provide clear policies and guidelines for English language learning in China to address concerns about declining proficiency levels. ■ Allow and encourage foreign qualifications, competitions and non-core subject activities to contribute to enhancing the competitiveness of Chinese students in the global market. ■ Develop a clear licensing framework and guidelines for engaging with international third-party providers of extracurricular activities to provide schools with more options in regards to the extracurricular activities offered to students.
7 Inability to import education products from overseas	■ Streamline import regulations to reduce port detention periods, delivery times, and customs delays. ■ Eliminate mandatory middlemen to make importing more affordable and accessible. ■ Encourage fair competition by levelling the playing field for both domestic and foreign suppliers with fair and open import regulations. ■ Promote trust and strength in bilateral trade by simplifying the import/export environment between the UK and China and working on the basis of reciprocity.
8 Cybersecurity and restrictions on EdTech	■ Simplify and provide clarity around the process for obtaining internet content provider (ICP) licences ■ Allow foreign companies to operate online in a simpler manner whilst still in compliance with Chinese government rules and regulations around data security.

MUTUAL OPPORTUNITIES

TWO-WAY STUDY AND STUDENT EXCHANGES IN SCHOOLS AND UNIVERSITIES

The growing number of Chinese students studying in the UK, and British students studying in China, is positive for everyone and presents an exciting opportunity for ongoing collaboration between the two countries. The increase in government support and encouragement for school-to-school student exchanges, including short trips or termly placements, can help establish long-lasting relationships between institutions and individuals in both countries. This not only promotes cultural understanding and contributes to economic growth for both China and the UK, but can also expand the reach of Chinese and UK companies in the market in the long term. It is therefore crucial that two-way study and student exchanges continue to be supported, fostered and promoted.

VOCATIONAL EDUCATION AND TRAINING

The improvement of vocational education in China has received significant support from the central Chinese government. However, there are concerns about what this means for UK providers. Chinese institutions are seeking practical programmes, effective teacher training, and clear proof of the value and demand of qualifications from employers, all localised to suit their needs. Local providers appear to prefer a brand-name association rather than collaborate on the creation of long-term joint projects. Nevertheless, British companies working in China have a significant opportunity to collaborate with local Chinese vocational colleges to connect qualification, training, and employment seamlessly. However, any collaboration would need to be sustainable, lasting, and meaningful for both sides, and will require careful consideration and planning.

PROFESSIONAL DEVELOPMENT

The UK's teacher training is widely recognized as world-class, with a particular emphasis on specialist professional development certifications and qualifications around Special Educational Needs (SEN). China is currently a thriving market for these qualifications, despite inconsistent recognition in terms of work permits. There is also demand for in-person professional development for both educators and administration staff that align with national regulations and understanding.

NICHE PROVIDERS

Niche providers, particularly those who have small teams or can work with a Chinese partner, have ample opportunities in the education sector of China. In particular, there is high demand for early years education, careers education, special education needs training, counselling, and outdoor education qualification, which are currently underdeveloped in the country. British organisations have the expertise and knowledge to cater to such demands. However, the challenge is to create a sustainable business model. In this way, both parties are well-protected and are able to deliver what they do best.

ALL ROUND EDUCATION

The Chinese government's emphasis on all-round education reflects its commitment to promoting the physical and mental wellbeing of students while preparing them for success in all aspects of life. By prioritising student health education and sustainability, China is taking positive steps to ensure that students receive a well-rounded education that goes beyond academics. The UK, with its established curricular provision in personal, social, and emotional learning, can play a crucial role in collaborating with China to address the shared challenges currently facing student mental health and wellbeing. Furthermore, the UK's expertise in promoting engagement with nature can also contribute to China's efforts to cultivate a 'green, healthy and civilised school culture' and towards sustainability in the long term.

ENGLISH-LANGUAGE LEARNING

The significance of English language education in China cannot be overstated, being crucial for enhancing the country's international competitiveness and creating greater opportunities for its citizens. The UK's world-leading expertise in teaching English through various methods such as curriculum, examinations, and education technology presents an exciting opportunity for collaboration with China's English language education industry. By working together, the UK and China can leverage their respective strengths to create more opportunities for students to learn English and achieve greater success in their personal and professional lives.

ENERGY

AT A GLANCE

SUB-SECTORS

Natural gas

Renewables

Power

Carbon market

KEY CHALLENGES

- Low power generation from renewables, accounting for 30% of China's total electricity generation (as opposed to 41% in the UK)
- Slow progress and limited liquidity of the carbon market
- High costs and lack of policy support for energy storage, hydrogen and carbon capture, utilisation and storage (CCUS) projects, hence challenges in commercialisation

KEY RECOMMENDATIONS

- Increase the share of electricity generation from renewable sources through a range of measures including integrating green power into the grid, increasing green power trading and improving energy storage capacity.
- Continue to develop carbon market by enrolling more sectors and institutional investors.
- Offer more policy support to energy storage, hydrogen and CCUS projects.

KEY MUTUAL OPPORTUNITIES

- Clean energy
- Circular economy
- Upskilling

STATE OF THE SECTOR

Following Chinese President Xi Jinping's dual carbon pledge in 2020, the Chinese market witnessed a series of positive developments on energy transition in 2021. A raft of policy documents were released outlining the government's vision on how the dual carbon goals can be achieved, from accelerating energy transition and increasing energy use efficiency to accelerating decarbonisation in various sectors. As the government aims to build a modern energy system, it sets a target of increasing the proportion of non-fossil fuel consumption in the country's energy mix to about 20% whilst reducing carbon emissions per unit of GDP by 18% by 2025. To support these goals, China's green power trading pilot and the national emissions trading scheme (NETS) kicked into gear in 2021; efforts were also ramped up to accelerate the electricity market reform, increase the use of renewables and hydrogen, and further develop carbon capture, utilisation and storage (CCUS) technology.

In 2022, however, as the country battled COVID-19 waves throughout the year, momentum on green development slowed. Market participants note the lack of progress with regards to China's carbon market, green power trading and green technologies in the past year. Given the widespread power shortages in the country in the previous years, the government has further stressed energy security and coal's role as the ballast stone for the country's energy supply. In the Two Sessions in 2023, energy transition and sustainability were only mentioned briefly in the Government Work Report, leaving many somewhat discouraged about the level of policy attention on green development in the coming year.

As British companies work towards their zero emission targets, operating in a policy environment that would enable and facilitate their sustainability efforts is essential. According to the British Chamber's *British Business Sentiment Survey 2022-23*, 36% of British company respondents have set their own net zero targets — when it comes to companies in the energy sector, this figure reaches 57%. Currently, gaps remain in the market and policy levels which hinder organisations' net zero ambitions as well as slows down China's decarbonisation process. Therefore, we put forward the following policy recommendations to Chinese regulators with the goals to enable British businesses' sustainability efforts and to accelerate China's transition to a cleaner energy economy. With other countries implementing climate policies such as the EU's Carbon Border Adjustment Mechanism (CBAM), and the US' Inflation Reduction Act, we believe that it is also in China's interest to quicken the pace of its energy transition and decarbonisation process.

KEY CHALLENGES

1 ENERGY TRANSITION VS. ENERGY SECURITY

Amidst China's campaign to reach its dual carbon goals, a series of events such as the Ukraine conflict and the reoccurring power shortage in China in the past two years has prompted the government to reiterate the importance of energy security. During the 20th Party Congress in October 2022, the message was that 'coal will be the ballast stone for China's energy sources'.[1] Analysts believe that China's coal capacity will continue to rise before 2025 and flatten out by 2030.[2] This, to some extent, has raised concerns that the country's energy transition and green development will be deprioritised on the government agenda.

Our view is that whilst the government's concerns around energy security are understandable, energy security should not come at the expense of energy transition. Renewable and clean energy provides a vital solution to ensure energy security. With the right market mechanisms and policy environment, renewables and clean energy will ensure the country has stable and unlimited access to power while keeping carbon emissions low. In fact, against the backdrop of Europe's energy crisis in early 2022, both the EU and the UK have also been taking steps to ensure energy security. While energy transition has been affected to some extent for both the EU and the UK, their renewables share of electricity generation has nevertheless increased in 2022. The importance of energy security, in fact, highlights the need to diversify energy resources with renewables being an important part of it. In the UK government's latest *Energy Security Plan*, 'improving energy efficiency and building a low-cost and low-carbon energy system' was also considered a crucial element of the strategy.[3]

There is no denying that China's current installed capacity of renewable energy has been growing rapidly which offers reasons for optimism. In 2022, renewables (including solar, wind, hydropower and biomass) exceeded coal power's installed capacity (44%) for the first time, accounting for 47% of the country's total. Bp Energy Outlook 2023 predicted that the global growth in installed wind and solar capacity out to 2035 will be dominated by China and the developed world, each accounting for 30-40% of the overall increase in capacity.[4] However, currently non-fossil sources still only contribute to 30% of the country's electricity generation as opposed to coal's share of 60%. By comparison, the UK's renewables share of electricity generation had reached 41% in 2022,[5] with the government setting a target that 95% of electricity should come from low-carbon sources by 2030.[6] There is certainly still considerable room for China to grow its actual consumption of green energy.

In order to increase the utilisation of green energy in China, we believe that efforts need to be stepped up on multiple fronts.Most importantly, there needs to be large-scale integration of renewables into the grid, improvements on grid stability and on cross-regional power transmission infrastructures, more robust mechanisms to allow inter-provincial green power and spot power market trading, as well as better coordination of the green electricity certificates, green power and the China Certified Emission Reduction (CCER) scheme trading to avoid the issue of double counting. Additionally, China should continue to allow natural gas to play a role in the transitional period as it produces a relatively low level of carbon emissions as a fossil fuel. Other energy sources such as biomass should also be increasingly incorporated into the country's energy plan, including in being used in producing sustainable aviation fuel.

1 'China's energy security plan signals longer life for coal despite climate vows', S&P Global Market Intelligence, October 2022.

2 'China's energy security plan signals longer life for coal despite climate vows', S&P Global Market Intelligence, October 2022.

3 'Powering Up Britain: Energy Security Plan', HM Government, March 2023.

4 'BP Energy Outlook 2023 Edition', BP, January 2023.

5 'Energy trend: UK, October to December 2022 and 2022', Department for Energy Security & Net Zero , March 2023.

6 'Major acceleration of homegrown power in Britain's plan for greater energy independence', The UK Government, April 2022.

1.1 UNIFY NATIONAL POWER MARKET AND INCREASE GREEN POWER TRADING

China's green power trading pilot established in 2021 marks an important step towards achieving its climate goals, aimed at increasing the trading and consumption of green power in the country. As of the end of 2022, total green power traded reached 51.866 GWh in China. However it still needs to be expanded further to allow companies greater and easier access to green power.

A number of challenges stand in the way of increasing green power trading. To start with, demand for green power is still limited as businesses in China are neither required, nor incentivised enough, to purchase green electricity. The disconnect between the green power market and the carbon market partly contributes to this.

Meanwhile, the difficulty to trade across provinces and regions, caused by differences in trading rules, generator configuration and transmission networks, cross-provincial transmission costs, as well as local governments' priority to fulfil their own renewable energy consumption targets also limits the accessibility of green power across regions. Additionally, limited development in China's spot power market means businesses are not able to engage in green power spot market trading as frequently as they would like, which is an important supplement to their mid-and-long-term power contracts.

In order to address these challenges, the government should create more incentives for businesses in China to engage in green power trading including at the policy level - making links between the power market and the carbon market, officially allowing companies that use green power to declare zero carbon emissions in the process, which can be taken into account when companies participate in China's carbon market and when calculating their overseas carbon taxes. This will create more incentives for green power purchase in China. Meanwhile, there also needs to be better coordination of green power trading, the Green Electricity Certificates (GECs) system, and the China Certified Emission Reduction (CCER) scheme to avoid double-counting of green attributes.

Inter-regional and provincial power trading also needs to be expanded which would allow more renewables-generated power in China's western and northern regions to be exported to eastern regions. The government needs to take steps to further promote cross-regional power trading by publishing clearer rules, aligning trading and power generation, and transmission standards, and unifying rules of power exchanges across various regions. Market-oriented power trading activities also need to be increased in order to break market barriers, such as regional operation modes and regional operation rules, and to promote a unified national power market.

On the power spot market, the government should expand the trial scope of continuous settlement of the spot market throughout the year. This will improve market liquidity, allow better discovery of electricity prices and supplement electricity buyers' mid- and long-term contracts.

1.2 ENHANCE ENERGY STORAGE SYSTEMS

Due to the intermittent nature of renewable energy, energy storage systems are important for improving grid stability and maximising the use of renewable energy such as wind and solar to ensure less is wasted. Despite a raft of policies aimed at expanding the country's energy storage capacity issued at the state and local levels since 2022, commercialisation of energy storage remains a challenge. The energy storage industry is at a critical juncture of moving from the early stage of commercialisation to economies of scale. Cost reduction on the generation side would be key to facilitating the transition.[7] Currently, the high costs of setting up an energy storage business discourages many from venturing into the sector. The industry therefore awaits more support measures and policy guidance from the government in order to reduce costs as well as further improvements of the ancillary market as a whole in order to ensure costs of energy storage services are better reflected in the prices.

1.3 CONTINUE TO USE NATURAL GAS AS A TRANSITIONAL ENERGY

As natural gas is a relatively clean fossil fuel and an indispensable transitional energy to support China's delivery of carbon peaking and carbon neutrality goals, we believe that it still plays an important role in China's energy transition and in ensuring energy security. British companies note improved third party access and increased fairness and transparency in China's natural gas market in the past few years with the establishment of PipeChina. However, more developments in allowing end (e.g. storages) to end (e.g. customers) pipeline access, enabling diverse and flexible infrastructure usage offers and ensuring competitive costs of usage would be welcome. These measures will help encourage more investment and participation in the midstream market. Furthermore, the government should continue with the natural gas market reform, including developing the futures market as a hedging and price discovery tool, so as to foster efficient competition and encourage the optimal allocation of natural gas assets.

7 'New energy storage facilitates energy transition', KPMG, March 2023.

1.4 SUPPLY CHAINS AROUND CRITICAL MINERALS

It is worth noting that supply chains around critical minerals are also impacting China's energy transition process. Electrification and renewable energy are important policy focuses for the Chinese government as it aims to reach its 30-60 goals. As producing electric vehicles, battery storage and renewable energy consumes more critical minerals than traditional energy does, it is increasingly important to secure access to these critical minerals so as to ensure steady progress on energy transition and decarbonisation. The last few years however witnessed increasing international competition for critical minerals and their further processing, resulting in diversification of supply sources and price volatility. These difficulties have also been compounded by Covid-19 related disruptions and geopolitical tensions.

As the lack of secure access to critical minerals threatens the progress of energy transition and decarbonisation, measures must be taken to stabilise the supply of critical minerals, such as lithium, cobalt, nickel, manganese, graphite and rare earths. With China leading the way in the critical minerals sector across supply chains, the country has an important role to play to ensure stable supplies of critical minerals both in China and globally. We recommend that the government allows reciprocity for foreign companies to conduct exploration and to develop mines in China, increases market-based price transparency and encourages international JVs in mining in order to support the energy transition and decarbonisation process in China and globally. Also, all investments should adhere to internationally recognised ESG standards.

2 CARBON MARKET

The launch of China's national emissions trading market in July 2021 represents a milestone in the country's fight against climate change. Research indicates that China's Carbon Emission Allowance (CEA) will reach RMB65.42/mtCO2e (GBP 7.85/mtCO2e) in 2023, up 17% from the current level of around RMB 55.28/mtCO2e.[8] However, progress on China's carbon market was largely stagnating last year and we hope that the government accelerates its development, which would also further incentivise and speed up energy transition. Meanwhile, with Europe's Carbon Adjustment Border Mechanism (CBAM) going into effect soon, it is in

8 'Commodities 2023: China's carbon market to slow in 2023 as energy security, economy take priority', S&P Global Commodity Insights, January 2023.

China's interest to negotiate with the EU with regards to the arrangements around CBAM as well as to align standards in order to reduce impacts on the country's exports into the EU. We therefore recommend continued improvement in the following areas to aid the development of China's carbon market.

As regards China's compliance carbon market - the National Emission Trading Scheme (NETS), which currently only covers the power generation sector – we believe that the carbon emission quota needs to be strengthened for relevant power plants if China is to achieve its carbon reduction target during the 14th FYP period. The current quota given to power plants participating in the scheme is overall quite generous and as a result it doesn't offer enough incentives for involved organisations to improve energy efficiency and cut emissions.

We also look forward to the government enrolling in other sectors including petrochemical, chemicals, building materials, steel and nonferrous metals as soon as possible, and publishing relevant timetables and CEA allocation methodology in a timely manner so that emitters understand how to prepare. Meanwhile, a lack of participation in the market of less significant emitters continues to limit market liquidity. As such, the government needs to work towards enrolling organisations outside the current scope of emission control including institutional investors into the market to help facilitate transactions, connect supply and demand, better determine carbon pricing, and scale up carbon reduction and neutralisation projects.

Industry participants also hope for the relaunch of the carbon offset market soon – the China Certified Emission Reduction (CCER) scheme, which was suspended in 2017 due to a low trading volume. In February 2023, the China Beijing Green Exchange announced that it is working on launching the CCER Trading Centre, and has completed developing nationally unified voluntary emission reduction registration and trading systems.[9] The news is greatly welcomed as the restart of CCERs will increase demand for carbon offsets, encourage investment into renewable energy and other green projects, thus further incentivising foreign companies to contribute to China's green transition.

Furthermore, we believe that China needs to be better prepared for the alignment with global carbon markets. With the CBAM taking effect 1 October 2023, China's exporters would benefit from the government taking early steps to prepare as, under the CBAM, China's exports into the EU will be subjected to carbon tax. Although in the transitional period (2023-2026), China's covered trade under the scheme only represents a small fraction of its total exports to the EU, this can expand further after the transition is over.[10] Therefore, the earlier China takes action to prepare from aligning standards to negotiating with the EU, the easier it is for manufacturers in China to retain their international competitiveness. Otherwise the case is strong for companies to consider other locations for operations.

Part of the preparation would also include enhancing the Measurement, Reporting and Verification (MRV) system so as to ensure the accuracy of organisations' emission data and the alignment with international standards. We suggest that relevant government authorities, industry associations, and companies work together to formulate standards in line with the EU standards. Meanwhile, as the NETS further develops, the Chinese government should ensure that the calculation of carbon emissions covers a product's full life cycle beyond just direct emissions during the production stage. Systems for calculating, tracking and storing products' life-cycle emission data should be established to provide more support for exporters when conducting relevant calculations for their exports into the EU going forward. The government should also explore and promote low carbon accreditation programmes. Furthermore, the development of relevant technologies such as blockchain should be explored and deepened in order to ensure the accuracy of carbon data and avoid disputes across different markets.

3 GREEN TECHNOLOGIES

British businesses are interested in participating in hydrogen and CCUS projects given their importance in the decarbonisation of industrial and transport sectors. Given the high costs of these projects, we recommend that the government further step up policy support for businesses in these areas.

3.1 HYDROGEN

Despite progress in the country's several hydrogen demonstration projects, the industry is still at an early stage and a series of challenges need to be addressed before the industry can achieve economy of scale. Firstly, as hydrogen is subject to stringent safety measures, the absence of a single administrative body to regulate activities around its development, use, and transport has given rise to the issue of overregulation and confusion

9 'China Beijing Green Exchange: The registration and trading systems for China Certified Emission Reduction (CCER) scheme have been completed', People's Daily, February 2023.

10 'The EU Agreement on a Carbon Border Adjustment Mechanism', White & Case, 16 March 2023.

over regulating authorities. As such, we hope that the government establishes a single authority or clarifies the competent authority that is responsible for overseeing the safety and development of hydrogen.

Secondly, although China is the world's largest producer of hydrogen, its hydrogen energy mostly comes from coal regasification, gas reforming, and other industrial processes.[11] Going forward, green and blue hydrogen should play a bigger role in China's decarbonisation process and be deployed in more regions. In particular, green hydrogen is essential to reducing the overall emissions and its production should be accelerated. We believe that this goal can be achieved by the government offering more support measures to such projects, such as lower tariffs for renewable energy generation used to produce hydrogen. Over time, the government should gradually increase the required proportion of green hydrogen used by companies in industrial processes and for decarbonisation purposes.

Hydrogen delivery is another challenge that limits the potential of the industry. While transporting liquid and solid hydrogen costs less, the technology has not fully matured to allow large-scale production of hydrogen in these two forms – instead, gaseous hydrogen has been the most common form of hydrogen use in China, which is costly and technically difficult to transport. Therefore, the government should strengthen efforts to improve relevant infrastructure and regulations, including allowing gaseous hydrogen to be transported at higher pressure, as well as to reduce the costs of infrastructure and technology in order to build a scalable hydrogen supply chain. As green methanol and green ammonica can be generated from and converted back to green hydrogen and are both easier and cheaper to store and transport, more policy support should also be offered to the generation of green mechanol and ammonica.

As the hydrogen industry is developing, it is also increasingly important that related technical specifications are established so that a wide range of market players including manufacturers can adhere to them to increase the compatibility of hydrogen applications in the market and enhance reliability and efficiency across the supply chain. The government should therefore accelerate the establishment of codes and standard systems for various hydrogen application scenarios and provide more opportunities for foreign enterprises to participate in the setting and revising of the codes and standards in the hydrogen industry.

Meanwhile, whilst a lot of the current focus in China has been on using hydrogen to decarbonise the transport sector through fuel cell electric vehicles (FCEV), British businesses believe that considering a larger proportion of emissions come from the industrial sector as opposed to transportation, efforts must be stepped up to accelerate industrial decarbonisation via hydrogen. With the government setting a target of reducing industrial energy intensity by 13.5% during the 2021-2025 period, increasing hydrogen use in the industrial sectors will aid the realisation of this goal. So far, China's central and local governments have released a series of development plans for the hydrogen industry which recognise the importance of using hydrogen for industrial decarbonisation. Nevertheless, the hydrogen industry's development requires more policy support especially with regards to green hydrogen which faces notable challenges in scaling up given the high costs of green hydrogen and low incentives for businesses to produce or use green hydrogen. Therefore more policy support and incentives are needed.

Additionally, we believe that this is an area where the Chinese and the UK governments should increase dialogue and collaboration. The UK government released its latest hydrogen strategy in July 2022 that aims to increase the use of hydrogen across the economy, including in industry and heat, and has allocated funds to support a range of technologies, innovation projects and relevant feasibility studies. We believe that the UK and Chinese government should increase exchange on net zero pathways including their hydrogen strategies. In this

11 'China sets green hydrogen production target in national development plan', S&P Global Commodity Insights, April 2021.

process, UK businesses, some of which were involved in hydrogen projects in the UK, are also keen to contribute their own expertise to the development of the Chinese hydrogen market.

3.2 CARBON CAPTURE, UTILISATION AND STORAGE

Given China's large coal reserves, it will continue to be powering China's economic growth to a large extent in the near future. This highlights the indispensable role that CCUS will play in China's decarbonisation efforts as it can be used to offset the impact of carbon emissions in a wide range of hard-to-abate sectors, such as in coal-generated power plants, steel, and petrochemical industries.

Some studies estimate that China will need to reduce 600 million to 1.4 billion tons of carbon by 2050 and 1 billion to 1.8 billion tons to be on track to meet its dual carbon goals.[12]12 However, China's CCUS technology is still at its early stage of commercialisation with most of the projects only of a small scale. Given high costs, few enterprises are willing to invest in CCUS, except for a small number of oil producers that are using the technology to enhance the oil recovery rate. Therefore, concrete policy measures, from subsidies and tax credits to the carbon market mechanism, are needed to scale up CCUS deployment — especially in the industrial sector, and to promote the development of a safe and viable CCUS industry.

China also needs to strengthen the construction of relevant CCUS infrastructure, including transportation, storage, and network infrastructures. A comprehensive regulatory system also needs to be put in place to regulate different processes throughout the CCUS deployment (such as its planning, licences, construction, operation, supervision, and termination), as well as to set industry standards ranging from project development to accreditation of low-carbon products.

British businesses are interested in being involved in China's CCUS projects such as undertaking feasibility studies, supporting the development of policies and standards. As the Chinese government continues to pledge support for foreign business this year, we hope that foreign businesses are welcomed to collaborate with their Chinese counterparts in this area in order to contribute their expertise to the industrial decarbonisation process.

4 CLIMATE RELATED STANDARDS

As mentioned above, unified industry standards need to be established for emerging industries such as hydrogen and CCUS in order to increase compatibility of applications and improve efficiency across supply chains. Meanwhile, clear and consistent standards also need to be achieved for a range of other climate-related concepts in China, such as 'green products'. Without clear definition and standards, the issue of green washing will be rampant, diluting the quality of China's sustainability efforts.

Equally importantly ESG reporting standards which are still at an early stage of development, both in China and globally, need to be improved and unified. Whilst the China Securities Regulatory Commission has required listed companies on the Chinese mainland stock exchanges to disclose environmental information, there are no unified reporting standards. With the establishment of the International Sustainability Standards Board (ISSB) at COP26, which is tasked with developing common reporting standards on sustainability, we hope that China will increase international collaboration and alignment when formulating its own ESG standards. On 14 April 2023, the Hong Kong Stock Exchange (HKEX) also issued a consultation paper seeking comments on proposed changes to its ESG Reporting Code. The proposals seek to enhance climate disclosures and are substantially aligned with the ISSB S2 Climate-related Disclosures. It proposes to move climate-related disclosures away from 'comply or explain' to mandatory requirements. We hope that more alignment with international standards are also achieved on Chinese mainland stock exchanges. With unified ESG reporting rules, businesses and investors will have structured base references to benchmark at both the national and global level; it also increases transparency and ensures the quality of organisations' climate actions.

In summary, British chamber members look forward to the Chinese government accelerating energy transition – including increasing the use of renewable and clean energy, and speeding up the electricity market reform – achieving further progress on the carbon market, increasing the deployment of hydrogen and CCUS to achieve decarbonisation in a wide range of sectors. Increasing alignment with international best practice and putting in place regulatory and standards systems for carbon data and ESG requirements is also important to improve the quality of the decarbonisation process. We have no double that with efforts in these areas, the government will be able to achieve meaningful progress in carbon reduction while ensuring energy security.

12 'China CCUS Annual Report (2021) — Research on China's CCUS Pathways', Chinese Academy of Environmental Planning, Institute of Rock and Soil Mechanics of Chinese Academy of Sciences, The Administrative Centre for China's Agenda 21, July 2021.

RECOMMENDATIONS

KEY CHALLENGE	RECOMMENDATION
1 **Energy transition**	■ Achieve large-scale integration of renewables into the grid. ■ Build more effective energy storage systems to ensure grid stability; offer more policy support to energy storage businesses. ■ Clarify rules and accelerate implementation of inter-provincial green power trading and spot market trading. ■ Achieve better coordination of the green electricity certificates, green power trading and CCER to avoid the issue of double counting. ■ More development in allowing end (e.g. storages) to end (e.g. customers) pipeline access, enabling diverse and flexible infrastructure usage offers and ensuring competitive costs of usage. ■ Continue with the natural gas market reform including developing the futures market as a hedging and price discovery tool so as to foster efficient competition and encourage the optimal allocation of natural gas assets. ■ Allow reciprocity for foreign companies to conduct exploration and to develop mines in China, increase market-based price transparency and encourage international JVs in mining in order to ensure stable supplies of critical minerals.
2 **Carbon market**	■ Publish clear timelines of when other industries and institutional investors will be enrolled in China's carbon market, and expand the scope as soon as possible in order to increase market liquidity. ■ Tighten carbon quota for coal-fired power plants and enhance the monitoring, reporting and verification (MRV) system. ■ Restart CCERs as soon as possible in order to provide offset options. ■ Align standards with the EU carbon market and conduct talks with the EU on CBAM. ■ Develop systems for calculating, tracking and storing products' life-cycle emission data, explore and promote low carbon accreditation programmes and further develop relevant technologies such as blockchain in order to ensure the accuracy of carbon data and avoid international disputes.

KEY CHALLENGE	RECOMMENDATION
3 CCUS	■ Offer more financial and taxational policy support for CCUS projects. ■ Allow foreign businesses more opportunities to collaborate with Chinese counterparts in CCUS projects. ■ Develop CCUS-related standards from project development to accreditation of low-carbon products. ■ Publish relevant policies and regulations to guide the development of CCUS projects.
4 Hydrogen	■ Offer more financial and taxation policy support for hydrogen projects, especially green hydrogen/ green methanol/ green ammonia. ■ Accelerate industrial decarbonisation via hydrogen. ■ Improve relevant infrastructure and regulations for hydrogen transportation, including allowing gaseous hydrogen to be transported at higher pressure; reduce the costs of hydrogen delivery in order to build a scalable hydrogen supply chain.
5 Climate related standards	■ Clear and consistent standards need to be achieved for a range of other climate-related concepts in China, such as ‘green products’. ■ ESG reporting standards need to be improved and unified.

MUTUAL OPPORTUNITIES

CLEAN ENERGY

With China's focus on making its energy use cleaner, including increasing natural gas consumption, and boosting investment in clean energy, such as solar, offshore wind, and nuclear, opportunities in participating in China's energy market are ample for UK businesses. If the government continues to improve equal treatment of foreign companies in the market, UK companies should be able to benefit from the increasing demand for natural gas, nuclear power, and renewable energy as well as the decreasing costs of solar and wind power in China. Beneficiaries not only include oil and gas, and civil nuclear companies, but also smaller UK suppliers of cables, valve for clean energy projects, and facilities as well as quality control service providers. With the UK's strength in these areas, companies are well placed to participate in the market and be part of China's drive towards carbon neutrality.

CIRCULAR ECONOMY

China's carbon neutrality ambition is prompting the country to build a circular economy. As metal recycling reduces

energy consumption and carbon emissions, the demand for it will grow phenomenally as China's heavy industry also goes through decarbonisation. Whilst Europe and the UK have tremendous experience in the area, China still has a long way to go to increase its capacity of metal recycling. This offers promising opportunities for UK companies to offer their expertise and add capacity to the industry.

UPSKILLING

As China's energy system undergoes its transition away from coal and fossil fuels to cleaner energy sources, the country's labour force will need to simultaneously undergo a transition of its own to ensure that it has the skillset necessary to carry out this transition. The need to upskill China's labour force is important for regional governments and enterprises alike. Equipping employees with the skills they need for the energy transition will promote the reduction of carbon emissions, decarbonise industrial clusters, and repurpose local economies across China. There are ample opportunities for British businesses to deliver training programmes for employees in fossil fuel industries. These often combine training around project management, digital and technology, health, safety security, environment and quality (HSSEQ), asset optimisation, and decarbonisation. Companies are also providing employees in local firms with soft skill training, such as leadership, communication and mental health awareness.

FINANCIAL SERVICES

AT A GLANCE

SUB-SECTORS

Asset management

Insurance

Banking

KEY CHALLENGES

- Limitations of QDII Quotas and China's Negative List
- Difficulties with cross-border payments
- Difficulty setting up operations in China

KEY RECOMMENDATIONS

- Increase the maximum allocated capital restrictions to allow QDII funds to raise more capital.
- Continue to streamline cross-border payment processes including disclosure requirements, reducing waiting times, and lowering fees.
- Streamline the process for obtaining business licences and certificates for foreign financial services companies.

KEY MUTUAL OPPORTUNITIES

- Digital finance
- Green finance and ESG
- Hainan Free Trade Port and Greater Bay Area

STATE OF THE SECTOR

China's economy was hit hard by the COVID-19 pandemic in 2022, with prolonged lockdowns in major cities like Shanghai disrupting global supply chains, leading to a contraction of 2.6% in the second quarter.[1] As a result, China's GDP growth dropped from 8.1% in 2021 to 2.8% in 2022.[2] Despite these challenges, there is optimism for China's economy in the coming years, with the International Monetary Fund (IMF) revising China's growth outlook to 5.2% for this year following a 4.4% forecast in October 2022,[3] citing the reopening of the country's economy after Beijing abandoned its strict COVID-19 restrictions as a reason for the positive forecast.[4] BlackRock expects China's two-year average growth rate to be around 4.5%.[5]

China's financial services sector has experienced significant growth in recent years, with the banking sector, securities companies, and insurance industry all continuing to report strong growth in 2022. As of the end of 2022, combined assets of financial institutions had increased by 9.9% year on year (YoY), reaching RMB 419.6 trillion (GBP 50.4 trillion).[6] The banking sector played a significant role in this growth, with total assets increasing by 10% YoY.[7] Meanwhile, companies in the securities industry saw a 6.6% YoY increase in combined assets, and the insurance industry reported a 9.1% increase in combined assets to RMB 27.2 trillion (GBP 3.3 trillion) in 2022.[8] Despite this growth, the market share of total assets of foreign banks has continued to decline since peaking in 2007, to 1% in latest assessments in 2020.[9] Foreign banks' legal access to the China Foreign Exchange Trade Systems (CFETS) interbank market is capped at twice their capital in China, which limits their ability to compete in the Chinese market, particularly when they have limited capital compared to their domestic competition. Competition with domestic financial firms is also a continuous issue for foreign firms. Nevertheless, the sector may be cautiously optimistic as the state has recognized this concern and stated at the "Two Sessions" that equalising competition between SOEs and private business, both domestic and foreign, is a priority for 2023, including facilitating the launch of foreign-funded projects and opening the modern services sector to foreign investment.

China's insurance market has seen steady growth, with total assets of insurance companies reaching RMB 27.1 trillion (GBP 3.3 trillion) by the end of 2022 Q4.[10] Among different types of insurance companies, assets of property and casualty insurance and life insurance companies showed positive growth rates, reaching RMB 2.7 trillion (GBP 324 billion) (up 9.0%) and RMB 23.4 trillion (GBP 2.8 trillion) (up 9.3%), respectively.[11] In November 2022, the government announced measures to strengthen the regulation of insurance asset management companies to promote the healthy development of the industry. The Chinese insurance market is expected to continue expanding with the government's support and the country's economic growth. The personal pension programme, which complements China's pension insurance system's third pillar, was launched in 36 pilot cities, and involves 23 banks as at November 2022.[12] Under the new programme, residents can open personal pension accounts in banks and use the money to purchase various financial products.

1 'China's economic growth slows following COVID lockdowns', NPR, July 2022.

2 '2 Reasons why China is Still in Lockdowns', Business Insider, August 2022.

3 'IMF Raises Global Growth Forecasts', World Economic Forum, February 2023.

4 'IMF Raises Global Growth Forecasts', World Economic Forum, February 2023.

5 '2023 Global Outlook Update', BlackRock, March 2023.

6 'China's Financial Institutions' Assets Rise in 2022', Xinhua, March 2023.

7 'China's Financial Institutions' Assets Rise in 2022', Xinhua, March 2023.

8 'China's Financial Institutions' Assets Rise in 2022', Xinhua, March 2023.

9 'Foreign Banks Establish 41 Legal Person Lenders in China', China Banking News, December 2020.

10 'Supervisory Statistics of the Banking and Insurance Sectors', China Banking and Insurance Regulatory Commission, February 2023.

11 'Supervisory Statistics of the Banking and Insurance Sectors', China Banking and Insurance Regulatory Commission, February 2023.

12 'China's Economic and Industry Outlook for 2023', Deloitte, December 2022.

The insurance market recorded a primary insurance premium income of RMB 4.7 trillion (GBP 564 million) in 2022, up by 4.6% YoY. The number of new insurance policies issued increased by 13.27% YoY. The insurance market in China is expected to continue growing and evolving as new regulations and financial products are introduced to meet the changing needs of customers.

China's outward direct investment (ODI) has been primarily driven by infrastructure investment and is expected to increase in 2023. In 2022, China's overall ODI amounted to RMB 1.2 triillion (GBP 144 billion), a 0.9% YoY increase. The value of non-financial ODI reached RMB 807.5 billion (GBP 96.9 billion), up 2.8% YoY. However, the value of announced China overseas mergers and acquisitions (M&As) decreased by 52% YoY to a historic low of RM 205.3 billion (GBP 24.6 billion) in 2022, and net foreign direct investment inflows in the first half of 2022 decreased to 0.9% of GDP, compared to 1.5% in the same period in the previous year. Whilst China's use of foreign capital in 2022 reached more than RMB 1.3 trillion (GBP 162 billion) (a record high), the value of foreign-held equities in China fell by nearly 20% in the first three months of 2022, with RMB-denominated bonds being unpopular due to a weaker currency and higher interest rates in America.[13] Despite these challenges, some global funds saw potential in Chinese offshore stocks in 2022, due to current valuations offering adequate compensation.

Looking forward, China is expected to continue its push for foreign direct investment, recognizing the need for foreign cooperation in many sectors, including financial. The country is also aiming to further open up its markets, which could lead to further growth in 2023. Additionally, the state has stated that equalising competition between state-owned enterprises and private businesses, both domestic and foreign, is a priority for 2023, indicating potential opportunities for private investors in the market. However, recent regulatory changes in the financial services sector have caused some uncertainty in the investment environment, as a new supervisory body is set to take over some responsibilities from the central bank and the banking and insurance regulatory commission this year. Despite this, China's outward direct investment and financial services sectors continue to grow and the number of industries in which foreign investment is restricted has fallen by 51%.[14]

13 'Foreign Investors are Fleeing China', The Economist, May 2022.

14 'Report on the Work of the Government', Delivered by Premier Li Keqiang at the First Session of the 14th National People's Congress of the People's Republic of China, March 2023.

KEY CHALLENGES

1 MULTI-SECTOR CHALLENGES

1.1 QDII QUOTAS AND CHINA'S NEGATIVE LIST

Despite the positive movements in QDII quotas, limitations continue to hinder the growth and effectiveness of QDII funds. One such limitation is the maximum allocated capital restrictions, which restricts the fundraising ability of QDII funds. Although the QDII approved investment fund reached an all-time high of RMB 1.1 trillion (GBP 132.3 billion) in December 2022,[15] quotas are still capped and the allocation process for these quotas remains challenging with lock-up periods and fund repatriation restrictions that further impede the growth of QDII funds. Moreover, accessibility of QDII funds remains a concern, as the number of institutions allocated the quotas is still limited, with only 182 companies being allocated QDII quotas as of February 28, 2023 (an increase of 8 companies from last year).[16] Addressing these challenges by loosening the restrictions would enable QDII funds to better allocate assets and risks, increase liquidity, and diversify portfolios, allowing them to better react to changes in global market conditions and investor sentiment. The potential benefits of these changes would allow QDII funds to more effectively achieve their objectives, supporting growth in the QDII program and broader economic development.

1.2 DIFFICULTIES WITH CROSS-BORDER PAYMENTS

Cross-border payments in the China market showed steady expansion in 2022. With over 4.4 million transactions processed through China's RMB cross-border payment system, totaling RMB 96.7 trillion (GBP 11.6 trillion). 2022 saw a 21% YoY increase in transaction value and 32% YoY increase in volume, according to a report by the People's Bank of China.[17] However, British businesses report that there are still substantial barriers to the efficient and timely transfer of capital and funds between companies and their subsidiaries situated outside of the Chinese mainland as a result of China's "closed" capital account policy which limits the movement of money into or out of the country unless the transaction meets strict foreign exchange rules. This is worsened by Chinese domestic firms' lack of awareness of the State Administration of Foreign Exchange (SAFE) registration leading to regular claims that they cannot transfer money abroad. This has a significant impact on financial services companies,with delays and impacts to short-term liquidity. The length of the bureaucratic process - including provision of contract(s), invoice(s) and other materials, as well as time required to visit banks - is a burden on companies to the extent that our members have stated these administrative processes of cross-border payments as a reason that they will not be investing more in China.

1.3 CHALLENGES NAVIGATING REGULATORY FRAMEWORKS IN A RAPIDLY EVOLVING SECTOR

The financial regulatory system in China is strong, particularly in regulations applicable to the banking system. However, the insurance, asset management, and securities sub-sectors face challenges in entering and navigating the regulatory environment. Whilst the expansion of pilot programs indicates a willingness to open up the market and remain responsive to the evolving industry, businesses need clearer timelines and guidance in the application for licences, approval, implementation, and ongoing compliance processes within the industry.

Pension insurance companies are encouraged by the expansion of pilot programs of exclusive commercial pension insurance nationwide and look forward to participating in these programs. Whilst this has provided some workarounds in terms of the ability to sell pension insurance online, businesses hope that the requirement to establish a local branch if the product is to be distributed offline is removed moving forward. The capital input requirements, costs, and regulatory barriers to establishing branches across the mainland continue to pose significant challenges to these businesses.

15 'China State Administration of Foreign Exchange (SAFE): QDII', CEIC, February 2023.

16 'Qualified Domestic Institutional Investors (QDIIs) with Investment Quotas Granted by the SAFE', SAFE, February 2023.

17 'China's RMB cross-border payments post steady growth in 2022: report', The State Council of the People's Republic of China, March 2023.

Another encouraging pilot programme is the e-fapiao which makes invoicing much simpler however implementation remains a challenge as they are still required to be printed for accounting purposes which seems counterproductive to the concept of an e-fapiao. This accompanies a huge step in the industry as much administration has moved online making it easier for companies to submit applications such as electronic business licences.

As with previous years, a significant challenge for foreign firms is regulation that requires in-person verification or branch visits. Although much has moved online, these remaining verifications restrict foreign businesses. This includes the real name verification of Legal Representatives due to the necessity of in-person facial scanning, as well as banks insisting on in-person visits from the Legal Representative for due diligence in bank applications. In the past year these rules have become more stringent and the use of alternative methods often leads to difficulties later on for tax registrations or even the blocking of bank accounts due to due diligence guidelines from the Peoples Bank of China (PBoC). Such in-person legislature disproportionately affects foreign-invested firms.

The recent tightening of rules by the China Banking and Insurance Regulatory Commission (CBIRC) for commercial banks to categorise risk assets may also present challenges for businesses. The new requirements, which will come into effect on July 1, may lead to increased capital requirements and a reduction in the availability of credit as banks move to re-categorise risk assets. Businesses are, however, pleased to note that there has been a transition period included for existing financial assets to allow them until the end of 2025 to bring themselves into compliance with these requirements.

The proposed overhaul of the financial regulatory framework reflects China's recent focus on the "real economy" industry sectors and the usage of financial markets to serve these sectors. Businesses hope that this overhaul will involve collaborating with domestic and international businesses alike to allow for innovative approaches, products, and services being introduced into the market. Foreign financial services companies can provide valuable contributions to discussions and working groups, bringing their international expertise to help shape the domestic market's development, and regulatory bodies should continue to work with businesses within the financial services sector to ensure that the industry grows sustainably and responsibly whilst simultaneously fostering innovation and competition.

1.4 SETTING UP OPERATIONS IN CHINA

Despite a number of restrictions on foreign ownership and participation in China's financial services sector being lifted, British businesses continue to report challenges in setting up and expanding operations in the Chinese mainland. A third year of COVID-19 controls has made it difficult to attract and retain foreign talent, and impacted investment decisions. In last year's *British Business in China: Sentiment Survey*, only 27% of financial service companies viewed China as a high priority investment destination.[18]

British businesses continue to face regulatory challenges in the market. In addition to being more likely to face market access barriers than other sectors, a lack of transparency in the regulatory environment and difficulties in obtaining business licences and certificates continue to plague British financial services companies. This opacity leads to misconceptions such as the impossibility of establishing a Chinese subsidiary without being able to physically visit China. The majority of application procedures have moved online and the remaining procedure can be dealt with through a third-party service provider, via a power

18 *'British Business in China: Sentiment Survey 2022-23',* British Chamber of Commerce in China, December 2022.

of attorney, to authorise them to deal with the opening of a company on your behalf. However, companies are unaware of this due to a lack of communication of this option with British financial services companies reporting an increase in the number of organisations in 2022 seeking business advisory services related to their market entry, no longer solely company setup support, as they are so unclear on the procedure needed to open in China.

Greater clarity and communication from the Chinese government on regulatory requirements, streamlined processes for obtaining necessary licences, and incentives for foreign talent would not only foster a more welcoming environment for foreign businesses seeking to enter China's financial services sector, but also create a more favourable investment climate and attract foreign expertise. This would be in line with China's drive for FDI, could help stimulate growth in the sector and in the economy at large, and also encourage greater competition, innovation and efficiency in the market.

1.5 CYBERSECURITY

2022 saw the acclimatisation of the financial sector to the *Personal Information Protection Law* (PIPL) introduced at the end of 2021. Greatly aiding this adaptation was the introduction of several key regulations and guidelines since July 2022 including the *Security Assessments Measures for Outbound Data Transfers*, the *Implementation Rules of Personal Information Protection Certification*, and the *Administrative Measures of Standard Contract for Outbound Transfer of Personal Information*. These documents have clarified several key requirements on cross-border data flows.

However, several issues have already arisen upon the security assessments undertaken by provincial cyber authorities. Our members claim that in Beijing, applications were frequently sent back for revision in fields where there was scant precedent.

The regulations also give organisations a deadline (1st March 2023) by which they must comply with their current data transfer practices. However, as at time of writing, no Wholly Foreign-Owned Entities in Beijing have been approved. There is little visibility into the approval process and our members have stated that the Cyberspace Administration of China (CAC) seems to lack enough personnel, possibly explaining the lack of approvals thusfar. This is creating confusion and uncertainty among foreign companies, particularly in the face of possible penalties after the March 1st 2023 deadline if they have submitted their requests for approval.

Another concern is how this new legislation affects company and client data. Many international companies have Enterprise Resource Planning (RP) or HR systems in place on a headquarter level, causing worries about compliance with the new regulations and the steps required to remain compliant, such as filings with the CAC.

The release of more legislation is a positive step, but in 2023 the focus should be on ironing out these inconsistencies between legislation and implementation. Companies require more clarity on existing regulations and any future regulations; and more opportunity to engage with regulators directly and to have their concerns addressed.

1.6 GREEN FINANCE

Green finance lies at the heart of China's transition to green energy and its success in achieving its net-zero objectives by 2060. China's green finance is therefore unsurprisingly accelerating at an incredible speed, with RMB 1.9 trillion (GBP 224.6 billion) in green bonds being issued during the first 11 months of 2022, a 186% increase on 2021 issuances.[19] Despite British businesses expertise in green finance, the Carbon Emission Reduction Fund established by the PBoC is still restricted in terms of foreign participation, despite welcome announcements that two foreign banks were included on the list of eligible banks in August 2022.[20] British banks hope that more foreign banks are included moving forward, as innovation and diversification in the green financial services industry will be necessary to meet the large capital demands for decarbonising China's large economy.

Additionally, whilst China's green bond market is the largest globally, it needs greater international harmony. According to reports, only approximately 40-50% of Chinese green bonds are in alignment with European standards.[21] Further development is required to address conflicting policies and unclear frameworks in order for businesses to effectively and correctly undertake ESG reporting and ESG investments. British banks are not only committed to a cleaner, greener and more sustainable future, but also have a wealth of expertise in reporting on a global basis. Following the welcome update to the *Catalog of Projects Supported by Green Bonds (2021 Edition)* and the introduction of the *Green Bond Principles (2022)* last year, as a necessary step towards aligning with international standards, British businesses would welcome the opportunity to participate and contribute to the continued development and unification of China's green financial system.

1.7 FINTECH

Fintech is essential for the evolution and delivery of financial services in an increasingly connected global world. Chinese and foreign financial service providers alike need to adopt and integrate fintech into their offerings in order to compete on both a domestic and global level. The release of the *Fintech Development Plan for 2022-2025* by the PBoC last year is an encouraging sign that the Chinese government recognises the importance of the development and role of Fintech in China's financial services industry. However, members report that Chinese authorities remain cautious in their approach to fintech companies and that the implementation of strict regulations coupled with the lack of clarity in regards to cybersecurity, cross border payments and digital currency regulations, make it difficult for companies to leverage opportunities in the sector. With greater clarity and ability to provide innovative fintech solutions in the China market, businesses can help in speeding up the development of the financial services sector and better serve the Chinese market.

2 BANKING

2.1 ACCESS TO BOND AND INTERBANK BOND MARKETS

The Chinese bond market is the second largest in the world with the Chinese Bond Connect Market hitting new records for trade volume in 2022, exceeding RMB 8 trillion (GBP 960 billion).[22] In March 2023, the list of foreign investors allowed access to the Stock Connect experienced the biggest reform in years as 90% of mainland bourses' market capitalisation became open to foreign investors.[23] These adjustments brought in RMB 27.6 billion (GBP 3.3 billion) in the first three weeks. Analysts predict that if foreign investors buy a comparable amount of these equities as they have other securities in the plan, they will eventually bring in RMB414.6 billion (GBP 49.7 billion) in foreign capital.[24]

Although this is a huge step forwards for international inclusion, the uncertainties over the Chinese market remain. In that same March 2023, bond-pricing data disappeared from the vendor feeds leading traders in one of the largest fixed-income markets in the world forced to scramble to exchange data via texts.[25] Without any explanation, the ban was lifted a few days later, but not before trade volumes fell by as much as 60%. Thus although China appears to be aiming to improve business conditions, these kinds of incidents provide weight to accusations that the Chinese market is unpredictable and therefore un-investable.

Amongst this environment, data from the Chinese government shows that overseas capital has accounted for less than 5% of China's bond market since 2018.[26] This is

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19 'China's Green Bond Market', FinanceAsia, March 2023.

20 'Two foreign banks eligible for carbon reduction facility', ChinaDaily, August 2022.

21 'China's Green Bond Market', FinanceAsia, March 2023.

22 'Flash Report 2022', China Bond Connect, March 2023.

23 'Chinese Officials Promise Foreign Investors Greater Access', The Economist, April 2023.

24 'Chinese Officials Promise Foreign Investors Greater Access', The Economist, April 2023.

25 'Chinese Officials Promise Foreign Investors Greater Access', The Economist, April 2023.

26 'Overseas Investors Increase Chinese Mainland Bond Holdings by $166.6b in 2021', The State Council of the People's Republic of China, January 2022.

very low in comparison to similar large economies such as South Korea (ROK) and Japan. This is due to strict legislation on China Interbank Bond Market (CIBM) licences in which in 2022 only eight foreign-funded banks have obtained interbank bond market underwriting licences in relation to non-financial enterprises debt financing instruments.[27] Discernibly, only two of these eight qualified as Category A leader underwriters,[28] only two qualified as Category B lead underwriters[29] and just four enterprises qualified as underwriters.[30]The PBoC additionally restricted the business range of Category B lead underwriters to debt financing instruments issued by offshore non-financial firms only.[31] This means that foreign-funded banks are limited to the Panda bond market, which is a much smaller market in comparison to the domestic interbank bond market. As well as being a smaller market, overseas financial firms are also subject to more stringent requirements on the issuance of Panda bonds.

However, Chinese bonds themselves are becoming increasingly accessible through their improved inclusion in major bond indices such as FTSE Russell and JPMorgan since the end of 2021. Furthermore, in 2022 the CFTS reduced Bond Connect service fees by 25%, extended trading hours in the onshore forex market and rolled out a service for cross-border bond subscriptions, all in the aim of encouraging overseas investors to participate in the Chinese bond market.[32]In a particularly encouraging step, in September 2022 the China Financial Futures Exchange began allowing foreign access to stock index options.[33] We are pleased to note continued steps towards liberalising China's vast capital market. However, to maintain a healthy and competitive financial sector, foreign banks would welcome more regular grants of CIBM licences and the ability to become lead underwriters.

2.2 DIGITAL CURRENCIES

China remains at the forefront of the global race to develop central bank digital currencies, in its ongoing promotion of yuan internationalisation. In the largest cross-border central bank digital currency trial to date, the e-CNY was also the most issued and actively transacted token used to settle cross-border trades.[34] Furthermore, since April 2022, China has made further progress in the roll-out of the e-CNY pilot programme, expanding testing to six additional regions including Tianjin, Chongqing, Guangzhou, Fuzhou, Xiamen, and six cities in the province of Zhejiang where the 2022 Asian Games were hosted.[35] The city of Beijing and Zhangjiakou were also included in the pilot programme following the 2022 Winter Olympics, and the digital renminbi was further expanded again into five additional regions on December 16, 2022.

Despite the burgeoning sector that is the development of digital currencies, and the value that British businesses might simultaneously service and share from being able to participate in the e-CNY program, foreign banks continue to report being excluded from the development of digital currencies. British banks have large international footprints and rich experience in dealing with digital currencies being piloted in other countries around the world, and could therefore make a valuable contribution to the ongoing development of the e-CNY.

3 INSURANCE

3.1 BARRIERS TO PROVIDING ONLINE INSURANCE PRODUCTS

The insurance industry in China has seen an uptick in online policy sales since the COVID-19 pandemic began, particularly for low-value plans. However, regulatory requirements for insurance companies offering online services still heavily favour larger domestic insurers, making it difficult for smaller companies to compete in the market. Whilst navigating the regulatory landscape in China, obtaining specific licences for selling online remains complex and consumer protection rules have become more prevalent in new regulations released by CBIRC increasing compliance concerns for businesses.

Businesses call for greater flexibility in the insurance sector to develop and utilise technology to meet evolving customer needs. For example, despite the prevalence of online payment tools such as WeChat Pay and Alipay, insurance policies still need to be paid by bank transfer.

27 See: The list of underwriting institutions for the debt financing instruments of non-financial enterprises (nafmii.org.cn).

28 Ibid: Deutsche Bank and BNP Paribas.

29 Ibid: HSBC and Standard Chartered.

30 Ibid: JPMorgan Chase, Citi, MUFG and Mizuho.

31 'The Banking Regulation Review: China', The Law Reviews, May 2022.

32 'China takes fresh steps to open the bond market to foreigners', Reuters, July 2022.

33 'China broadens foreign access to financial, commodity derivatives market', Reuters, September 2022.

34 'China's digital yuan stands out', Reuters, October 2022.

35 'China central bank expands digital yuan pilot scheme to more cities', Reuters, April 2022.

Applications are also not permitted to be made online, creating increased burdens for consumers and businesses alike. Further, many British businesses are eager to expand their service offerings within the Chinese mainland, but the dominance of larger insurers in the market remains a barrier. Currently, foreign invested insurers represent a very low proportion of the market, limiting competition and innovation. To address this, it would be beneficial to remove nominal asset and solvency thresholds and replace them with ratios that can be applied to companies of any size. This would level the playing field and encourage competition, allowing smaller insurers to enter the market and offering more options for customers. Improved access for foreign insurers to the Chinese market would also enable international players to bring their enhanced underwriting capabilities and greater risk appetite to the table, benefiting the market as a whole.

3.2 REQUIREMENT TO ESTABLISH A BRANCH IN EVERY LOCALITY IN WHICH INSURERS HAVE CLIENTS

Insurance companies with a national licence that focus on offline service provision continue to face the requirement of establishing a physical branch in every locality in which they have clients. Although some foreign insurers report having successfully navigated the process of establishing physical branches in China, challenges include the costs associated with this and the length of time it takes to obtain approval for the necessary licence. A close relationship with regulators is also essential. This requirement prevents insurance providers from reinvesting revenue in improving their product and service offerings, which is a concern for members of the industry. British insurance providerswould welcome the relaxing of requirements so that more domestic and foreign insurance companies can better service the market.

4 ASSET MANAGEMENT

4.1 UNCERTAINTY ON SCOPE OF QFI

The QFI mechanism has continued to gain momentum since its inception, with 757 foreign investors having successfully obtained QFI approvals from the China Securities Regulatory Commission (CSRC) as at February 2023, with 89 approvals being issued since January 2022.[36] Ongoing changes to the QFI and CIBM direct platforms have continued to facilitate direct access to China's capital markets for foreign investors, and members welcomed the expansion of qualifying requirements to include qualitative aspects, such as evidence of a good credit history. This, coupled with more streamlined processes involving less paperwork and quicker turnarounds, as well as the widened scope of investable assets to include commodities, have been well received.

However, members continue to call for greater clarity in the underlying derivative markets and products in which QFI's can invest in, as well as the taxation system on such investments and the capital repatriation process. Greater clarity would provide even greater confidence amongst foreign investors, and would continue to drive investor appetite in China.

4.2 THE SHANGHAI-LONDON STOCK CONNECT

In February 2022, the CSRC expanded the scope of the Shanghai-London Stock Connect scheme to include bourses in Switzerland and Germany. Additionally, companies listed on the Shenzhen Stock Exchange are now able to issue Global Depository Receipts (GDRs) overseas. Despite the expansion of the scheme, the issuance of Chinese Depositary Receipts (CDRs) has been slow to take off, with only five Chinese companies listed in London and issuing GDRs as of March 2023.[37] Despite a number of London Stock Exchange (LSE) listed companies expressing interest in participating in the scheme, there are no reports of any having actually filed for CDRs in Shanghai.

To address these challenges, specifically the uptake of CDRs and the overall effectiveness of the stock connect scheme, the CSRC could consider speeding up the CDR trial program to allow overseas-listed Chinese companies to return to the A-share market at a faster pace, thus improving access to the A-share market for foreign companies. Furthermore, there is a need for more detailed regulations and specific mechanisms for the quotation, pricing, and financing of CDRs. This is especially important given increasing concerns about the low volume and price performance of deposit receipts on the UK and China's respective capital markets. Closer cooperation between Chinese securities regulators and other departments would also go towards helping to ensure that CDR issuance better serves the purpose of improving the utilisation of capital.

36 'List of Qualified Foreign Investors', China Securities Regulatory Commission, March 2023.

37 'London seeks to improve its game as Zurich draws Chinese listings', Reuters, March 2023.

RECOMMENDATIONS

KEY CHALLENGE	RECOMMENDATION
1.1 Limitations of QDII Quotas and China's Negative List	▪ Increase the maximum allocated capital restrictions to allow QDII funds to raise more capital. ▪ Streamline the allocation process for QDII quotas and reduce lock-up periods and fund repatriation restrictions to facilitate growth and investment in QDII funds.
1.2 Difficulties with cross-border payments	▪ Improve and provide clarity on foreign exchange rules to facilitate cross-border transactions for foreign businesses operating in China. ▪ Continue to streamline cross-border payment processes including disclosure requirements, reducing waiting times, and lowering fees.
1.3 Challenges navigating regulatory frameworks in a rapidly evolving sector	▪ Reduce capital input requirements and costs for pension insurance companies to encourage their continued participation in the market. ▪ Streamline the approval, implementation, and ongoing compliance processes for businesses in the industry. ▪ Ensure that government, businesses and other industry experts cooperate to allow regulatory mechanisms to manage the sector holistically as innovative new products continue to be developed. ▪ Allow foreign companies to participate in working groups in the financial services sector to contribute to the continuing growth and shaping of the Chinese market. ▪ Continue the development of pilot programmes and allow foreign businesses to actively participate in these.

KEY CHALLENGE	RECOMMENDATION
1.4 Difficulty in setting up operations in China	■ Implement a clearer and more streamlined process for obtaining entry approval and visas for foreign talent to enter China. ■ Improve transparency and clarity in the regulatory environment for foreign financial services companies. Providing clear guidance and communication on regulatory requirements will help to reduce uncertainty and encourage more foreign investment in the financial services sector. ■ Streamline the process for obtaining business licences and certificates for foreign financial services companies. ■ Provide incentives for foreign talent, such as offering more favourable visa policies or tax incentives, to attract and retain foreign expertise in the financial services sector.
1.5 Cybersecurity and data	■ Provide further guidance and support to provincial cyber authorities to ensure they are equipped with the necessary resources and expertise to conduct effective and efficient security assessments. ■ Ensure that approval processes for security assessments are transparent, and provide clear reasons to applicants in the event of a rejection with suggested necessary revisions. ■ Reduce confusion and uncertainty by addressing the issue of conflicting regulations and inconsistencies in implementation. This will require greater coordination and communication between different government agencies involved in regulating cross-border data transfers and personal information protection. ■ Establish more direct channels of communication between regulators and businesses. ■ Extend the deadline for compliance with current data transfer practices. ■ Provide more clear and detailed regulations and guidelines to assist companies in navigating the regulatory framework pertaining to data transfers. ■ Provide clear guidelines on implementation and consequences of non-compliance. ■ Include provisions for cross-border data flows between affiliated businesses.

KEY CHALLENGE	RECOMMENDATION
1.6 Green finance	■ Match International standards for ESG disclosure requirements.
1.7 Fintech	■ Provide further clarity on the existing regulatory framework for fintech services. ■ Remove restrictions on foreign fintech companies entering the market.
2.1 Access to bond and interbank bond markets	■ Allow and encourage more foreign banks to obtain interbank bond market licences. ■ Continue to increase the number of licences granted to foreign banks to become lead underwriters of bonds. ■ Streamline regulations and reduce stringent requirements for overseas financial firms. ■ Allow foreign investors to invest in a wider range of bonds.
2.2 Digital currencies	■ Encourage foreign banks to participate in the development of the e-CNY program, and allow them to contribute to the ongoing development of the currency by leveraging their expertise in dealing with digital currencies being piloted in other countries around the world. ■ Provide incentives such as tax breaks and other benefits to foreign banks to encourage their participation in the development of the e-CNY.
3.1 Barriers to providing online insurance products	■ Simplify requirements for insurance companies who wish to offer online services so as to increase competition in the market. ■ Replace nominal asset and solvency thresholds with ratios that can be applied to companies of any size to level the playing field and encourage competition.
3.2 Requirement to establish a branch in every locality in which insurers have clients	■ Streamline the application and approval process for foreign-invested and foreign insurance providers to obtain branch licences.

KEY CHALLENGE	RECOMMENDATION
4.1 Uncertainty on scope of QFI	■ Continue to provide clarity and transparency on the underlying derivative markets and products in which QFI's can invest in. ■ Develop a clear and predictable taxation and capital repatriation system for QFI investments.
4.2 The Shanghai-London Stock Connect	■ Accelerate the CDR trial programme to allow overseas-listed Chinese companies to return to the A-share market at a faster pace. ■ Develop more detailed regulations and specific mechanisms for the quotation, pricing, and financing of CDRs to ensure their effectiveness. ■ Allow LSE premium-listed issuers to raise capital from the Chinese domestic market, thereby increasing the attractiveness of the Shanghai Stock Exchange and encouraging uptake of the program.

MUTUAL OPPORTUNITIES

DIGITAL FINANCE

China's digital finance industry continues to see unprecedented growth, leading in areas of FinTech development and the uptake of alternative forms of payment. Driven by a growing middle class and increasing adoption and prevalence of smartphone technology, there were reportedly over 911 million mobile payment users in China in 2022,[38] and the total transaction volume of mobile payments reached RMB 499.6 trillion (GBP 59.9 trillion).[39] This presents a significant opportunity for British businesses operating in the financial services sector, with a number of areas where UK companies can leverage their expertise and technology in the ongoing development of China's digital finance market.

GREEN FINANCE AND ESG

2022 saw China's focus on ESG come into fruition with the signing of a memorandum of understanding between the International Financial Reporting Standards Foundation

38 'Mobile Payment Users in China 2013-2022', Statistica, April 2023.

39 'Mobile Payment Users in China 2013-2022', Statistica, April 2023.

and the Ministry of Finance of China to establish a Beijing office, with the explicit aim to generate more discussions from the emerging ESG market. Moreover, China released the *Guidelines for Green Finance in the Banking and Insurance Sectors (Green Finance Guidelines)* June 2022, providing clarity on the ESG-obligations of financial institutions both domestic and international.

The increase in discourse and legislature has been accompanied by a boom in green investment in China in 2022 with nearly triple the number of debuts than over the previous four years combined.[40] This increase is due to both continually improving legislation in China on ESG disclosure and green investment and because ESG investing is uniquely compatible with Beijing's growing push for carbon neutrality and 'common prosperity'.

China self-defines ESG initiatives to be closely hewed with its political priorities which makes ESG a huge area of opportunity as the political focus will provide support, funding and improvement in this sector. Companies and industries favoured under these policies are great investment opportunities. ESG-related enforcement remains a priority for regulators with the message that companies that consider environmental costs and social risks will, in the long term, generate higher returns.

China's unique definition of ESG is itself an opportunity as international business that may not have been rewarded in other countries for their ESG initiatives are in China. However, China's own ESG rating standards are not so far from Task Force on Climate-related Financial Disclosures (TFCD) regulation as is shown by the numerous Chinese financial institutions that have also become supporters of the TCFD. China's legislative approach to ESG is an opportunity for international businesses to contribute to achieving China's 2030 and 2060 carbon goals and take immediate action to play a part in China's transition towards a more sustainable future and reap the benefits.

HAINAN FREE TRADE PORT AND GREATER BAY AREA

Both the Hainan Free Trade Port and the Guangdong–Hong Kong–Macao Greater Bay Area continue to present opportunities for British financial services providers as efforts continue to establish these areas as major business hubs.

Over the past five years, the use of foreign investment in Hainan grew 63.2% annually, on average.[41] In 2022 alone, foreign investment used in Hainan exceeded RMB27.6 billion (GBP 3.3 billion), representing a YoY increase of over 15%,[42] with the province welcoming 1,320 new foreign-invested enterprises last year.[43] This continued growth signals significant potential with the ongoing offer of tax structures that benefit foreign institutional investors, other FDI incentives, and the development of key infrastructure. In 2022, the Greater Bay Area (GBA) also experienced ongoing growth, with a combined GDP of approximately RMB 10 trillion and home to the largest number of high net worth families in China.[44] Shenzhen remained in the top three Chinese cities in terms of GDP last year, alongside Shanghai and Beijing, while Hong Kong remains a key centre for finance, commerce, and trade as home to regional headquarters of over 1,400 multinational companies.[45]

British financial services businesses see continued opportunity to provide services and products in support of the growth and development of these areas. The potential for further growth in these regions offers opportunities to benefit from the ongoing investments and expansion in these areas.

40 'Xi's ESG fund investing boom follows Xi's political agenda', Bloomberg, September 2022.

41 'Five years on, China speeds its way to build Hainan free trade port', Xinhua, April 2023.

42 'Report on the Work of the Government of Hainan Province', The People's Government of Hainan Province, March 2023.

43 'Hainan delegates propose methods to attract foreign capital', The People's Government of Hainan Province, March 2023.

44 'Top 10 regions with high net worth families in China', Guangdong-Hong Kong-Macao Greater Bay Area, November 2023.

45 '2022 Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong', The Government of the Hong Kong Special Administrative Region, November 2022.

HEALTHCARE

AT A GLANCE

SUB-SECTORS

Medical technology

Pharmaceuticals

KEY CHALLENGES

- The need to continue to improve the Volume-Based Procurement (VBP) system
- Unfair treatment of Foreign-Invested Enterprises (FIEs) in public procurement
- Challenges around cross-border data transfers

KEY RECOMMENDATIONS

- Greater focus on value-based procurement in order to build a sustainable healthcare ecosystem.
- Reinforce fair treatment in public procurement.
- Allow secure and efficient outbound transfers of clinical data.

KEY MUTUAL OPPORTUNITIES

- Demographic trends and healthy ageing
- Rare diseases and innovative solutions

STATE OF THE SECTOR

China's healthcare spending as a percentage of GDP increased to 5.8% in 2020 before declining slightly to 5.6% in 2021-22 as the economy rebounded after the first year of the pandemic.[1] The Economist Intelligence Unit forecast that the country's healthcare spending will rise in the coming years, to reach 5.7% of GDP in 2023-27.[2] The local-currency compound annual growth rate (CAGR) for healthcare spending is expected to reach 7% in the same period, whilst pharmaceutical sales will expand at a CAGR of 8.1% in local-currency terms.[3]

Several trends point to the market potential of China's healthcare industry beyond the numbers. China's demographics are changing, with a rapidly ageing population that is also increasingly health-conscious. A greater awareness of preventative healthcare continues to stimulate demand for and development of high-quality healthcare. Foreign companies in the healthcare sector, as a result, are able to tap into the continually growing market potential.

On the policy level, the Chinese government is further implementing its 'Healthy China 2030' initiative and continuing with its healthcare reform, aiming to strengthen the country's healthcare infrastructure and system, and to improve public health.[4] Against this background, the government has attached increasing importance to managing rare diseases, non-communicable and chronic diseases, as well as providing better maternal and paediatric care. Policies have also been rolled out to enhance domestic medical R&D capabilities and to accelerate the introduction of foreign innovative drugs and medical technology into the Chinese market. Some regional initiatives, such as the Greater Bay Area (GBA) and the Hainan Free Trade Port initiatives, also indicate more market openings for foreign businesses, with prospects to speed up the approval

1 'Industry Report: Healthcare, China', Economist Intelligence Unit, February 2023.

2 'Industry Report: Healthcare, China', Economist Intelligence Unit, February 2023.

3 'Industry Report: Healthcare, China', Economist Intelligence Unit, February 2023.

4 'Hold High the Great Banner of Socialism with Chinese Characteristics and Strive in Unity to Build a Modern Socialist Country in All Respects', Xinhua News Agency, October 2022.

process for overseas drugs and medical devices to be marketed in those areas.

While the COVID-19 pandemic posed challenges to the delivery of healthcare services, it has also stimulated demand in digital healthcare services and drug sales. The expansion of digital healthcare services and online drug sales in fact has enabled businesses to increase their reach to patients. In December 2022, the *Supervision and Administrative Measures of Online Drug Sales* went into effect, which allowed patients to purchase drugs from online stores more easily whilst also aiming to ensure safety.[5]

Nevertheless, a series of other policy reforms in the industry have had mixed impacts on foreign companies. Most importantly, pricing pressure remains a significant challenge for multinational pharmaceutical and medical devices companies in China. The government has aimed to slash medical costs through the volume-based procurement (VBP), the National Reimbursement Drug List (NRDL) and the DIP/DRG payment method. The types of products covered by the national VBP have been expanding steadily over the past few years, and local VBPs have implemented centralised procurement plans for biological drugs, TCMs, and medical devices more frequently.[6] The most recent 8th round of national VBP in early 2023 was expected to result in an average price cut of 56% for 252 products covering 39 drugs.[7] The 2022 edition of NDRL saw the inclusion of 111 new drugs' alongside an average price reduction of 60%, similar to the previous year's level. Meanwhile, the DIP/DRG payment reform sets a specific target that 70% of government-funded inpatient care costs should be paid using the DIP/DRG payment model by the end of 2024.[8]

Apart from pricing pressure, foreign companies in China's healthcare sector also continue to grapple with other challenges, ranging from restrictions on cross-border data transfers and gaps in IP protection to geopolitical risks. In some cases, geopolitics have resulted in a decrease in foreign companies' success rate in public procurement.

5 '2022 Pharmaceutical industry', Saibailan Report, December 2022.

6 'China's economic and industry outlook for 2023', Deloitte Research, December 2022.

7 'China's 8th VBP Round Results in Average Price Cut of 56%, with Heparin Drugs being included for the First Time', Xinhua Net, March 2023.

8 'Three-Year Action Plan for DRG/DIP payment reform', National Healthcare Security Administration (NHSA), November 2021.

KEY CHALLENGES

1 THE NEED TO CONTINUE TO IMPROVE THE VBP SYSTEM

China's volume-based procurement (VBP) has become a consistent theme in its healthcare reform. The latest announcement about the scheme's target in 2023 emphasised the need to increase its coverage and foster cross-provincial alliance procurement.[9] While the VBP system has significantly driven down medical costs over the past few years, the overemphasis on low prices during the procurement processes has negatively impacted many companies' operations and affected the quality of drugs and medical devices procured through the scheme.

British companies suggest that the government should make the whole system more value-based, where procuring entities consider the long-term value and benefits of drugs and medical devices instead of only focusing on short-term cost reduction. The National Healthcare Security Administration (NHSA) also stipulated that market developments, enterprises' production and supply, product quality or clinical opinions should be taken into consideration during procurement processes. Therefore, the government should also engage clinical expertise in the procurement process to understand a product's clinical safety, efficacy, and areas for improvement. Both Europe and the UK are also increasingly focusing on value-based procurement, where factors such as the overall cost of the product life cycle, product quality, and efficacy are considered, not just the price. Low-value healthcare, while low in cost, can waste resources and reduce efficiency in the long run.

2 UNFAIR TREATMENT OF FOREIGN-INVESTED ENTERPRISES (FIES) IN PUBLIC PROCUREMENT

British companies have observed a decline in the success rate of their bids in public procurement, which usually constitutes a big proportion of their sales in China. Whilst it can be partly attributed to the higher prices of foreign products, which put them at a disadvantage in China's VBP scheme, many companies believe that foreign medical products have become less favoured in general due to the increasing tendency for local governments and public hospitals to link procurement decisions with geopolitical risks and China's relations with other foreign countries.

To address these concerns, it is hoped that the Chinese government will uphold its commitment to fair and equal treatment of local and Foreign-Invested Enterprises (FIEs), including using the same procurement standards for both domestic and foreign companies, especially as the government has reaffirmed its commitment to supporting FIEs this year. The *Notice on Centralised Drug Procurement and Price Management* released by the NHSA states that principles of fairness and transparency should be followed throughout the procurement process and there should be no local protectionism or unequal treatment between domestic and foreign businesses. Creating a level playing field for both domestic and foreign business in China, with fair and transparent procurement standards, would enable British businesses to contribute their expertise to the industry. This will not only elevate the quality of China's healthcare products and services, but also provide local consumers with a wider selection of quality healthcare offerings.

3 CHALLENGES AROUND CROSS-BORDER DATA TRANSFERS

The Chinese government has been tightening regulations to ensure cybersecurity and personal information protection. To comply with Chinese regulations, foreign companies in China are investing in strengthening their IT infrastructure and adapting their data management systems. However, many multinational healthcare companies continue to find complying with China's cross-border data transfer regulations challenging.

Health-related data, especially human genetic information, is particularly sensitive in the eyes of Chinese regulators and subject to much stricter control when it comes to cross-border flows. One foreign pharmaceutical company stated that human genetic data and clinical data are the two main types of personal data they would usually send across borders for research purposes. However, they have mostly paused the outbound transfer of human

9 'Notice from the Chinese National Healthcare Security Administration (NHSA) on the Volume-Based Procurement (VBP) and price management of drugs in 2023', National Healthcare Security Administration, March 2023.

genetic data due to the lengthy procedure and unclear requirements of sending human genetic data outside China. For the latter, whilst they are able to share clinical data (e.g. data relating to drugs' adverse effects and patients' post-treatment symptoms) with R&D centres overseas, they hope that the approval process for their outbound transfer becomes more efficient.

For some other businesses in the sector, regulatory requirements on cross-border data transfers remain largely unclear. A British MedTech company commented that they are still unsure what data collected by their digital medical devices can be sent across borders, and this lack of clarity has prompted them to consider disconnecting their China data from their global database and R&D network completely once their products receive approval to be marketed in China.

BritCham members therefore recommend that a more scientific approach to data management and a more detailed data classification system be established so that regulators allow efficient outbound flows of data that are essential to the improvement and innovation of medical products and treatment. From the perspective of China's participation in international medical research, it is also crucial that these data are shared internationally to facilitate international medical exchanges and research, and allow China to contribute to it. Furthermore, we also hope that the government will continue to work closely with leading industry companies, including foreign ones,to improve the regulatory framework and establish relevant standards on cross-border data transfers so that other companies in the sector understand how to comply.

4 THE INSUFFICIENT DEVELOPMENT OF THE PRIVATE MEDICAL INSURANCE MARKET

A focus of China's healthcare reform has been to reduce medical costs and increase drug accessibility. But for many rare disease drugs, their extremely high prices mean that they are not able to enter the National Reimbursement Drug List (NRDL) and are therefore ineligible for medical reimbursement. This continues to limit Chinese rare disease patients' access to much needed treatments.

Developing a mature private medical insurance (PMI) market can be an effective way to tackle this challenge. Although China's PMI market has grown rapidly in recent years, it is still at an early stage of development compared to developed countries. In 2019, the country's PMI density was around GBP 60 (RMB 500) per capita, while the figures in countries like Japan and Germany ranged from GBP 360-480 (RMB 3000-4000). The 20th Party Congress report released in October 2022 explicitly encouraged the development of PMI. We hope that the government accelerates efforts to promote PMI and allows payers, as well as medical products and services providers, to contribute towards improved innovation in China's healthcare industry.

BritCham members recommend that the government should improve the top-level design of its PMI market, drawing lessons from global developed markets. It should also promote deeper integration between public and private health insurance sectors. This should involve the establishment of data-sharing mechanisms that enable private insurance companies to develop products tailored to the needs of rare disease patients, which could provide these patients with better support. Additionally, it is suggested that the government should increase public knowledge about and public trust in PMI and make the public more aware of health-related risks

5 LACK OF PROGRESS ON HEALTHCARE RELATED PILOT PROGRAMMES UNDER THE GREATER BAY AREA (GBA) INITIATIVE

British businesses have been hopeful for the Greater Bay Area (GBA) initiative, — one of its focuses is to enhance medical collaboration and promote medical innovation in the region, with positive implications for innovative foreign medical products. However, BritCham members recommend that the government accelerate the implementation of healthcare policies under the initiative, especially as progress slowed down in the past year.

British businesses are particularly interested in the government's plan to achieve regulatory innovation in the areas of medicines and medical devices.[10] As part of the plan, the 'Hong Kong and Macao Medicine and Medical Devices Connect' was launched in 2021, which aims to reduce the registration time in the Chinese mainland for medicines and medical devices already approved in Hong Kong and Macau. But within 18 months since the launch of the pilot programme in August 2021, progress largely stagnated, with the pilot continuing to cover only five hospitals. We welcome the recent news that pilot hospitals have increased to 19 in February 2023 but hope that the government continues to accelerate the expansion of the pilot scheme, alongside other healthcare-related policies under GBA. This will help to achieve the stated goal of the initiative and unlock opportunities for healthcare institutions and companies, as well as benefiting patients in the region.

It has also been suggested that the government should increase communication with companies by holding more briefings on the progress and details of the GBA initiative. This would allow companies to better understand government policy directions and make business decisions accordingly, leveraging their strengths and potential.

6 LACK OF A COMPREHENSIVE REGULATORY SYSTEM FOR OTC DRUGS

Over-the-counter (OTC) drugs are an important component of disease prevention with significant social and economic value. These drugs are considered safe for purchase and used by consumers without prescriptions from licensed doctors. The promotion of OTC drugs aligns closely with the 'Healthy China 2030' initiative, which aims to shift the focus from disease treatment to health management with prevention as the primary goal.

However, there is currently no distinct regulatory pathway for OTC drugs when it comes to drug registration, and the same evaluation and approval process used for prescription drugs is applied to them. This approach has resulted in overly stringent technical guidelines and long approval times for overseas OTC drugs, even though their safety and efficacy has been proved through widespread use overseas. As a result, China is known to be among the countries with the strictest OTC drug registration requirements and longest approval times globally.

British businesses have recommended introducing a separate regulatory system with specific technical guidance and procedures for OTC drugs to accelerate their registration and encourage competition and innovation in the market, which can lead to the development of new and improved OTC drugs. We hope to see the establishment of a full-lifecycle OTC drug regulatory system based on risk management and scientific supervision. To accelerate

10 'Work Plan for the Innovative Development of the Regulation of Drugs and Medical Devices in the Guangdong-Hong Kong-Macao Greater Bay Area of China', National Medical Products Administration, November 2020.

registration time, we also recommend that the government increase acceptance of clinical data from other countries, reducing the need for domestic clinical trials. Moreover, during the registration process for imported OTC drugs, the National Medical Products Administration (NMPA) should also clarify and increase the alignment between their usage instructions published in the original country and in China.

In addition, we also recommend setting up a dedicated registration and regulatory department under the NMPA, focusing solely on OTC drugs. This would help to improve procedures for OTC drug approval and evaluation. This department within the NMPA should also work on establishing a clear pathway for pharmaceutical companies to switch their prescription drugs to OTC drugs in order to achieve greater accessibility.

7 THE NEED TO FURTHER STRENGTHEN IP PROTECTION IN THE PHARMACEUTICAL INDUSTRY

China's fourth amendment of the *Patent Law* strengthens IP protection and has positive implications for originator drug companies in the country. Article 42 introduces a patent extension system where the term of a patent can be extended for up to five years to compensate for the time taken for drugs to obtain market authorisation. Whilst this is a welcome development, the article only applies to drugs that enter the market after 1 June 2021. British pharmaceutical companies hope that this rule can be retrospective to include new drugs marketed before 31 May 2021 as well. We believe that given the costly and time-consuming nature of drug development, it is important that the government give full recognition to resources and investment that have gone into the R&D process of innovative drugs – this stands true for new drugs marketed both before and after 31 May 2021. Allowing the former to benefit from the latest policy change will further demonstrate China's commitment to encouraging innovation in the pharmaceutical market and is also consistent with the principle of 'retrospective operation of beneficial provisions' in Chinese law.

In order to strengthen IP protection for the pharmaceutical industry, British companies also suggest that the government increase protection of data exclusivity rights. Data exclusivity, which is a form of IP protection that applies to data generated from clinical trials, plays a crucial role in the research and commercialisation of innovative drugs. Implementing data exclusivity protects the intellectual property rights of research institutions and promotes the development of innovative drugs. In international legislative practices, the EU grants eight years of data exclusivity rights to new drugs, two years of market exclusivity rights, and an additional one-year protection of market exclusivity for a new indication with significant added clinical benefits, and seven years protection of market exclusivity for rare disease drugs. It is recommended that Chinese lawmakers draw on from developed economies' established practices and release related regulations and guidelines as soon as possible in order to better protect and promote innovation in the industry. When drafting the *Implementation Regulation of the PRC Drug Administration Law*, it should also set different lengths of data exclusivity protection periods for different types of drugs, and grant more than seven years of protection of market exclusivity to rare disease drugs.

8 ACCEPTANCE OF OVERSEAS CLINICAL TRIAL DATA IN THE DOMESTIC REGISTRATION OF IMPORTED DRUGS

British companies appreciated the Chinese government's intention to enhance the availability and accessibility of urgently needed drugs by accepting overseas clinical data in order to accelerate the registration process for imported innovative drugs. Following the introduction of the *Technical Guidance for Accepting Overseas Clinical Trial Data*[11] in 2018, another policy guidance was released in 2020, specifying the scope and requirements for accepting clinical data of drugs marketed overseas but not in China, including ensuring the data has no or little racial sensitivity.[12]

However, British companies report that this policy has yet to be fully translated into real benefits as they continue to be required to conduct Class I clinical trials within China even when there is already overseas clinical trial data that can be used to prove safety and efficacy. This presents challenges for foreign pharmaceutical companies that would like to speed up the process to introduce new drugs to the Chinese market more efficiently, as additional domestic trials are time-consuming, and add to development and registration costs, ultimately delaying the approval process for new drugs. We therefore hope the Chinese authority increases its acceptance of overseas clinical data in the registration process of urgently needed drugs so as to enhance the accessibility of effective treatment options.

11 'Technical Guidance for Accepting Overseas Clinical Trial Data', National Medical Products Administration, July 2018.

12 'Clinical Technical Requirements for Drugs Marketed Overseas but Not Marketed in China', National Medical Products Administration, October 2020.

RECOMMENDATIONS

KEY CHALLENGE	RECOMMENDATION
1 The need to continue to improve the Volume-Based Procurement (VBP) system	■ Engage clinical experts and consult with key stakeholders, both domestic and foreign, during procurement processes to ensure the acquisition of high-quality products. ■ Factor in the quality and life cycle of a product, not just the price in the procurement process.
2 Unfair treatment of Foreign-Invested Enterprises (FIEs) in public procurement	■ Uphold commitment to fair and equal treatment of domestic and foreign firms by implementing same procurement standards, allowing British businesses to contribute expertise and expand local patients' access to quality offerings.
3 Challenges around cross-border data transfers	■ Establish a more scientific approach to the industry's data management and a more detailed data classification system to enable efficient outbound data flows. ■ Collaborate with leading companies in the industry, including foreign ones, to improve regulatory framework and establish standards for cross-border data transfers, providing clear guidelines for compliance.
4 The insufficient development of the private medical insurance (PMI) market	■ Enhance top-level design of PMI market by promoting deeper integration between public and private health insurance sector. ■ Boost public awareness and trust in PMI to encourage purchase of private insurance, and increase its coverage and density to improve patients' access to high-quality drugs and medical devices, enhancing the quality of medical care.

KEY CHALLENGE	RECOMMENDATION
5 Lack of progress on healthcare related pilot programmes under the Greater Bay Area (GBA) initiative	▪ Deepen the implementation of healthcare-related policies under the GBA to unlock opportunities for healthcare companies and benefit patients in GBA. ▪ Improve communication with industry participants to help them better understand opportunities under the GBA initiative such as by holding more briefings on healthcare related policies
6 Lack of a comprehensive regulatory system for OTC Drugs	▪ Introduce a separate regulatory system with technical guidance and procedures for OTC drugs to speed up registration and encourage competition and innovation. ▪ Increase acceptance of clinical data from other countries to reduce need for domestic clinical trials and accelerate registration.
7 The need to further strengthen IP protection in the pharmaceutical industry	▪ Expand the patent extension system to drugs that received approval before 31 May 2021 in order to better protect IP ▪ Establish data exclusivity with varying protection periods based on drug types and provide over 7 years of market exclusivity protection specifically for orphan drugs
8 Acceptance of overseas clinical trial data in the domestic registration of imported drugs	▪ Increase acceptance of overseas clinical data in registration process for urgently needed drugs to improve accessibility of effective treatments and enhance efficiency.

MUTUAL OPPORTUNITIES

DEMOGRAPHIC TRENDS AND HEALTHY AGEING

As the 'Healthy China 2030' initiative continues to be implemented, public awareness around disease prevention and treatment for the elderly has also been improving, especially as the country's elderly population expands quickly. According to the National Health Commission (NHC), the number of people aged 60 and above in China is expected to surpass 300 million during the 14th Five-Year Plan period, accounting for more than 20% of the total population, and this figure will grow to over 400 million by 2035.[13]

Meanwhile, British companies' medical solutions can help China better cope with this demographic challenge and ensure a healthy elderly population. In particular, some British businesses are interested in vaccines for age-related diseases such as shingles and hepatitis B. These vaccines are expected to see significant demand in the Chinese population in the coming decades. British businesses would like to work with the government and continue to support the improvement of vaccination infrastructure for adults, which will form the basis for further rollout of adult vaccination, strengthening disease prevention for the country's population.

RARE DISEASES AND INNOVATIVE SOLUTIONS

The importance of the diagnosis and treatment of rare diseases has been increasingly on the Chinese government agenda. As of January 2023, 103 rare disease drugs have been approved for marketing in China, with 73 of these drugs covered by the national medical insurance.[14] The Chinese government has also introduced preferential policies to protect and promote rare drug R&D and implemented a priority review system for overseas rare diseases for urgent clinical use, although the current number of approved drugs in China is still below the global average.

The UK is recognised for its advanced capabilities in genomics research, which is particularly important for 80% of rare diseases with an identified genetic origin.[15] In line with this objective, the UK government has recently announced a significant investment of over GBP 175 million (RMB 1.45 billion)towards cutting-edge genomics research as part of its 'Genome UK: the future of healthcare strategy'.[16] This year, it also released the *England Rare Diseases Action Plan 2023*, aiming to provide better care and treatment to patients with rare conditions.

The collaboration between China and the UK in innovative drugs and treatments for rare diseases has the potential to yield mutual benefits for both nations. By leveraging collaboration opportunities between the two countries, Chinese patients in need could benefit from potential collaboration while simultaneously contributing towards advancing the field for the benefit of all.

13 'The National Health Commission of China predicts that the elderly population aged 60 and above in China will exceed 400 million by around 2035', ChinaNews, April 2023.

14 'China's rare disease industry report (2023)', Frost & Sullivan and Illness Challenge Foundation, February 2023

15 'Pioneering research is key to England's Rare Diseases Action Plan', Government Science & Engineering Profession, April 2022.

16 'Over £175 million for cutting-edge genomics research', Department of Health & Social Care, December 2022.

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AUTHORS:

Alexandra Hirst

Sally Xu

Sue Zhang

Jack Allen

Carenza Gibson

DESIGN:

Boglárka Miriszlai

TRANSLATION:

Practical Translations Ltd.

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advocacy@britishchamber.cn

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