



Understanding China Training Programme

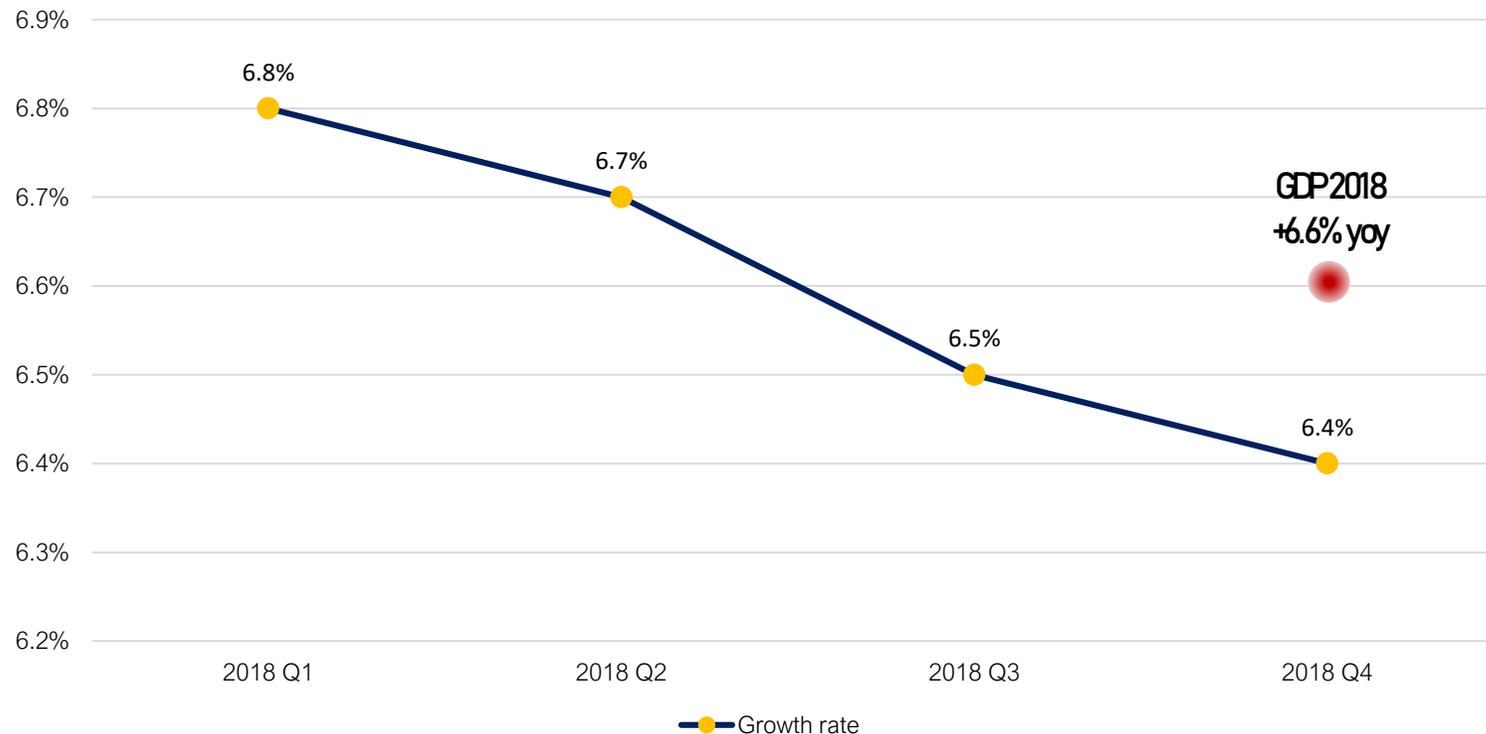
May 23rd - 24th



Looking back at 2018

A YEAR OF TWO HALVES

China 2017 - 2018 GDP Growth Rate



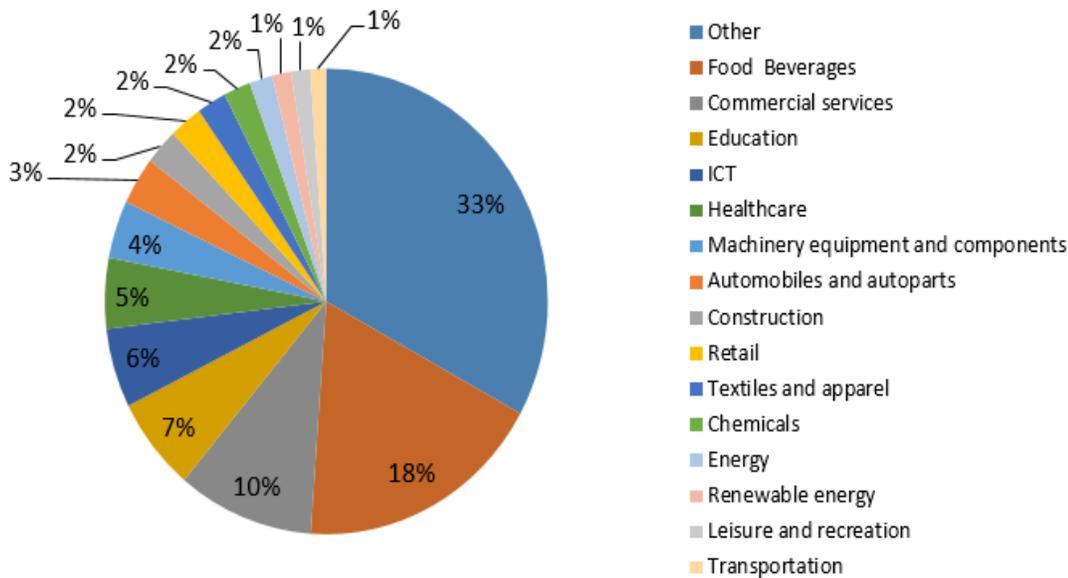
Slow but steady

- China real GDP growth at the end of 2018 is 6.6%
- Economic **slowdown** starts in Q2 2018 but becomes evident in Q4
- Reasons to be found in
 - Deleveraging and credit tightening
 - Consequent slowing in the RE and automotive sectors
 - Trade Tensions with USA



European SMEs in China

Sectors with the highest number of European SMEs operating in China



- Food and beverage;
- Commercial services;
- Education;
- Information and communication technologies;
- Healthcare.

Examples of EU policy responses

- On 1 June 2018 (the same day the EU filed a complaint over US unilateral metal tariffs...) the EU filed **a complaint at the WTO** against Chinese intellectual-property legislation that forces European companies to grant ownership or usage rights to local entities
- The EU pursues a **reform of the WTO** to strengthen its instruments to address among others state subsidies and market access issues more effectively
- Also, the EU is developing its own strategy to match the BRI, the so-called **"Asia Connectivity"**
- Finally, the European Union has achieved political agreement and is in the adoption phase of **a EU-wide screening of FDI mechanism** as a means to better monitor and counter unfair practices as well as secure European critical infrastructure

Financing for SMEs in China

SME financing in China has always been difficult but in the last 10 years the Chinese government (State Council, ministries, and CBIRC) have been pushing the Chinese banks to increase lending to SMEs:

- China has adopted the Law on Promotion of SMEs
- The State Council has adopted Rules to set up criteria to define what is a SME
- Setting up the State Fund for SME Development
- Setting up various provincial and regional guarantee institutions and SME promotion centers
- Almost all Chinese banks (some foreign banks) have set up SME Desk or special program to help SME financing

CBIRC has issued various rules and notices to encourage Chinese banks to increase financing to SME businesses. The most often quoted is the 2011 CBIRC Notice on Improve Financial Services for SMEs which provided, a.o.:

- Supporting establishing specialized and designated lending schemes for SMEs
- Encouraging developing new products and mortgage and pledge arrangement
- Flexible in applying MPA (Macro Prudent Assessment) supervision ratios on Capital Adequacy Ratio
- Favorable treatment in approving opening new branches
- Tolerance on NPL requirement
- Excluded from Loan to Deposit Ratio

Regional differences of China's OFDI in Europe

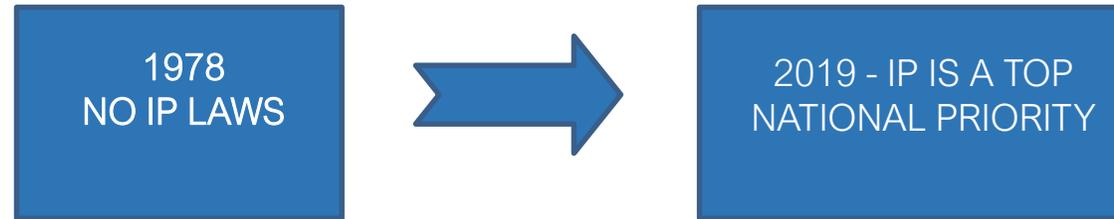
- Western Europe received about 75% of China's OFDI stock in Europe, mostly in strategic assets and in R&D activities
- In Southern Europe, China's FDI are concentrated in infrastructure and public utility projects as a result of the privatization process during the Euro debt crises
- In central and Eastern Europe, a large number of investment projects were announced within BIR on the 16+1 cooperation platform
 - especially related to Eurasian Land Bridge and Central Europe Land and Sea Express Railway
- Increasing investment in manufacturing activities in low-cost European countries

Why Business Licence?

- **Without the business licence**
 - you have no idea whom you are dealing with and you cannot verify anything
- **With the business licence**
 - Either it is an authentic one or not (not valid or fake)
 - In both cases it is a piece of “information” and you can verify it against
 - official online register of companies or
 - call and investigate directly with company itself or with third parties

EVOLUTION OF IP LAWS IN CHINA

1° In ONLY THREE DECADES → from no man's land to top national priority



2° A WIPO member + part to main IP international treaties and agreements



3° A COMPLETE SET OF CHINESE IP LAWS IN PLACE

Only Valid Contract Can Help

- Most contracts do not require any special formalities (e.g. notarization, deed, language etc.)
- Some are valid upon approval of the relevant authorities (e.g. some technology transfer contracts)
- “可强制执行公证” is an abbreviation of “赋予强制执行效力债权文书公证”, meaning granting a creditor’s claim document enforceability through notarization (the “**Enforceability Notarization**”). With an Enforceability Notarization in place, when the debtor defaults, the creditor will not need to go through litigation or arbitration and can directly request the court to enforce the claim against the debtor. The Enforceability Notarization applies to simple and straight-forward creditor-debtor relationship, and the applicable “creditor’s claim documents” include loan agreement, borrowing contract, agreement to repay money or goods, etc. – NOT common to be used at the first instance when export to China via a Sales Contract and/or Distribution Agreement etc.
- Courts and arbitration tribunals still work with hardcopy evidence (preferably)

Market Characteristics:

- Due to policy changes and increases in firm innovation capability, China's technology transfer has improved quickly over the past few years.
- In 2016, the total contract revenue of technology transfer reached 1.141 trillion RMB, or \$180.1 billion – this was the first time the total revenue surpassed one trillion RMB in Chinese history, an increase of 15.97% compared to that in 2015.
- In 2017, the technology transfer market grew even faster. The total number of technology transfer contracts was 367,586 – an increase of 14.71% from 2016. The total contract revenue of technology exchange was 1.342 trillion RMB, or \$211.80 billion – an increase of 17.68% from 2016.

Pro-business growth tax incentives and fee cut

Lifting the annual taxable income threshold of small and thin-profit enterprises eligible for 10% CIT

Progressively reduced social contribution rate and repealed various fees

Individual Income Tax (IIT) reform

- Raise IIT exemption threshold
- Increase specific deduction categories
- Allow natural person partners of venture capital partnerships to be taxed at a 20% IIT rate

Expensing newly-acquired instrument / equipment below RMB 5 million for CIT purpose



Loss carry-forward for HNTEs:
5 years → 10 years

VAT reform (since 2012)

- VAT rate cut from 17% → 16% → 13%;
 - Refund on the excess input VAT credit newly accumulated since 1 April 2019;
 - Input VAT super credit;
 - Expanded scope for input VAT credit
- ⇒ Targeting tax revenue reduction of RMB800 billion

Increasing the super deduction ratio of R&D expenses for CIT Purpose from 50% → 75%

China e-commerce AND A GREAT OPPORTUNITY

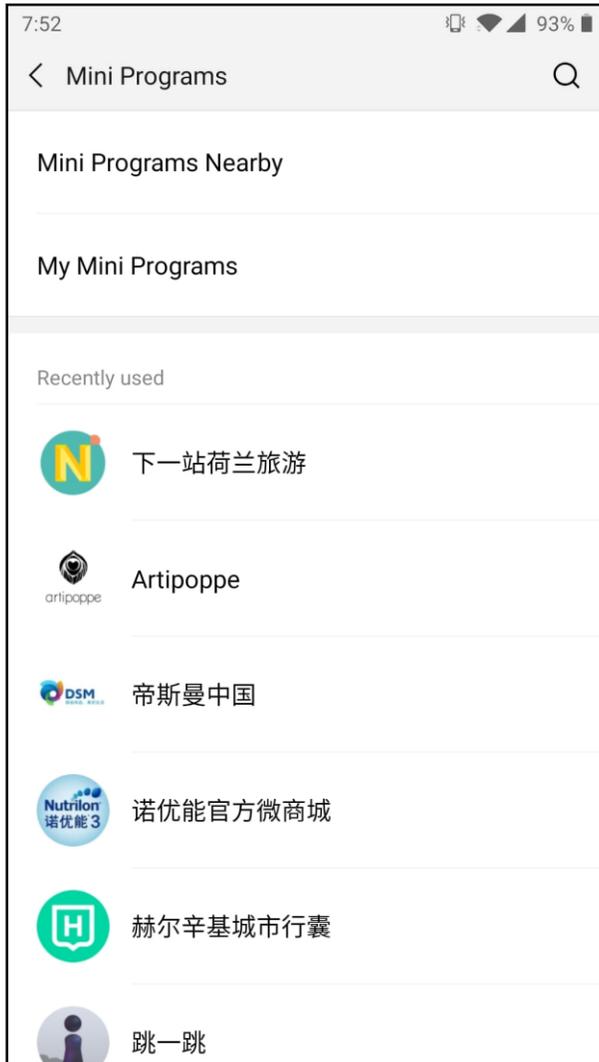
China's 11.11, 2018

- EUR 27.9 billion total GMV
- +27% y-o-y

USA's Thanksgiving day + Black Friday + Cyber Monday.

- EUR 15.7 billion total GMV
- +16.9% y-o-y

Mini Programs What makes Mini Programs special?



For the WeChat user:

- You don't have to download the Mini Programs
- Easy to find via 'search' in WeChat, by scanning a QR code or by sharing via a friend
- Mini Programs don't have to be downloaded again once you switch phones

For developers:

- Lower investment because only need to develop for WeChat
- Immediate access to WeChat's enormous user-base

For WeChat:

- users stay longer in the APP → higher conversion

Better Serving Chinese Visitors

“*The*” Chinese tourist does not exist (anymore)

Segmenting by age

- **Under 30 years old:** Young people take up one third of the total outbound market, consuming media differently - how to attract them?
- **Above 55 years old:** relying more on travel agents and family members, both in terms of information sourcing and travel booking

Segmenting by ways of organising travels

Package groups

- Sourcing information online
- Getting advices form friends
- Book with travel agents

FITs (Free and Individual Travellers)

- Experienced travellers
- Internet-savvy and speaking good English
- Very diversified

Customised Traveller

- Recognising professional services and willing to pay the fee for personalised travels

THANK YOU



www.eusmecentre.org.cn

