

GCC's Policy Barometer

Quarterly Economic Policy Insights for German Companies in China
[vol. 2-2022]

The Policy Barometer aims to cover the following questions:
COVID-19 Situation, German-Chinese Relations, Decarbonization, German Due Diligence Supply Chain Act / EU Directive


- What is the **status quo** on the most crucial economic policy topics?
- What is German businesses' current **sentiment** on that issue?
- How does the German Chamber **assess** the current situation?
- What do we **advocate** for and which practical **tools** do we offer?


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COVID-19 Situation

 **Status Quo:** With the spread of Omicron, China's Zero-COVID Policy has been challenged enormously during recent months. China's economy got a serious damper with economic indicators on a level similar to beginning of 2020. However, the Zero-COVID Policy will stay, as explicitly reconfirmed in a Politburo Standing Committee Meeting in May. A significant bunch of economic support measures have been released with a strong appeal to local authorities for implementation.

 **Pulse Check:** While in May more than 70% of German companies have been in areas fully or partially under lockdown, most German companies are operating again in June. However, supply chains are still strongly disrupted and cross-provincial travel remains difficult. The whole situation appears still volatile, since lockdowns could quickly come back, especially in Shanghai. Strategic considerations for diversification within and outside China are increasing.

 **GCC's Perspective:** The sudden lockdowns and the strict measures cause huge uncertainty among German companies. The way COVID is handled puts German headquarters' confidence at stake. The strict travel restrictions, that have been ongoing for more than two years, are a big obstacle to business and investment in the Chinese market. More clarity for the future is needed, as well as more support measures for foreign companies.

 **Advocacy & Tools:** Central and local governments have constantly received our questions and recommendations. Some concerns, such as the cancelling of whitelists or the issue of headquarters' shrinking confidence, were picked up in political speeches and the formulation of policies. Bringing specific company cases to the governments, e.g. on work resumption, proved successful in dozens of cases. However, the situation remains instable and our advocacy continues.

[Read our Advocacy Sheet on COVID-19 Situation in Chinese:](#)

[COVID Situation CN](#)


[Read our Advocacy Sheet on COVID-19 Situation in English:](#)


[COVID Situation EN](#)

[Read our Wechat-Post:](#)


[Chamber's Advocacy Made Way Into Action Plan](#)

German-Chinese Relations


 **Status Quo:** Germany has adopted a much tougher approach towards China since the outbreak of the Ukraine war and the announcement of "Zeitenwende" in German foreign policy – while still emphasizing the importance of climate cooperation. The expected publication of the China-strategy from the German Federal Government has thus been postponed. It will surely not be published before the end of this year. At the same time, the question of economic dependence from China has become the focus of public debate.


 **Pulse Check:** German companies in China are worried about the increased politization of the discourse surrounding the bilateral economic relations, triggered by the current war in Ukraine. Even in response to this tightened geopolitical environment, withdrawing from the Chinese market is not a choice for most German companies. They mostly react by either increasing their localization in China or by considering diversification throughout Southeast Asia.


 **GCC's Perspective:** Germany and China are closely tied to each other economically. Functioning economic relations are important for the overall wellbeing of both countries. They are also a rational point of reference when confronted with bilateral frictions. Even during geopolitical disputes and while classifying China as a systemic rival, the country will remain a key global market for growth and innovation in the years to come. Looking at possible future fields of cooperation is crucial at this moment in time.

 **Advocacy & Tools:** We are preparing a paper to the German Federal Government, pointing out the necessity to adjust the formats for bilateral cooperation. From German companies' perspective, those platforms often serve as a foundation for long-lasting cooperation of mutual interest. For thoughts or input please contact us.


Decarbonisation

 **Status Quo:** After the recent lockdowns, companies' energy security will be again a more immediate concern than achieving the decarbonization goals. Premier Li Keqiang already pointed to avoiding potential new power cuts, which will easily occur when more companies resume operations at full capacity. Nevertheless, decarbonization is simultaneously on the agenda. This is reflected by China's first decarbonization week currently taking place, where all Development and Reform Commissions in China are called on launching related initiatives.

 **Pulse Check:** Many German companies are currently concerned with resuming work after weeks of lockdown. Investments have been partly put on hold this year, including investments into decarbonization.

 **GCC's Perspective:** We appreciate China's clear stance on decarbonization.

Still, more clarity is needed on topics such as green energy availability, green electricity certificates and unified standards in carbon emissions reduction and lifecycle assessment.

 **Advocacy & Tools:** On the 15th of June, which is China's Decarbonization Day, we launch our advocacy paper on decarbonization. We already made appointments with the Development and Reform Commissions to point out the role German companies can play in China's path towards decarbonization with their technologies and solutions.

Read our Advocacy Paper on Decarbonization in English:

[Decarbonisation Paper EN](#)

Read our Advocacy Paper on Decarbonization in Chinese:


[Decarbonisation Paper CN](#)


Read our Wechat-Post:

[Decarbonization Launch Webinar](#)




German Due Diligence Supply Chain Act / EU Directive

 **Status Quo:** Germany's Due Diligence Supply Chain Act will already come into effect by 1st of January 2023. The formal approval of the EU Directive is expected this summer, and member states national implementation should take place in the two years to follow. With that the whole value chain (upstream and downstream) will be considered. At the moment, there is not much further guidance to be expected on how this can be implemented in practice. However, there is a clear recommendation from political Berlin that suppliers and business partners should be prioritized, and those with a higher risk should be taken into consideration first. New publications on the human rights situation in Xinjiang are making a thorough preparation for these new laws inevitable.

 **Pulse Check:** German companies in China are currently strongly concerned with the disrupted supply chains within China. Regarding the upcoming law, they still have a lot of questions concerning the specific implementation and the administrative supervision. While most of German companies already fulfill high standards of due diligence in their supply chains, companies are still keen on getting more specific guidance.

 **GCC's Perspective:** The German business community in China is committed to the principle of sustainable supply chains and takes its social and environmental corporate responsibility very seriously. At the same time, additional bureaucratic hurdles and legal uncertainties introduced by the new law are strong concerns for German companies – even more so, if the proposed EU legislation is implemented. Especially in China, supply chains are complex and therefore legal obligations need to be reasonable, so that the law can have its intended effects and truly unfold its necessary purpose.

 **Advocacy & Tools:** Through the DIHK, we are advocating for more guidance on the law's implementation. Also, we assure Chinese government stakeholders that the law is not targeting China but needs to be applied worldwide within German companies' value chains. Moreover, the law contributes to China's decarbonization goals. We will also continue to regularly keep you updated through events and exchanges.

FAQs issued by the dedicated Helpdesk from the German Federal Government which provide a some more details on the implementation of the Law:

[FAQs from Helpdesk](#)

If you do not yet have a Code of Conduct in place, please find here a suggestion in both EN and CN.

[Template CoC](#)

To better tailor this product to your needs, we look forward to receiving your comments and suggestions. Kindly submit further feedback to **Dr. Constanze Wang**, Head of Government Affairs & Advocacy, at wang.constanze@china.ahk.de.



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