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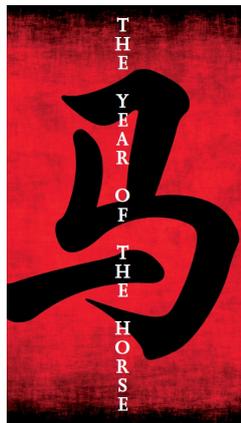
FLANDERS-CHINA CHAMBER OF COMMERCE  
VLAAMS-CHINESE KAMER VAN KOOPHANDEL

# NEWSLETTER | 10 FEBRUARY 2014

<u>FCCC activities</u>	<a href="#"><u>FCCC New Year Reception – 13 February 2014, 18:00 h. – Brussels</u></a> <a href="#"><u>Cleantech opportunities for Flemish companies in China – 26 February 2014 – Berchem (Antwerp)</u></a>
<u>Activities</u>	<a href="#"><u>Group business trip to China for beginners – 22 to 29 March 2014 – Beijing, Shanghai, Guangzhou</u></a> <a href="#"><u>China Europa – 16~18 September 2014 – Shenyang</u></a>
<u>Past events</u>	<a href="#"><u>Meeting with the Ambassador of Belgium in China and Consuls General – 3 February 2014 – Brussels</u></a> <a href="#"><u>Briefing: “The Future of Foreign Investors in China” – 22 January 2014 – The Conference Board/FCCC, Brussels</u></a>
<u>Notice</u>	<a href="#"><u>Sponsorship opportunities</u></a>
<u>Publications</u>	<a href="#"><u>FCCC publishes “FCCC Members' Portraits in China Vol.2”</u></a>
<u>Expat corner</u>	<a href="#"><u>Canada trying to stem influx of rich Chinese</u></a>
<u>Finance</u>	<a href="#"><u>Capital account swings to surplus in 2013</u></a>
<u>Foreign investment</u>	<a href="#"><u>Firms more cautious in hiring influential Chinese</u></a>
<u>Foreign trade</u>	<a href="#"><u>European parliament calls for defenses against cheap Chinese imports</u></a>
<u>Health</u>	<a href="#"><u>GSK sees sales drop GBP125 million in China</u></a> <a href="#"><u>China the hardest hit by global surge in cancer</u></a>
<u>Macro-economy</u>	<a href="#"><u>Service sector growth hits lowest level since 2008</u></a>
<u>Mergers &amp; acquisitions</u>	<a href="#"><u>Dairy firms looking at M&amp;As</u></a>
<u>Petrochemicals</u>	<a href="#"><u>China to slow down refining capacity expansion</u></a> <a href="#"><u>Competition in LNG market heating up</u></a>
<u>Real estate</u>	<a href="#"><u>Price rises slow down in January</u></a>
<u>Retail</u>	<a href="#"><u>Sales of luxury brands slow down in China</u></a> <a href="#"><u>China holiday sales grow at slowest in decade</u></a>
<u>Science &amp; technology</u>	<a href="#"><u>China opens new Antarctic research base</u></a>
<u>Stock markets</u>	<a href="#"><u>Hong Kong shares drop after holiday</u></a>
<u>Travel</u>	<a href="#"><u>More tourists visit Shanghai during New Year break</u></a>
<u>VIP visits</u>	<a href="#"><u>President Xi attends opening of Winter Olympics</u></a>
<u>One-line news</u>	

## FCCC ACTIVITIES

### FCCC New Year Reception – 13 February 2014, 18:00 h. – Brussels



The Flanders-China Chamber of Commerce will hold its annual New Year Reception on Thursday 13 February 2014 at 18:00 h. at AG Insurance, Nieuwbrug 17, 1000 Brussels.

Addresses will be delivered by:

Mr Bert De Graeve, Chairman Flanders-China Chamber of Commerce;  
His Excellency Mr Liao Liqiang, Ambassador of the People's Republic of China in Belgium;  
Mr Kris Peeters, Minister-President of the Government of Flanders, Flemish Minister for Economy, Foreign Policy, Agriculture and Rural Policy.

Please register online before February 12 via the following link:

[http://www.flanders-china.be/eventdetail.asp?id=320&id\\_cat=1&cat=up&lang1=](http://www.flanders-china.be/eventdetail.asp?id=320&id_cat=1&cat=up&lang1=)

### Cleantech opportunities for Flemish companies in China – 26 February 2014 – Berchem (Antwerp)

The Flanders-China Chamber of Commerce (FCCC) and Flanders Cleantech Association (FCA) are organizing an information session on “Cleantech opportunities for Flemish companies in China” on 26 February 2014 at FCA, Roderveldlaan 5/1, 2600 Berchem.

Programme:

15h30	Welcome by FCCC and FCA
15h40	“China in a nutshell – Top 3 challenges and solutions from Flanders” by Mr. Dirk Fransaer, CEO of VITO
16h00	“Your product in China? – a roadmap” by Mr. Tom Huysmans, CEO of Liquisol
16h20	“Cleantech opportunities and challenges for Flemish SMEs in China” by Mr. Raf Vermeire, Expert, EU SME Center
16h40	“Intellectual property and your business in China” by Mr. Simon Cheetham, ASEAN IPR SME Helpdesk Team Leader, China IPR SME Helpdesk (English)
17h00	Conclusions and possible next steps
17h10	Networking drink
18h30	End

This workshop provides a unique opportunity to exchange experiences about entrepreneurship in China, more specifically in the cleantech sector.

Please register online by 22 February via this link:

[http://www.flanders-china.be/eventdetail.asp?id=325&id\\_cat=1&cat=up&lang1=](http://www.flanders-china.be/eventdetail.asp?id=325&id_cat=1&cat=up&lang1=)

Price: FCCC/FCA Members: €65. Non-members: €95

## ACTIVITIES

### Group business trip to China for beginners – 22 to 29 March 2014 – Beijing, Shanghai, Guangzhou

Flanders Investment & Trade (FIT) and UNIZO are organizing a group business trip to China for beginners from March 22 till 29 to Beijing, Shanghai and Guangzhou. Discover your next export market together with FIT representatives:

- Beijing: Mr Peter Christiaen
- Shanghai: Mrs Sara Deckmyn
- Guangzhou: Mr Dirk Schamphelaere

Exporting to China is less obvious than exporting in Europe or to America. The “China for beginners” route is aimed at exporters who don't have any experience in exporting to China and would like to explore the Chinese market under expert guidance. The route consists of:

- a workshop on 11 February 2014
- a group business trip from March 22 to 29, 2014
- a follow-up session on 13 June 2014

Only 30 places are available. Registration is possible before February 3, 2014.

Contacts: Michèle Surinx (T 02 504 87 91), Tiji Vanpraet (T 02 504 87 62).

[www.flandersinvestmentandtrade.be](http://www.flandersinvestmentandtrade.be)

## China Europa – 16~18 September 2014 – Shenyang

China Europa, the essential business gathering between Europe and China, is a key event focusing on commercial relations between Europe and China in the field of sustainable urban development, and offers European and Chinese companies and territories a unique opportunity to meet and to develop efficient economic links, in optimal conditions. It guarantees fruitful and constructive encounters with a number of qualified and targeted contractors and suppliers. It is also an opportunity to identify new development opportunities in Europe and in China and to benefit from exchanged expertise and good practice via a programme of conferences and themed workshops. The leading Chinese and European economic authorities consider China Europa to be the leading event in Sino-European business relations and exchange in the field of sustainable urban development. By providing extensive support towards the business convention's organization, these bodies assert their will to reinforce productive cooperation that will contribute towards shaping tomorrow's sustainable towns and cities.

More information on the event is available at: <http://www.china-europa.org/rendez-vous-incontournable-business-europe-chine-china-europa-2014-en.asp>

## PAST EVENTS

### Meeting with the Ambassador of Belgium in China and Consuls General – 3 February 2014 – Brussels

The Flanders-China Chamber of Commerce (FCCC) organized a meeting with the Ambassador and Consuls General of Belgium in China on 3 February 2014 at BNP Paribas Fortis in Brussels. The event presented an excellent opportunity to brief the Ambassador and Consuls General of Belgium in China on member companies' activities in China.

Mr Bert De Graeve, Chairman, Flanders-China Chamber of Commerce; Mr Michel Malherbe, Ambassador of Belgium in China; Mrs Cathy Buggenhout, Consul-General of Belgium in Shanghai; Mr Christian de Lannoy, Consul General of Belgium in Guangzhou; and Mr Evert Maréchal, Consul General of Belgium in Hong Kong addressed the meeting.

The event was organized with the support the Federal Government of Belgium, Flanders Investment & Trade (FIT), AWEX and Brussels Invest & Export.

### Briefing: “The Future of Foreign Investors in China” – 22 January 2014 – The Conference Board/FCCC, Brussels

The Conference Board – in partnership with the Flanders-China Chamber of Commerce – organized a briefing on “The Future of Foreign Investors in China” on 22 January 2014 in Brussels. Following the introduction by Mr Egbert Lox, Board Member Flanders-China Chamber of Commerce/Senior Vice President Government Affairs, Umicore; Mr. David Hoffman, Vice President and Managing Director of The Conference Board China Center for Economics and Business, gave an interesting briefing. The briefing took stock of economic trends and policy developments to provide a “reality check” on China's attractiveness as an end market and competitiveness as a production base. The session illuminated a set of key considerations for setting realistic objectives for growth and profitability in China, near- to medium-term.

## NOTICE

### Sponsorship opportunities

The Flanders-China Chamber of Commerce (FCCC) offers several sponsorship opportunities to give companies more exposure to potential new clients and collaboration. Opportunities are available in our weekly newsletters, quarterly Chinese newsletters, our new website, our conferences and meetings with Chinese delegations.

If you are interested in obtaining more information about the sponsorship opportunities, you can download the detailed information at the following link :

[www.flanders-china.be/sponsorship\\_opportunities\\_2014.doc](http://www.flanders-china.be/sponsorship_opportunities_2014.doc)

The FCCC remains at your disposal for any further information you might require.

## PUBLICATIONS

### FCCC publishes "FCCC Members' Portraits in China Vol.2"

See [FCCC Members' Portraits](#) on the FCCC website.

## EXPAT CORNER

### Canada trying to stem influx of rich Chinese

Canada has unveiled sweeping reforms that would require that immigrants spend more time as permanent residents in the country, file tax returns and sign an undertaking to continue living in the country if they want to become citizens. The proposed redrawing of the Citizenship Act would lengthen the period of residency required from three years to four years. China is the biggest single source of applications for Canadian permanent residency and among those who may be affected by the changes are the 110,813 mainland Chinese and 3,305 Hongkongers granted permanent residency between 2010 and the middle of last year. Visa approvals for would-be investor migrants to Canada's British Columbia (BC) have plunged, an investigation into Canada's millionaire migration scheme has found – but federal authorities deny trying to stem the influx of rich Chinese to the province. Tens of thousands of wealthy mainlanders have settled in Vancouver, BC's biggest city, in recent years, raising concerns about their social and economic impact, including on the city's sky-high property market.

- Nine out of 10 applicants for an Australian immigration scheme aimed at wealthy investors are from China and they have pumped a total of AUD325 million into their new country of residence in the first year since the launch of the plan. 65 "significant investor" visas have been granted to Chinese and 91% of the 545 applicants for the permits were Chinese nationals since the scheme began just over a year ago. The requirements for an Australian significant investor visa are a AUD5 million investment and a clean criminal record.

## FINANCE

### Capital account swings to surplus in 2013

China recorded a USD242.7 billion surplus in its capital and financial account and a USD188.6 billion surplus in its current account in 2013, according to preliminary data released by the State Administration of Foreign Exchange (SAFE). It was a marked change from the USD16.8 billion deficit in the capital and financial account in 2012. The country had a USD193.1 billion surplus in its current account that year. SAFE said that in the fourth quarter, China had an USD81 billion surplus on its capital and financial account, including a USD59 billion net inflow of direct investment. The surplus in its current account reached USD49.8 billion. The figures show that China is facing strong pressure from capital inflows, said Wen Bin, Supervisor of macro-economic research at the Bank of China's Institute of International Finance. Therefore, the country will further open up its capital account and encourage outbound investments to achieve balance-of-payments equilibrium, Wen said.

- Shanghai United Media Group, a newly created conglomerate, plans to launch a

financial information service provider tied to the city's ambitions of becoming a global financial center and developing China's first free trade zone (FTZ). Late last year, the city's two largest print media companies – Jiefang Daily Group and Wenhui-Xinmin United Press Group – merged to become United Media.

- China may be able to achieve deposit rate liberalization in about three years, according to Chen Daofu, Director of the Research Institute of Finance at the Development Research Center under the State Council. He suggested raising the cap on deposit rates from 10% to 20% to 30% in the near future. Additionally, the ceiling on rates for fixed deposits over three years can be lifted to 50%.

## FOREIGN INVESTMENT

### Firms more cautious in hiring influential Chinese

Western financial institutions and Chinese firms have become more cautious about hiring potentially influential Chinese citizens in the wake of publicity over JPMorgan's repeated hiring of well-connected Chinese. "Virtually every global financial institution and multinational, whether Western or Chinese, is careful today of any perception that they are granting favors in return for business," Basil Hwang, Hong Kong-based Partner of Zhong Lun, a Chinese law firm, said. JPMorgan recently stopped work on the upcoming Hong Kong listing of Tianhe Chemicals shortly after Joyce Wei, a daughter of the firm's Chairman, left the bank for a job at UBS.

- Taiwan has been steadily building up its network of 8 economic zones in a bid to lure multinationals, but is facing stiff competition from mainland China's free trade zones (FTZs). Zones on the mainland are attracting Taiwanese as well as foreign multinationals, while Taiwan is grappling with how much investment its pilot zones should accept from the mainland. "It's pretty hard, because every country is pushing those special zones, so only if our conditions are much better will people come," said Wu Hui-ling, Fellow with the Taipei-based think tank Chung-Hua Institute for Economic Research.

## FOREIGN TRADE

### European parliament calls for defenses against cheap Chinese imports

China and the European Union may face a fresh round of trade friction. The European Parliament last week pressed EU Trade Commissioner Karel de Gucht to build stronger defenses against cheap imports from China. Sang Baichuan, Director of the Institute of International Business at the University of International Business and Economics in Beijing, called the moves "trade protectionism that aims to boost local employment. The EU's economic recovery is very slow and the unemployment rate is very high. The bloc expects more jobs. This is the key reason for the protectionist move." Sang added that China should turn to the dispute settlement body of the World Trade Organization (WTO) and push the EU to avoid the misuse of trade protectionism measures. China needs to increase imports from the EU, especially high-end manufactured goods and services, which is in accordance with the country's economic restructuring, Sang said. Bilateral trade reached USD559 billion last year, up 2.1% year-on-year, China's General Administration of Customs said. Wang Haifeng, Researcher with the Institute for International Economic Research at the National Development and Reform Commission (NDRC) warned that "China has the advantage of a huge market and escalated trade frictions will bring a much heavier blow to the bloc than to China". The EU said on January 30 that it would initiate an expiry review of anti-dumping measures, with duties as high as 74.1%, on imports of certain iron or steel fasteners from China. Shen Danyang, Spokesman for the Ministry of Commerce (MOFCOM), said the only way to resolve disputes is through consultation and dialogue, and the two sides have the ability and wit to control friction, the China Daily reports.

- China has cancelled a deal to buy 1.2 million tons of Thai rice after Thailand's National Anti-Corruption Commission launched investigations into a state rice-buying scheme. The deal between Thailand and Chinese state enterprise Beidahuang was signed in November for delivery starting the following month. The shipment was delayed, however, after Thai Prime Minister Yingluck Shinawatra dissolved parliament in

## HEALTH

### GSK sees sales drop GBP125 million in China

GlaxoSmithKline (GSK) reported a drop of GBP125 million in China sales last year, prompting the company to talk up its investments in India without mentioning expansion plans in China. Sales of pharmaceuticals and vaccines, which contributed the most to GSK's revenue in China, fell 18%, GSK said in a statement. The decline was accentuated by a 61% plunge in the third quarter. The drop was also partly due to price cuts in its Fenbid drugs enforced by the Chinese authorities, GSK said. Beijing's corruption investigation into the company had affected its sales in emerging markets, which grew 1% to GBP4.7 billion last year, it said. Excluding China, GSK's turnover in emerging markets grew 5%. "The performance of our China business is starting to stabilize now," Chief Executive Andrew Witty said. Asked when the Chinese government's investigation into GSK would end, Witty said it depended on Beijing. GSK said it had informed the U.S. Department of Justice, the U.S. Securities and Exchange Commission and Britain's Serious Fraud Office about the investigation in China into alleged bribery involving the company. He did not mention any investment plans for China, but emphasized investments in India and Scotland.

### China the hardest hit by global surge in cancer

China is bearing the brunt of new cancer cases and deaths amid an alarming global rise in the disease in 2012, according to the World Health Organization (WHO). The country also registered the most new cancer cases and deaths from four types of malignant tumors of the liver, oesophagus, stomach and lungs. China accounted for 3.07 million newly-diagnosed cases, 21.8% of the global total. It also saw 26.9% of the world's total cancer deaths – about 2.2 million – according to the latest edition of the World Cancer Report. The figures were slightly lower than China's own statistics for 2012. The National Cancer Registration Center recorded an estimated 3.5 million new cases and 2.5 million deaths annually. However, China was still not among the countries with the highest cancer rates in 2012, the top five being Denmark, France, Australia, Belgium and Norway. Nor was it among the countries with the highest mortality rates, which occurred in Mongolia, Hungary, Armenia, Serbia and Uruguay, according to the International Agency for Research on Cancer. Lung cancer remains the most common – and deadliest – cancer in the world. More than one-third of such cases occurred in China. About 50% of new liver and oesophagus cancer cases worldwide were recorded in China, and 51% of global deaths from liver cancer and 49% from those of oesophagus cancer occurred in the country. China also saw more than 40% of global newly-diagnosed stomach cancers and related deaths in 2012. Liver, oesophagus and stomach cancer were the most common cancers for Chinese, the South China Morning Post reports.

- The National Health and Family Planning Commission has urged local governments to step up support for private health care investment, including by inviting doctors from Hong Kong, Macao and Taiwan to establish clinics. There were about 5,400 private hospitals on the mainland in 2008 and nearly 9,800 last year, according to official figures. They currently account for about 42% of all hospitals.
- A new strain of the bird flu virus is causing concern in China as a woman died from the H10N8 strain, which has so far infected only two people. Another woman is critically ill. H7N9 has infected nearly 300 people in China killing around 60. Several new infections of this strain are reported daily.
- The proliferation of the H7N9 bird flu virus among poultry in live-bird markets in Guangxi has "significantly increased the risk" it will spread to neighboring countries. The Food and Agriculture Organization (FAO) urged countries sharing a border with China to review their emergency preparations and response plans to address a possible outbreak. Despite the risk, there was no evidence that the virus was present in Vietnam or any of China's other neighboring countries in Southeast Asia.
- Fast food chain Subway China claimed that its products did not contain the controversial food additive azodicarbonamide (ADA), following a decision by the U.S. branch to stop using the substance. ADA, used in bread to strengthen and bleach the dough, is also used to increase elasticity in the plastic and rubber industries. ADA is legal as a food additive in many countries, including the U.S. and China, but is

reportedly linked to respiratory issues, allergies and asthma. The European Union has banned its use.

## MACRO-ECONOMY

### Service sector growth hits lowest level since 2008

Service sector growth fell to a five-year low in January. The National Bureau of Statistics (NBS) said the official non-manufacturing Purchasing Managers' Index (PMI) fell to 53.4 in January from December's 54.6. The latest reading was the lowest since December 2008. The data showed moderating confidence among service providers, with the business expectations sub-index down to 58.1 from December's 58.7, the lowest reading since February 2009. Retailers and the air and rail transport sectors had strong months, with output sub-indices for all three above 60. Analysts polled by Reuters expect China's economy to grow 7.4% in 2014, slightly slower than last year's 7.7% expansion and the weakest in 24 years.

- Business at China's private service companies grew at its slowest pace in 29 months in January. The HSBC China Services Business Activity Index ended at 50.7 last month, down from December's 50.9, HSBC Holdings and consulting firm Markit said.
- China should gradually increase the retirement age to 65 over the next 10 to 20 years for all workers, social insurance experts have urged. The average age of retirement in China is now about 53, while life expectancy is 75, said Wang Dewen, a Social Protection Economist with the World Bank's Beijing office. The gap is much wider than the 12 years he believes is a reasonable period for an individual to draw a pension, putting unsustainable pressure on the social security fund.

## MERGERS & ACQUISITIONS

### Dairy firms looking at M&As

The heat of merger and acquisition (M&A) activity in the domestic dairy industry is expected to reach its peak in May, with time ticking for smaller and medium-sized enterprises (SMEs) to find buyers. Industry Analyst Song Liang estimates that China's dairy industry will be further consolidated by this spring. Leng Youbin, Chairman of Feihe Dairy, a subsidiary of Feihe International, said it is time domestic infant formula companies merged. Feihe announced it would acquire Jilin Alfbeta Dairy Co. In December, Biostime International Holdings, a pediatric nutrition and baby care products provider in China, announced its acquisition of Changsha Yingke Nutrition Products Co for CNY350 million. The Changsha company is engaged in the manufacture of infant formula products. Small and medium-sized companies that raised prices last year may find themselves being left behind if they haven't secured a buyer, Analyst Song Liang said. Last year, the Ministry of Industry and Information Technology (MIIT) announced it would foster the growth of large dairy companies over the next two years and aims to cultivate 10 enterprises each with an annual sales revenue exceeding CNY2 billion.

## PETROCHEMICALS

### China to slow down refining capacity expansion

PetroChina has decided to put off building two new refineries and delay expansion of another one in a sign that China's refined fuels capacity has expanded too fast. While the company will no doubt continue to build refineries, the pace is likely to slow over the next few years, and new units will have to compete with other projects to secure funding. PetroChina decided to delay by two years the start-up of its 200,000 barrels per day (BPD) Kunming refinery to 2016, and delay by four years the 400,000 BPD joint venture Jieyang refinery to 2017. The company will also delay the expansion of its Huabei refinery to 2015 from this year. China added about 250,000 BPD of refining capacity last year, and two refineries with a combined 440,000 BPD are scheduled to start up in the first quarter of this year. This will take total capacity to about 12.7 million BPD, with a further 3.16 million BPD still planned by 2020. China's implied oil demand rose at the slowest rate in more than two decades last year, gaining just 1.6% to 9.78 million BPD. By the middle of this year there could be close to three million BPD of refining capacity not being used, and it is unlikely that demand will rise fast enough to justify the planned refineries. CNPC, the parent of PetroChina, has forecast a demand rebound this year, tipping 4% growth to about 10.36 million BPD, which equates to a gain of 400,000 BPD.

Assuming a 4% growth, this would put oil demand at just above 13.1 million BPD by 2020, when refining capacity is scheduled to be closer to 15.7 million BPD. It seems inevitable that China will have to further scale back its refinery expansion plans, unless it is intending to become a major player in the global market for refined fuels, the South China Morning Post reports.

## Competition in LNG market heating up

Fifty-five projects in the LNG sector will be completed this year, which will bring the country's total daily LNG production capacity beyond 60 million cubic meters, according to estimates from ICIS C1 Energy, a Shanghai-based energy consultancy. LNG production capacity grew 51.2% to 38.35 million cu m a day last year. Figures from the CNPC Economics and Technology Research Institute, which uses different calculation methods, show that China has 66 LNG projects in operation with a total capacity of 33.77 million cu m a day. The figure will grow to more than 70 million cu m a day this year if all the projects under construction are completed, said the Institute. "Competition in the domestic LNG market is becoming more intense. Participants in the market are diversified, with private, state-owned and foreign companies." According to the Institute, private companies hold a 62.3% market share. "Most LNG suppliers had better profits last year thanks to growing demand based on LNG consumption in the transportation sector," according to energy consultancy ICIS C1. "China will remain the single largest market for gas in transport, with consumption of 45 billion cubic meters by 2030," said Noel Tomnay, Head of global gas research for Wood Mackenzie. As of the end of 2013, China had 10 LNG terminals in operation with an annual capacity of 32.3 million metric tons, according to ICIS C1. It forecast that the nation's annual capacity will grow to 37.3 million tons in 2014, with two new terminals going into operation. In 2013, China's LNG imports rose 22.4% to 25 billion cu m, according to the CNPC institute. According to ICIS C1, China will build more than 400 LNG stations this year and the country will have about 2,500 stations by year-end. The number of LNG stations more than doubled in 2012 and grew by 130% in 2013, the China Daily reports.

## REAL ESTATE

### Price rises slow down in January

Home prices in China climbed for the 20<sup>th</sup> straight month in January, but at a slower pace, according to the latest report of the China Index Academy. The average price of new homes in 100 cities nationwide gained 0.63% from December to CNY10,901 per square meter last month, the Academy said. In December and November, the price increased by 0.7% and 0.68% respectively. "Expanded property curbs rolled out in many cities during the last quarter of 2013, coupled with a seasonal impact, jointly led to a cooler market in the first month of 2014," the Academy said. The prices in 62 cities nationwide climbed from a month ago, down from 68 in December. The prices in 20 of the cities gained above 1%, compared to 19 in December. Home prices in China will experience greater regional divergence in 2014, with an increasing risk of price declines in smaller cities, industry experts said. Prices in first-tier cities rose much faster than elsewhere last year, driven up by a lack of supply and tougher curbs. In November, new home prices surged more than 20% in Beijing, Shanghai, Shenzhen and Guangzhou, according to the National Bureau of Statistics (NBS). New supply increased much faster in smaller cities, with only moderate price rises. Even if housing prices drop, it is unlikely to lead to a housing crisis, because housing bubbles in China are mainly limited to first-tier cities, which represent only a small portion of the national market. In 2012, the four first-tier cities – Beijing, Shanghai, Shenzhen and Guangzhou – accounted for only 4.7% of the total population and 3.8% of home transactions, according to JPMorgan. According to the China Index Academy, sales in terms of floor space will rise 5.5% to 7.8% throughout the year, compared with 73.8% in first-tier cities so far this year.

- Driven by concern about the availability of funds, more than 12 developers, including China Overseas Land & Investment, Dalian Wanda, Guangzhou R&F Properties and Greenland, raised more than CNY50 billion offshore in the first month of the year. China has virtually barred developers from raising funds in the onshore stock markets since late 2009. The authorities started to accept refinancing applications last summer, and about 40 property firms, including China Merchants Property, are now queueing up to raise more than CNY110 billion.
- New home sales in Shanghai fell for the fourth straight month in January as buying

sentiment was hurt by expanded property curbs unveiled in the last quarter of 2013. Purchases of new homes dropped 27.6% from December to 708,900 square meters last month. The transaction volume fell 29.6% year-on-year. The average cost of new homes rose 0.76% from a month earlier to CNY25,651 per sq m.

## RETAIL

### Sales of luxury brands slow down in China

Growth in luxury spending in China is expected to have cooled to just 2% in 2013, down from 7% the year before and 30% in 2011, according to Bain and Co's annual China's Luxury Goods Market Study published at the end of 2013. Although Chinese consumers are still the biggest consumers of luxury goods worldwide – they accounted for 29% of the global market last year – it is reported that Chinese shoppers now do two-thirds of their luxury shopping abroad, which has triggered slowdowns in store traffic and store openings domestically. No more rapid expansion should be the first principle for luxury brands, as expanding the number of stores is no longer enough to drive growth, the China Daily reports. Of the 20 luxury brands included in Bain's study, the number of new openings in China declined from 150 in 2012 to 100 last year. Most brands are now focusing on renovation, relocation and operational improvements for domestic customers, said Bruno Lannes, Bain Partner in Greater China. For example, Bentley, one of the top English luxury car brands, does not plan to add any new cities to its dealer network as its sales revenue in China declined by 3% in 2013, as the brand's global sales were up 19%. Another characteristic of the market for luxury goods in China is that demand is now polarizing at the highest and lowest ends of brands' range. 25% of handbag sales were for models priced at less than CNY5,000, while 33% was for bags costing more than CNY20,000.

### China holiday sales grow at slowest in decade

Lunar New Year holiday spending grew at its slowest pace in at least a decade as the crackdown on corruption deterred the giving of luxury gifts. Retail sales from January 31 to February 6 rose 13.3% to CNY610.7 billion, the Ministry of Commerce (MOFCOM) said. Adjusted for retail price inflation, the decline in the growth rate from 14.7% during the holiday last year would be milder, said Chang Jian, Economist at Barclays Capital. She expects full-year retail sales growth this year of 14% in nominal terms, up from last year's 13.1%, even though GDP growth is projected to slow to 7.2% this year from 7.7% last year. Chang forecast consumer inflation of 3% this year, up from 2.6% last year. Prices remained stable during the holiday period from the previous week, with no change in rice prices and a 0.5% increase in the price of pork. Sales of luxury items slumped, while electronic and jewelry products sold well.

- Hong Kong's retail sales grew just 5.7% year-on-year in December, an especially poor performance for the peak Christmas shopping period, compared to 8.8% in 2012, the Hong Kong Retail Management Association said. Total retail sales in December are estimated at HKD49.7 billion. For the whole of last year, the figure came to HKD494.5 billion, an increase of 11% from 2012. This Christmas shopping season marked the second holiday in which retailers experienced softer-than-usual sales. October, usually a peak period for spending along with the October 1 "golden week" holiday, saw a modest 6.3% year-on-year growth.
- Shanghai saw a sharp easing in the growth in retail sales during the Spring Festival week-long holiday. Consumers in the city spent CNY4.68 billion from January 31 to February 6, up 5.5% from last year. The growth rate slowed from the 10.2% rise during last year's Spring Festival, and the increase of 9.8% on New Year's Day last month. Sales of many premium products fell year-on-year during the holiday. More people ate in restaurants for the reunion dinner on the eve of the Lunar New Year, up 72.2% although their total spending still dipped 0.2% because of lower prices.
- Raw milk production dropped in China last year, with output totaling 35.31 million tons, a 5.7% decrease from the previous year. That move led to a price rise in dairy products and battles among major firms for the supply of raw milk in the domestic market. Major Chinese dairy companies such as Sanyuan Group, Bright Dairy and Food Co, China Mengniu Dairy Co and Yili Industrial Group Co recently raised their prices between 5% and 10%.

- Transactions by Chinese bankcard holders jumped 23% to CNY200 billion during the week-long Chinese New Year holiday from a year ago. Expenses on train and long distance bus tickets doubled compared to a year ago, and spending on air tickets grew 67% year-on-year.
- China's catering sector grew 9% last year, the weakest growth in 21 years, according to the China Cuisine Association. Restaurants earned CNY2.54 trillion last year. High-end establishments were hit by the anti-corruption campaign. China's slowing economy has also dealt a blow to the catering industry, as cost-conscious diners go for cheaper spots with healthy, local food over multinational restaurant chains.

## SCIENCE & TECHNOLOGY

### China opens new Antarctic research base

China has opened its fourth Antarctic research base, the State Oceanic Administration (SOA) said. Taishan station is located between the Zhongshan and Kunlun stations on the East Antarctic inland ice sheet. Standing at an altitude of 2,621 meters, the station measures 1,000 square meters, with a main building of 410 sq m. The station can accommodate up to 20 people during the Antarctic summer and has a runway designed for severe weather. The average temperature is minus 36.6 degrees Celsius. Taishan was built by China's 30<sup>th</sup> Antarctic scientific expedition mission, taking a 28-strong crew 53 days to complete. China launched its first Antarctic expedition in 1984, and inaugurated the Great Wall station the following year. It opened the Zhongshan station in 1989 and Kunlun in 2009. SOA said another all-year station will be built in Antarctica's Victoria Land by the end of 2015.

- The Taiwanese authorities are considering loosening controversial restrictions on mainland college students as a talent drain and low birthrate reduce the number of local students. A relaxation of the policy includes loosening the yearly quota of 2,800 students, recognizing diplomas from several more mainland universities, allowing mainland students to take part in skills certification tests and simplifying school application procedures. Taiwan opened its door to mainland university students in September 2010. "It is time to open up the door wider to mainland students," Taiwanese President Ma Ying-jeou said.

## STOCK MARKETS

### Hong Kong shares drop after holiday

Hong Kong shares suffered their biggest daily tumble in nearly 18 months in strong volumes, with Chinese growth-sensitive sectors sliding as investors returned from the Chinese New Year holiday on February 4 in Hong Kong. The Shanghai bourse reopened on February 7. The Hang Seng Index ended down 2.9% at 21,397.8 points in its biggest single-day loss since July 23, 2012. The China Enterprises Index of the top Chinese listings in Hong Kong dived 3.1% to 9,509.7 points. Turnover faded after a robust morning session, with a good portion coming from Lenovo Group alone as its shares plunged 16.4% in its biggest one-day decline since January 2009. A series of brokers downgraded Lenovo's shares on fears recent deals would dilute earnings amid reports of another joint venture with Sony. Lenovo declined to comment on the report, while Sony said it was "inaccurate."

- The United States audit watchdog said that the U.S. and China are close to striking a deal that would allow it to inspect the audit work of Chinese accounting firms. "I am also optimistic that we will be able, during 2014, to sign a long-sought agreement to inspect the audit work of PCAOB-registered firms based in China," Jim Doty, Chairman of the Public Company Accounting Oversight Board (PCAOB), said. The topic of China came up as part of a hearing before the U.S. Securities and Exchange Commission (SEC) to discuss the Board's budget and policy initiatives for this year.
- China-related firms are among the 255 over-the-counter (OTC) listed shell companies recently suspended by the U.S. Securities and Exchange Commission (SEC) to prevent fraud. The SEC said it had suspended the companies to prevent "pump and dump schemes". In such scams, perpetrators tout a thinly traded micro-cap stock through false and misleading statements about the company to the market, the SEC said. After buying the shares cheaply and pumping the stock price higher by creating

the appearance of market activity, they dump the stock to make huge profits by selling it back into the market.

- Shanghai stocks edged up on the first trading day – February 7 – after the weeklong Chinese New Year holiday. The Shanghai Composite Index added 0.56% to 2,044.52 points, while Shenzhen's ChiNext board for high-growth and high-tech startups hit a record high.

## TRAVEL

### More tourists visit Shanghai during New Year break

Shanghai saw an 8.2% rise in tourists during the Spring Festival holiday compared with last year. Some 3.62 million tourists visited Shanghai during the holiday, generating revenue of CNY3.57 billion, up 1%, the Shanghai Tourism Administration said. 120 tourist attractions monitored by the Administration reported an 18% increase in tourists from last year. Hongqiao and Pudong international airports received 313,000 and 255,000 passengers respectively between January 30 and February 5, up 20% and 6.2%.

- Hundreds of thousands of mainland Chinese tourists visited Macao during the Chinese New Year holiday. About 2.7 million people, mostly mainlanders and a smaller portion of Macanese, are expected to have crossed in and out of Macao at the main Gongbei Port checkpoint at Zhuhai by the end of the holiday – more than five times Macao's population of just over 550,000.
- More and ever higher Buddha statues are being built in China to attract more tourists and to emulate the success of the Lingshan Grand Buddha in Wuxi, Jiangsu province, which charges CNY210 per ticket. The 88-meter-high attraction drew about 3.8 million visitors last year, generating more than CNY1.2 billion. The Spring Temple Buddha in Lushan county in Henan province is 208 m high.

## VIP VISITS

### President Xi attends opening of Winter Olympics

Chinese President Xi Jinping started his New Year diplomacy by meeting his Russian counterpart Vladimir Putin, the sixth time they have met within a year, in keeping with their plans to consolidate relations. They exchanged ideas on promoting ties and major projects, and on regional and international issues, as Xi traveled to Sochi, Russia, for the Winter Olympics, the first time a Chinese President has attended a major sports event overseas. Xi said the Sochi Games are a symbol of how Russia is heading toward prosperity and affluence, while Putin said Russia and China have contributed to world stability and security. Pushing through further economic reforms will prove tough and there may be dangerous times ahead, President Xi Jinping said in an interview with Russian state TV on the sidelines of the Sochi Winter Olympics.

## ONE-LINE NEWS

- The U.S. Senate has voted 96 to 0 to approve President Barack Obama's nomination of Senator Max Baucus as Ambassador to Beijing. In a commentary, Xinhua news agency largely welcomed the confirmation, describing Baucus as a "well-received candidate," but said more trust was needed between Washington and Beijing.
- Shanghai is Asia's most fashionable city, according to a survey by the U.S.-based Global Language Monitor (GLM). After being given the top regional rank for the past five years, Hong Kong dropped eight places to 20<sup>th</sup> in the world, the sharpest fall among the top 20 cities. It was overtaken in Asia by Tokyo and Singapore. Shanghai climbed 12 places to 10<sup>th</sup>. New York has retaken the global top title from London.

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