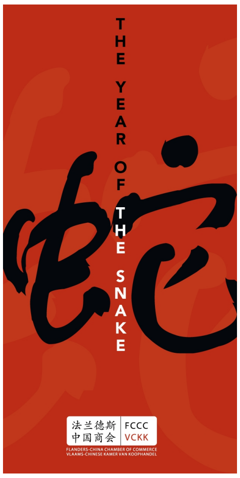
法兰德斯中国商会 FCCC VCKK

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

NEWSLETTER | 4 FEBRUARY 2013

FCCC ACTIVITIES

FCCC New Year Reception – 5 February 2013, 18 h. – Brussels



The Flanders-China Chamber of Commerce (FCCC) is organizing a Chinese New Year reception on February 5, 2013 at 18 h. at the Flemish Parliament, Hertogsstraat 6, 1000 Brussels, with speeches 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 Flemish Government, Flemish Minister for Economy, Foreign Policy, Agriculture and Rural Policy

Members: €20
Non-Members: €45

If you wish to attend, please subscribe via the following link:
http://www.flanders-china.be/events_subscription1.asp?id_event=267&lang1=

Invitation to participate in the Sino-Belgian Survey 2013

How did Belgian companies perform in China in 2012?

To answer this question, the Flanders-China Chamber of Commerce, together with the Benelux Chamber of Commerce and Moore Stephens Verschelden are conducting the Sino-Business Survey 2013.

The survey tries to study the performance of Belgian companies in the right context. When we talk about the growth of our business in China, are we comparing apples to apples, or are we comparing apples to oranges? Equally important, how do we feel about the future of our business in China as we enter the Year of the Snake (2013)?

We keep the survey simple; with just 15 concise questions we aim to be precise and to the point.

Please take a few minutes to fill out this survey. Click here to take the survey.

Save the date: the survey results will be shared in panel discussion events composed of industry leaders in Beijing (March 14), Brussels (March 21) and Shanghai (March 28).

ACTIVITIES BY FCCC STRUCTURAL PARTNERS

Deloitte Academy webcasts – 6 February 2013

China VAT Reform: Separating Myth From Reality? 6 February 2013, 11.00 am CET
Host: Kendra Hann Presenters: Robert Tsang, Sarah Chin

In 2012, the China VAT pilot programme was introduced in Shanghai, then expanded to Beijing; plans are for expansion to other provinces and cities. What practical issues arise from the programme's implementation and what will future VAT reforms mean for your organization in China? We'll discuss:

- Experiences of the programme's introduction.
- Key issues in practice and steps businesses can take to manage them.

- Techniques and action plans for a smooth transition from a business taxpayer to a VAT payer.
- Future developments – a look ahead at what may be next in VAT.

Learn about what the changes mean for your business and partners, suppliers, and clients or customers in China.

Tax Risk Management – 10 practical ideas to get you started February 6, 2013 12:00 p.m. till 12:45 p.m., Time zone Brussels, Copenhagen, Madrid, Paris

Contact Information: Katrien Lauwers, Tel : +32 2 600 66 69, Fax : +32 2 600 67 01
E-mail: academy@deloitte.be

Lecture Café: "Airway diseases in two worlds – from Belgium to China" – 19 February 2013 – Ghent

The second Lecture Café entitled: "Airway diseases in two worlds – from Belgium to China" by Prof. Dr. Claus Bachert and Prof. Dr. Zhang Nan (Faculty of Medicine and Health Sciences, Upper Airways Research Laboratory) will take place on Tuesday 19 February from 12:00 to 14.00 in KANTL (Koningstraat 18, Gent).

A free sandwich meal will be provided. Subscribing is free of costs, but mandatory, via https://webapps.ugent.be/eventManager/events/LectureCafes

Upper airway diseases such as sinusitis have a prevalence of 11% nowadays, and can be differentiated in subgroups according to the individual type of inflammation. Although clinically similar, sinus disease in China does show a completely different inflammation compared to the European counterpart. From this difference, we can learn more about the role of inflammation in this disease. The presentation will cover the clinical and the immunological side of disease, and will give you an insight into management of airway disease today and tomorrow in two different worlds, Belgium and China.

Prof. Dr. Claus Bachert, professor at Ghent University Hospital, clinician and researcher in Rhinology (head of the Upper Airways Research Laboratory), is member of international initiatives on evidence-based medicine in upper airway disease and member of several European FP7 research programmes.

Zhang Nan, professor at Zhongshan People's Hospital in China, was senior ENT surgeon and is now researcher at the Upper Airways Research Laboratory at Ghent University.

The Lecture Cafés are a joint initiative of the UGent China Platform, the India Platform and the International Office of the Faculty of Bioscience Engineering.

OTHER ACTIVITIES

BICCS presents: China and globalization – 14 February 2013 – Brussels

BICCS is organizing a seminar "China and globalization" on Thursday 14 February 2013 at the Karel van Miert building, Lisbon and Rome (Level -1), Pleinlaan 5, 1050 Brussels.

The seminar "China and globalization" starts with a presentation by Wang Yong, Professor at Peking University, about China's evolving views of the global order. He will discuss how the Chinese elite has been approaching both the need to build a competitive national economy and the expectations of the developed world to see enhanced liberalization of the Chinese market. He will also elaborate on how the financial crisis has affected these views and China's assessment of the future of globalization.

Wang Haifeng, an expert at the Institute of Foreign Economics of the NDRC, will elucidate how China is interpreting the growing threat of protectionism and analyze how it seeks to address this challenge.

Programme:

16h: Dr. Wang Yong

16h30: Dr. Wang Haifeng

17h: Debate, moderated by Jonathan Holslag

18h: The policy view: Zhang Lirong, Chinese Mission

Please register before 10 February. Places are limited.

PAST EVENTS

Invitation China 2.0: New opportunities for Belgian industry and meeting with the Belgian consuls-general in Shanghai and Guangzhou – 30 January 2013 – Antwerp

Delaware Consulting, De Wolf & Partners and Moore Stephens Verschelden, in collaboration with the Flanders-China Chamber of Commerce (FCCC) and the Benelux Chamber of Commerce in Shanghai (BenCham), organized a presentation and debate on “China 2.0: New opportunities for Belgian industry”, followed by a networking reception attended by the consuls-general of Belgium in China at Havenhuis in Antwerp.

The event marked the launch of the BenCham Starter Kit for China, which contains everything you need to know about setting up and growing your business in China. The valuable information in the starter kit was written by experts currently living and working there.

Mr Stefaan Vanhooren, Vice-Chairman of the Flanders-China Chamber of Commerce, welcomed the participants. Following an introduction by Mr Philippe Snel, Chairman BenCham in Shanghai, a panel discussion was held focussed on “Wherever there are challenges, there are opportunities. What is China 2.0 and what does it mean to all of us?” with Andries Verschelden, Partner and leader Global China Desk, Moore Stephens Verschelden China; Cathy Buggenhout, Consul-General of Belgium in Shanghai; Bert Van Genechten, Managing Director, Delaware Consulting China Shanghai-Suzhou; Stefaan Vanhooren, President, Agfa Graphics, Member of the Executive Committee, Agfa-Gevaert Group; and Geert Roelens, CEO Beaulieu. At the reception, there was an exchange of views and networking with the consuls-general.

A radio program with the speakers will be broadcast this week in Voor de dag on VRT Radio.

MEMBERS' NEWS

AB InBev to acquire Nanchang Asia Brewery

Anheuser-Busch InBev will acquire Chinese Nanchang Asia Brewery Co, a leading brewery in Jiangxi province, to penetrate the Chinese middle and low-end beer markets.

FINANCE

15 banks to issue offshore yuan loans in Shenzhen

The first offshore yuan lending program in Shenzhen’s Qianhai started when 15 banks in Hong Kong agreed to lend CNY2 billion to companies registered in the area. The program will deepen competition between Shenzhen and Shanghai for the cross-border yuan business, economists said. Dariusz Kowalczyk, Senior Economist of Credit Agricole CIB, said the move is a major development in liberalizing interest rates as companies can for the first time set their own lending rates disregarding the PBOC’s official rates. The first batch of projects to get the offshore loans includes a supply chain of telecommunication firm ZTE, an information platform of Tencent, and several local transaction systems for financial products. Lim Cheng Tech, CEO of Standard Chartered Bank China, said the move marks the further opening of China’s capital account, and will fasten the development of the offshore yuan market and cross-border capital flow. “Opening up offshore yuan lending in Qianhai is an important move in exploring the flow-back mechanism for the yuan,” Lim said. “It is a landmark step in the yuan’s internationalization.” At the end of last year, 302 companies and organizations with a total registered capital of CNY37.3 billion were registered in Qianhai. Previously, offshore yuan could flow back to the mainland only through yuan-denominated trade and renminbi qualified foreign institutional investors.

- Foreign banks in Shanghai made a record high profit last year of CNY12.5 billion despite falling deposits and loans, the China Banking Regulatory Commission (CBRC) said. Deposits at all banks, including domestic and foreign, in Shanghai grew at a slower 9.2% last year, compared to 12.3% in 2011. Deposit balances at the foreign lenders gained 6.7% to CNY1.1 trillion last year from 2011, while outstanding loans rose 6.9% annually to CNY734.1 billion. By the end of last year, there were 22 locally incorporated foreign banks in the city.
- Goldman Sachs Group has raised USD1 billion from selling a stake in the Industrial and Commercial Bank of China (ICBC). The bank has no immediate plans to sell more stock, said Hong Kong-based Spokesman Edward Naylor. The U.S. bank and its funds had previously divested at least USD7.76 billion worth of ICBC shares in four sales since June 2009. Investing in local lenders in China is reaping bigger profits for foreign banks than operating their own franchises, a study found. Global banks and financial institutions invested a combined USD33 billion in Chinese banks from 2001 to 2009, according to the China Banking Regulatory Commission (CBRC).
- China is ready to launch government bond futures in the “first half of the year” as it expands the scope of financial derivatives allowed to trade on the domestic market. The China Financial Futures Exchange has made all necessary preparations and trading in the bond futures can start within one or two months after the bourse gets regulatory approval, said Zhang Shenfeng, General Manager of the Exchange. He added that the bond futures on the most-traded five-year bonds would be the first to be launched.
- Scrutiny of wealth management products will be a top priority this year, Wang Yanxiu, an official at the China Banking Regulatory Commission (CBRC) said. Currently there are CNY7.1 trillion worth of outstanding wealth management products, a surge of 13 times from the CNY500 billion in 2007. Wang assured that the risk was under control as the combined financial products account for about 5% of the banks’ total assets. Banks were ordered to do internal checks on their branches and employees to prevent unauthorized sales of wealth management products.
- The creditworthiness of bonds issued by some inland Chinese provinces is reaching alarming levels, affecting their ability to repay debt given their less robust economic fundamentals which limit tax income and access to bank loans amid tighter borrowing criteria, Fitch said. The debt burdens in Hubei, Jilin, Hainan and Hunan were too high. The debt-to-fiscal-revenue ratio for Hubei province, for example, reached as high as 136% last year. Land sales, the major revenue generator for provincial Chinese governments, fell by 14% year-on-year last year and could remain flat this year, Fitch says.
- A credit-rating database holding the records of enterprises and individuals is expected to be launched in Shanghai in the summer with the aim of clamping down on dishonest practices. It will be open to the public by the end of this year. The system will cover a mix of information, including credit information from banks on bad loan histories, records of illegal activity held by industry and commerce departments, and criminal records from public security departments.
- Foreign-capitalized banks in Shanghai earned total profits of CNY12.5 billion in 2012, their strongest ever performance, according to the Shanghai Banking Regulatory Bureau. By the end of December 2012 they had total assets of CNY1.08 trillion, total deposits of CNY572.9 billion and a loan book worth CNY424.3 billion. The rate of non-performing loans was just 0.37%, lower than the national banking industry average.
- The China Banking Regulatory Commission (CBRC) is considering to allow banks to lend more than 75% of their outstanding deposits, a limit introduced in the 1995 commercial bank law. While regulators check the ratio on a monthly basis, banks often try to attract deposits by offering high rates and moving loans off balance sheet to dodge the rule. Zong Liang, Deputy Director of the International Finance Institute at the Bank of China (BOC), said: “It would be an important reform. Lending will increase moderately to support economic stabilization. Also, banks' competitiveness will be enhanced.”
- Hong Kong’s offshore yuan deposits, excluding Certificates of Deposits, may account for over 25% of total deposits in the city by 2015, making the yuan deposits the second-largest source of deposits in Hong Kong, Hang Seng Bank said in a report. The amount of cross border trade settlement in yuan could grow by about 20% in 2013, the report said.

- Sales of domestic assets caused capital to exit China in 2012 for the first time in 14 years, the State Administration of Foreign Exchange (SAFE) said. Last year, China had a deficit of USD117.3 billion in its capital and financial account. It was the first deficit since the Asian financial crisis in 1998 and the second time after China started to release the data in 1994, the SAFE said. China's foreign exchange reserves added USD98.7 billion to USD3.31 trillion in 2012 after adjusting for prices and exchange rates.
- A value-added tax trial program has saved more than CNY40 billion for more than 1 million participating companies in 12 pilot regions, the Ministry of Finance said. The program replaced a business tax with a more transparent VAT system for companies in the service sectors, including transport, leasing, and research and development (R&D). Telecommunication companies in Shanghai will come under the program this year, and the Ministry also said it will expand the pilot program to more areas.

FOREIGN INVESTMENT

Bluestar-Adisseo JV plant to start production

China's first methionine plant will be put into operation soon, ending the country's dependence on imports of the important supplement used in animal feed additives. The plant in Nanjing, Jiangsu province, is a joint venture by China National BlueStar Co and its fully owned French subsidiary Adisseo Group. The factory, owned by Bluestar Adisseo Nanjing Co, or Adistar, will have an annual production capacity of 70,000 metric tons in the initial stage. China needs about 120,000 tons of methionine annually, and is totally dependent on imports, according to Bluestar. "The total production capacity of the plant is expected to be 140,000 tons a year to meet the growing demand both in China and in other Asian countries," said Ru Chengjun, Executive Vice General Manager of Adistar. The plant will become one of the lowest-cost liquid methionine production facilities in the world when it is operating at full capacity, Ru said. As a subsidiary of the state-owned China Chemical Corp (ChemChina), Bluestar acquired the then third-largest methionine producer in the world, Adisseo, for USD565.4 million in January 2006, in China's largest overseas mergers and acquisitions deal in France. After the acquisition, the company helped Adisseo France turn from losses into a profit in fours years. It also merged the Nanjing plant with Adisseo France, making it another overseas plant of the French company. ChemChina has six overseas companies it acquired through M&As in recent years and owns production bases, research and development centers and marketing offices in up to 140 countries and regions, the China Daily reports.

Chinese companies to raise investments in the EU

Most Chinese companies investing in the European Union will increase investments despite meeting some hurdles, said a survey released by the EU Chamber of Commerce in China. Nearly 97% of respondents said they plan to make future additional investments in the EU, with 82% planning to invest higher amounts than their current investments, according to the survey on the Chinese Outbound Investment in the EU compiled jointly by the Chamber, KPMG and Roland Berger Strategy Consultants. At the same time, 78% reported facing difficulties, mostly related to issues of bureaucracy and high costs. Chinese non-financial outbound investment surged 28.6% from a year earlier to USD77.2 billion last year, with 4,425 overseas companies operating in 141 countries and regions, the Ministry of Commerce (MOFCOM) said. The investment in the EU was not immediately available but the Chamber said it was rising as the debt crisis made it less expensive. "Greater Chinese investment in the EU is a positive trend and this survey clearly shows that Chinese companies face few regulatory market access barriers in Europe," said Davide Cucino, President of the European Chamber. Chinese companies operating in the EU are looking to further engage in mergers and acquisitions (M&As) to obtain technology, brands and expertise, the survey said. Also, the EU is perceived by Chinese investors as a stable environment with advanced technologies, skilled labor and a transparent legal environment. The major barriers facing Chinese investors included the difficulties in getting work visas for Chinese employees, problems dealing with European labor laws, a lack of uniform legislation in the 27 member states and 23 official languages, the survey said.

- Fujian plans to spend CNY326 billion on 368 major projects, including 150 new developments, this year to boost cross-strait ties with Taiwan. Sectors to be invested in include agriculture, irrigation, transport infrastructure, energy, urban projects, environment and services. The province would increase construction of port terminals to boost passenger shipping connections with Taiwan, including links from Xiamen to Taiwanese ports such as Jinmen, Keelung and Taichung. A new financial center was being built in Xiamen to attract Taiwanese financial companies. Taiwan is the second-biggest investor in Fujian after Hong Kong.

FOREIGN TRADE

Hong Kong to limit parallel trade in baby formula

Hong Kong Food and Health Secretary Ko Wing-man said legislation would be amended to prohibit taking more than 1.8 kilograms of baby formula out of Hong Kong, about two cans of formula. People from China's mainland have increasingly looked overseas for baby formula after several tainted-formula scandals. The law change is aimed at so-called parallel traders from the mainland, who have been flooding into Hong Kong to buy up consumer goods that also include cosmetics, toiletries and electronics for resale back home. Parallel trading is frowned upon by Hong Kongers but is not illegal.

- China and Iceland have had "breakthroughs on all the major issues" during the sixth round of talks on their free trade agreement held in Beijing from January 22 to 24, China's Ministry of Commerce (MOFCOM) said.
- The European Union will impose punitive duties on Chinese producers of some forms of steel after most EU members agreed that Beijing was propping up exporters with illegal state subsidies. It is only the second time the bloc has imposed tariffs to counter Chinese subsidies, with the rates to be applied this time far higher than before. Diplomats said most EU states had voted in favor of the move.
- A surge in China's rice imports in 2012 will not affect food safety in the country and there are no grounds to relate the increasing imports to any global food crisis, the Ministry of Commerce (MOFCOM) said. China's rice imports more than quadrupled from the previous year to 2.32 million metric tons in 2012, the highest level since 2000, but the imports only accounted for about 1.7% of China's demand for rice.

IPR PROTECTION

Patent applications on the rise in Guangxi

The number of patent applications in the Guangxi autonomous region surpassed 11,000 in the first 11 months of last year. More than 5,200 were for inventions, a year-on-year increase of 130%, the highest growth rate nationwide. Over the period, the Guangxi government granted awards to some 2,300 patented projects.

MACRO-ECONOMY

Government procurement unlikely to grow further

Government procurement may have peaked last year as tougher regulations mean there will no longer be huge increases in public expenditure. The procurement budget will stay around CNY20 billion, an amount similar to the budget for 2012, said Wang Lida, Director of the Central Government Procurement Center. The 2012 figure represented a jump of 20% year-on-year, but such increases are unlikely in the future, Wang said. The procurement budget has grown nearly 30-fold from when the center was established 10 years ago. Tougher measures on spending, especially regarding the purchase of government vehicles, are now in force, he said. Procurement by government offices exceeded CNY 1.13 trillion in 2011, accounting for 11% of public expenditure, according to Cheng Yuanzhong, Deputy Director of the China Federation of Logistics and Purchasing (CFLP), making China the largest public procurement market in the world with about 10% of the world's total. He also said the government procurement will prioritize energy saving and environmentally friendly products. Stricter procurement rules are however not expected to have a major impact on the car market. "The government accounts directly for no more than 2% of the car market. The proportion might be around 4% to 5% when all state-owned entities are taken into account," said Cui Dongshu, Deputy Secretary General of the China Passenger Car Association (CPCA). IT purchases will not be reduced, analysts said. In 2012, the government purchased CNY300 million of certified software, the China Daily reports.

China issues plan on seed industry

The central government has mapped out its first long-term plan for the agricultural seed industry, as a lack of independent biotechnology and a chaotic seed market have challenged its ability to maintain food security. Large seed-breeding bases would be set up, and government-owned institutes and colleges, which currently account for most of the seed breeding, would be forced to withdraw from the sector by 2015, the Ministry of Agriculture (MOA) said. It was elaborating on the recently issued “Plan on the Development of a Modern Agricultural Seed Industry for 2012-20”. Over that timeframe, more large seed companies utilizing independent research and development teams would be cultivated, and the 50 strongest companies would hold 60% of the market, according to the plan. China is still in the beginning stage of building a market-oriented seed industry, said Ma Shuping, Deputy Director of the MOA's Seeds Administration. Ma Wenfeng, Analyst at Beijing Orient Agribusiness Consultants, said the government began to attach importance to the sector as underdeveloped agricultural technology made China increasingly reliant on food from the global market.

China's overall deficit in farm trade last year increased 44% from 2011 to USD49.2 billion, the MOA said. The trade deficit of staple foods, including wheat, corn and rice, increased threefold from a year earlier, to nearly 13 million tons. “Because of poor seed technology, crop yields have been stagnant over the past decade,” Ma Wenfeng said. “For example, we have been importing a huge amount of soya beans since the yields per unit for this crop remain at the level 10 years ago. It was not until the past couple of years that yields of rice finally returned to the level from the 1990s.” “The mainland's seed industry has been known for its great number of small, weak and widely scattered companies,” Ma Shuping said. After amending the regulations, the number of companies specializing in agricultural seeds has been reduced by nearly a third, to about 6,300. However, only 7% of them have registered capital of over CNY30 million, the South China Morning Post reports. Only 25 seed companies are wholly or jointly owned by foreign capital, of which four specialize in corn, one in cotton, and the rest in vegetables and flowers.

Edelman finds low trust in Chinese companies

Chinese companies are less trusted than companies headquartered in other nations, a major hurdle for the growing number of Chinese enterprises looking to “go global”. Of those polled in developed countries, only 19% regarded companies headquartered in China as “trustworthy”, according to a survey by Edelman, a leading public relations firm. In other emerging markets 58% of respondents trusted China’s businesses and in China the ratio was 79%. David Brain, Edelman Asia-Pacific President and CEO, said the low trust can be attributed to less familiarity, insufficient communication and less established brands. “Part of the problem is quality and innovation. China in this respect is going up: you are going from imitation to innovation. But communication has to be part of that,” he added. Low trust means it is harder for Chinese companies to do deals and it is more difficult to find local partners. According to Brain, it will only take a few recognized brands to change people’s perceptions. “For me, China has two candidates with the potential to play that role: Haier and Lenovo. I think they have a national duty to over-communicate and overachieve for the rest of China,” said Brain. The survey, based on more than 31,000 online respondents across 26 markets, also found a company’s engagement and integrity are important to its success.

- Shanghai will try to raise people’s incomes at a rate quicker than the national average and those on low incomes will see their salaries grow even faster, Shanghai Party Secretary Han Zheng said during the annual session of the Shanghai People’s Congress. China is reportedly going to announce a scheme on income distribution reform in the next two months, possibly during the National People’s Congress (NPC). Shanghai has yet to release its Gini coefficient. Han also urged faster reforms to cater for an aging Shanghai population.
- Shanghai plans to invest CNY10 billion in the next five years in the Internet of Things technology and strategic industries, including integrated circuits, cloud computing, new-energy cars and smart grids, Dai Haibo, Director of the Shanghai Municipal Commission of Economy and Information Technology, said. Shanghai plans to construct 16 smart communities which will adopt the Internet of Things technology.

- China will invest CNY80 billion over three years until 2015 to build 90 smart cities nationwide, including one in Shanghai's Pudong New Area. They will be energy-friendly and intelligent as part of a move to enhance people's daily life, the Ministry of Housing and Urban Rural Development said.
- Shanghai is expected to attract 150 more foreign multinationals' regional headquarters by 2020 – in addition to the 403 today. Transforming the city into a international economic, financial, trading and shipping center ("Four Centers") has been the focal point of Shanghai's 12th Five Year Plan.
- Citigroup predicted that China's GDP growth in 2013 will be 7.8%. It expects the central bank to raise interest rates in the fourth quarter and the first quarter of next year, by 25 basis points each time, which would further drag growth to 7.3% in 2014. Citi's less optimistic forecast comes as most analysts adjusted their growth estimates upwards, following the pick-up in China's economy during the fourth quarter of 2012.
- The SME development index, produced by the China Association of Small and Medium Enterprises, which measures the growth of China's small and medium-sized enterprises (SMEs), rebounded in the fourth quarter of 2012 for the first time in eight quarters. The index rose rose 3.3 points to 90.8, although it remained at a low level.
- Profits at industrial firms with annual revenues of more than CNY20 million climbed 17.3% year-on-year last month to CNY895.2 billion, the National Bureau of Statistics (NBS) said, down from November's 22.8% increase and October's 20.5% rise. Chinese industrial companies recorded negative profit growth in each of the first eight months last year, apart from March, when a 4.5% rise was registered.
- China, the world's largest food consumer, is expected to reap a bumper grain harvest this year, with a 10th consecutive grain yield increase, according to a forecast by the Center for Forecasting Science at the Chinese Academy of Sciences (CAS). The country's grain growing area is forecast to expand by 663,000 hectares from 2012, to 111.93 million hectares this year. The country's cotton growing areas are expected to see a second decline since 2011, which is likely to dent cotton production this year, the report added. China's cotton growing areas declined by 4.1% in 2012 from a year earlier, but cotton production last year still grew by 3.8% from 2011.
- The Chinese government approved an energy consumption control target, part of the country's efforts to foster greener growth. The government aims to keep total energy consumption below 4 billion tons of standard coal equivalent by 2015, with electricity consumption below 6.15 trillion kilowatt-hours. To meet the target, the average annual energy consumption growth should be controlled at around 4.3% between 2011 and 2015, lower than the 6.6% annual increase between 2006 and 2010.
- Incomes rose faster in the countryside than in cities last year for the third year as migrant workers boosted their pay and the government strengthened the social safety net. Rural per capita net income rose 10.7%, against a 9.6% increase for urban dwellers. Rural residents' income from benefits payments rose 21.9%, almost double the urban pace, as the government boosted its budget for health-care handouts. Rural per capita net income, which includes migrant workers' pay, rose more than that of urban residents in 2010 for the first time since 1997. Rural spending was still less than one fifth of what urban households spent.
- The official Purchasing Managers' Index (PMI) dropped 0.2 points from a month earlier to 50.4 in January, the China Federation of Logistics and Purchasing (CFLP) said. Zhou Hao, Economist at Australia & New Zealand Banking Group, said the data suggested the recent economic pickup remained fragile, but he still expected economic growth to be above 8% in the first quarter. Zhou said the slowdown was partly a result of a sampling change, as there were now 3,000 companies taken into account instead of the previous 820. The HSBC Purchasing Managers' Index, which is weighted toward private and export-oriented companies, posted 52.3 last month, up from 51.5 in December.
- Consumer confidence in China rebounded in the fourth quarter as economic growth picked up amid low inflation, according to a Nielsen survey. The quarterly consumer confidence index rose by 2 percentage points to 108 in the last quarter – 17 points ahead of the global average. The index dropped to 105 in the second quarter in 2012, from 110 in the first quarter, before stabilizing at 106 in the third quarter.
- Labor shortages in Guangdong are expected to worsen after the Spring Festival. The labor shortfall is expected to reach between 1 million and 1.2 million, as a large

number of migrant workers have returned home for family reunions. More than 10 million migrant workers, or 61% of the total in Guangdong, will leave the province to return home for the Lunar New Year.

MERGERS & ACQUISITIONS

Value of inbound M&As falls to five-year low

The overall value of China's domestic and inbound mergers and acquisitions fell to a five-year low in 2012, while outbound deals hit a record high on growing appetite for overseas investments. There were 2,953 publicized domestic and foreign inbound deals last year in China, excluding financial and private equity transactions. The number includes deals on both the Chinese mainland and Hong Kong. In 2011, 3,744 such deals were completed, PricewaterhouseCoopers (PwC) said in a report. The value dropped 28% to USD97.1 billion from 2011, while China's outbound deals jumped 54% to a record USD65.2 billion. While state-owned enterprises focus on buying foreign resources and energy firms, the private sector is looking mainly at the consumer and technology sectors. Gabriel Wong, leader of PwC China corporate finance, said outbound acquisitions will continue to rise this year as the company has seen many deals in the pipeline. Europe remained the most popular destination for domestic companies due to relatively low asset valuations and mature technologies, the PwC report said.

China approves sale of HSBC's stake in Ping An

China has approved the sale of HSBC's remaining USD7.5 billion stake in Ping An Insurance to a group controlled by Charoen Pokphand Group of billionaire Dhanin Chearavanont. HSBC reaps a USD2.6 billion post-tax gain from selling what it no longer sees as a core asset. Approval by the China Insurance Regulatory Commission (CIRC) had been in doubt after media reports last month raised questions over the Thai group's funding for the deal. The transfer of the second tranche of shares to CP Group will be completed on February 6. The Ping An deal was Asia's second-biggest acquisition last year, behind Chinese oil firm CNOOC's planned USD15.1 billion purchase of Canada's Nexen. All parties involved issued brief statements confirming the deal. None of them disclosed how CP Group had funded the transaction. Sources familiar with the situation said the deal was finally made possible thanks to Dhanin Chearavanont's intense lobbying of top leaders in Beijing and his good connections in China and Thailand. It is understood he even went as far as securing a letter from Thailand's King Bhumibol Adulyadej to back the deal. CP group pledged to be a long-term strategic investor in Ping An and help it expand into rural China.

Johnson & Johnson acquires Shanghai Elsker

Johnson & Johnson (China) Investment Co has completed the acquisition of Shanghai Elsker for Mother & Baby Co. Edward Zhou, Managing Director of personal care business, said J&J will further develop the Elsker brand in its personal care business to complement Johnson's baby franchise. The deal has obtained regulatory approval. Founded in 2006, Elsker received an angel investment of CNY20 million in 2007 and then was granted €5.5 million in funding from Edmond de Rothschild Group's private equity fund in 2009 and 2010, according to an announcement from Business Development Asia, Elsker's PR agency. China's baby care market has ballooned in recent years. The retail value of baby and child-specific skin care rose to CNY2.03 billion by the end of 2011, up 17.35% year-on-year. This number is predicted to reach CNY4.71 billion by 2016. J&J's dominant position in the sector is being threatened as its market share of child-specific products dropped from 59.1% in 2007 to 49.2% in 2011.

- Nexen, the USD15.1 billion takeover target of CNOOC, said the two companies have agreed to extend the deadline for the deal to close by 30 days to March 2, pending regulatory approval in the U.S. The proposed deal, which will be the largest overseas acquisition by a Chinese company on completion, has been approved by Chinese and Canadian regulators. It also needs U.S. approval because Nexen has assets in the Gulf of Mexico, but analysts have said the U.S. is not likely to block the deal because only 8% of Nexen's output comes from the U.S. Nexen will delay the release of its fourth-quarter earnings because of the extension.
- China became the prime investment destination for M&As in 2012, according to

international law firm Freshfields Bruckhaus Deringer. Higher levels of M&A activity are expected in Asia in 2013 across most sectors. China attracted almost USD35 billion of fresh inward M&A investment in 2012, up 3% year-on-year, helping the country secure its position as the most sought-after investment destination for the third time in the last five years. China also took the first position in the number of deals with 598 transactions.

PETROCHEMICALS

Pioneer to sell stake in shale gas field to Sinochem

Oil and gas producer Pioneer Natural Resources Co said it would sell a 40% stake in about 207,000 net acres of the Wolfcamp shale field in Texas to China's Sinochem Group Co for USD1.7 billion. Sinochem will pay USD500 million in cash and spend USD1.2 billion to fund a portion of Pioneer's future drilling costs. Sinochem will acquire about 82,800 net acres of leasehold. Pioneer will continue as the operator of the joint interest area, the Dallas-based company said. Production in the joint interest area averaged about 2,000 barrels of oil equivalent (BOE) per day in 2012, with a year-end exit rate of about 5,000 BOE per day. The emerging Wolfcamp Shale may ultimately rival the success of Eagle Ford shale in the same state, information provider IHS said in December. Pioneer and Sinochem plan to drill 86 horizontal wells this year in Wolfcamp, increasing it to 120 in 2014 and 165 in 2015. This is Pioneer's second partnership with an overseas company. Indian conglomerate Reliance Industries bought a 45% stake in Pioneer's Eagle Ford assets for USD1.3 billion in 2010.

Work on Sino-Russian oil refinery to start soon

Work on a long-delayed Sino-Russian oil refinery is expected to start in June in Tianjin. Qin Yonghe, General Manager of the China National Petroleum Corp Bohai Drilling Engineering Co, said government officials of Tianjin lobbied in Beijing in December for the project to be started. Some issues, including pricing, remain to be settled before the project can move forward. The Tianjin project, with a total investment of CNY36.6 million, was originally due for completion by 2012. CNPC is taking 51% of the shares, while Russia's oil producer, Rosneft, takes the remaining 49%. In September 2010, Vice Premier Wang Qishan and Rosneft CEO Igor Sechin laid the cornerstone for the refinery, expecting the joint venture to reach an annual capacity of 13 million tons. Since then, overall progress has been slow. Duan Liangwei, General Manager of CNPC's branch office in Dagang, Tianjin, where the refinery is being built, said talks are being held between the two sides to settle differences, but he declined to say when work can start.

- China will build three to five big coal-bed methane production bases over five to 10 years as well as encourage coal and petroleum companies to set up specialized units to quicken development of the industry. The methane bases will be built in the Qinshui Basin in Shanxi province and Ordos Basin in Inner Mongolia by 2015. China will also boost exploration in other regions. The government has doubled subsidies for coal-bed methane production and in late 2011 unveiled an annual output target of 30 billion cubic meters by 2015.
- CNOOC has set a conservative target of a 2.1% increase in oil and gas output for this year, but also promised a big jump in capital expenditure. It aims to produce 338-348 million barrels of oil equivalent (BOE) in 2013, compared with an estimated 2012 output of 341-343 million barrels. CNOOC CEO Li Fanrong said the company is still confident of achieving the 6% to 10% compound annual growth rate from 2011 to 2015. CNOOC expects 10 new oil and gas fields to come on stream offshore this year.
- As China's economy gradually rebounds, its demand for oil will rise at a modest rate of 4.8% to 514 million metric tons this year, and imports will continue to grow, the CNPC Economic and Technology Research Institute said. The country will import about 289 million tons of crude oil this year, up 7.3% year-on-year. About 59% of China's crude oil demand will depend on imports in 2013. Domestic crude output will be about 210 million tons. The country's total crude consumption was 475 million tons, up 4.7% year-on-year in 2012, CNPC said.

REAL ESTATE

Home price increases speed up

Home prices in China rose faster in January than in December, with nearly two-thirds of the cities monitored seeing gains. The average price of new residential properties across 100 major cities rose 1% from a month earlier to CNY9,812 per square meter, the China Index Academy said. That compared with December's 0.23% increase. Thirty-eight of the 64 cities that posted gains saw an increase of more than 1%. In December, 57 cities posted gains, with 26 recording a rise of more than 1%. Quanzhou in Fujian province led January's gainers with a 3.96% rise. Thirty-five cities reported price drops, with 21 suffering a fall of more than 1%. "Major cities, led by first-tier ones as well as those along the eastern coast, recorded accelerated price increases in January and that was the main reason behind a much faster pace registered all over the country," the Academy's report said. "Moreover, continuously improving sales over recent months, coupled with repeated vows made by the government to support demand from end-users, also helped boost confidence among real estate developers who have become more inclined to launch high-end products." The average price for a new home in China's 10 largest cities jumped 1.61% from December to CNY16,417 per square meter, with Shanghai, Beijing, Guangzhou and Shenzhen all seeing gains over 2%.

- Hong Kong lost its top spot as the most expensive office location in the world to London (West End) last year due to a drop in rents in its Central district. Beijing and Shanghai rose further in the global rankings, according to the annual Global Occupancy Costs – Office report by DTZ. Beijing remained the most expensive office location in China's mainland at No 28 with the average occupancy costs per workstation per annum at USD10,410. Shanghai climbed to No 30.
- In January, 355,000 square meters of land were sold for CNY5.15 billion in Shanghai, a year-on-year increase of 37.7% and 96.2%, respectively. Nine of the 15 land plots released last month were sold above the asking price. A joint venture formed by several subsidiaries under China Shipping (Group) Co agreed to pay CNY1.47 billion for a 9,000-square-meter plot near the Huangpu river in the Pudong New Area.
- Dalian Wanda Group holds 12.9 million square meters of property, and is the world's second-largest property company by assets, Chairman Wang Jianlin said. The company aims to significantly expand its assets value to CNY350 billion in 2013, up from CNY300 billion in 2012.
- Gong Ai'ai, former deputy head of a bank in Shenmu county in Shaanxi province, dubbed the "house sister", owned 41 properties in Beijing, covering 9,666.6 square meters. She has gone missing. Police have seized her Audi car and 10 of her properties because she bought them with a fake Beijing residence permit. Gong had at least two identities and four residence permits.
- The average housing price in Wuhan dropped 1% to CNY6,350 per square meter last year, compared with 2011, marking the first decline in seven years. Meanwhile, home sales in the provincial capital rose by 24.7% to 134,953 flats – the biggest annual rise in 10 years.

RETAIL

Roast duck chain Quanjude to diversify

Quanjude, the 148-year-old restaurant chain famous for its Peking roast duck, plans to diversify into a multi-brand catering service provider that taps both high-end and mass markets. The traditional business survived four emperors, civil wars, and decades of state planning. Now a blueprint for the next three years envisages the opening of more restaurants and retail outlets, an expansion into fast food and food services, and building of a new upmarket catering brand. The group now has more than 90 mainland restaurants under its name and five outside the mainland, in Japan, Australia, Burma, and Hong Kong.

- Kweichow Moutai, the well-known Chinese liquor manufacturer, expects to see a slowdown in its growth rate this year, as a result of the central government's planned crackdown on spending and extravagance. Yuan Renguo, Kweichow's Chairman, said the company expects annual revenue of CNY41.6 billion by the end of 2013 – an 18% year-on-year rise, but still well down on its expected targets. Yuan said the group's production capacity hit 33,000 tons last year, realizing total revenue of CNY35.2 billion and exports of USD160 million.

- Hong Kong-traded Gome Electrical Appliances Holding, China’s leading electronics chain retailer by revenue, issued a profit warning, forecasting a net loss in 2012, attributing it to declining revenue, soaring rental costs and losses incurred by its e-commerce business. It did not specify the size of the loss.

SCIENCE & TECHNOLOGY

Wenchang Satellite Center to be ready next year

Construction of the Wenchang Satellite Launch Center in Hainan province, from where China will launch new-generation carrier rockets and future space station modules, is expected to be completed in June. By the end of this year, the launch center, the fourth in China, will be ready for launching carrier rockets. Hainan plans to invest nearly CNY3.3 billion this year into construction of the center and relevant facilities, including a space theme park and nearby infrastructure. Pei Chengmin, Party Secretary of Wenchang, said the center will host its first launch in 2014. Wenchang Satellite Launch Center, located on the northeast coast of Hainan, about 60 km from Haikou, the province’s capital, is the only coastal launch center in China. It can use nearby ocean ports in Wenchang for rocket deliveries. The location, about 19 degrees north of the equator, is suitable for launching geosynchronous satellites, heavyweight satellites, large space station components and lunar and interplanetary missions. China's three existing satellite launch centers are in Xichang, Sichuan province, Jiuquan, Gansu province, and in Taiyuan, Shanxi province.

- More than 450 Chinese people have applied for one-way tickets to Mars offered by Mars One, an organization based in the Netherlands hoping to establish a human colony there in 2023. Successful candidates will receive a minimum of eight years of training before they leave earth.

STOCK MARKETS

A-share market to open to Taiwanese institutional investors

The China Securities Regulatory Commission (CSRC) is ready to open the A-share market for Taiwan institutional investors holding offshore renminbi deposits. The investment quota is likely to be CNY100 billion. Financial institutions from Taiwan will be able to hold as much as 51%, up from 49%, of the joint-venture brokerages’ shares in Shanghai, Fujian and Shenzhen. The Commission is also considering allowing individual investors from the island to trade A shares on the Shanghai and Shenzhen stock exchanges. CSRC Chairman Guo Shuqing paid his first official visit to Taiwan last week. The Shanghai Composite Index climbed 12.47 or 0.53% to 2358.98 at the close on January 30, the highest since June 1, on news of the proposal. So far, the RQFII program only operates in Hong Kong. By the end of December, 24 financial institutions under the program had been approved, with a CNY67 billion investment quota, according to the State Administration of Foreign Exchange (SAFE). Guosen Securities Co noted that as investors from Taiwan directly participate in the mainland’s capital market, financial ties between both sides are expected to tighten at a faster pace. Taiwan is also planning to ease the requirements for mainland companies issuing initial public offerings (IPOs) on the Taiwan Stock Exchange. Last month, Guo looked forward to the likelihood that QFII and RQFII quotas will increase at least nine to 10 times. This will be a huge capital injection into the mainland stock market compared with the current CNY80 billion quota for QFII and CNY270 billion for RQFII. Jing Ulrich, Managing Director of Global Markets in China at JPMorgan Chase & Co, predicted that the QFII program may be ended after five or seven years, when the A-share market can completely open up for investors from all over the world, the China Daily reports. Mainland investors wanted Taiwan to follow through on opening Taiwan Depositary Receipts, or T-shares, to the other side. Investors from the mainland would find raising capital cheaper in Taiwan than at home. Taiwan Stock Exchange figures show mainland investors have applied for USD220 million in investments to date.

- Credit Suisse Group and Morgan Stanley are among five foreign investors approved to trade stock index futures on the China Financial Futures Exchange. Credit Suisse is one of the qualified foreign institutional investors (QFIIs) that obtained permits to trade the instruments. Morgan Stanley was also selected, a person with knowledge of the matter said, asking not to be identified.

- China had 240,200 professionals in the securities industry by the end of 2012, a decrease of 8.84% year-on-year, according to the latest statistics from Weihai Investment Consultancy Co. The average annual income at securities companies dropped significantly last year, with some employers laying off workers to reduce costs. Three securities companies among 63 in China reported losses for 2012.

TRAVEL

Sanya preparing for travel boom

Sanya in Hainan province is one of the most popular resorts during the coming Spring Festival, but the city's infrastructure is not yet ready for the booming tourism. "Downtown Sanya is designed for 300,000 to 400,000 residents, but during the peak tourism season more than 1 million people will flood into the city," Mayor Wang Yong said. Besides traffic jams, many tourists in Sanya complain about the difficulty of getting a taxi. According to Wang, more than 90% of the hotels in Sanya have been booked for the coming Spring Festival. In order to fight price gouging for the coming Chinese New Year, he added, the local price supervision authority published prices of standard rooms in 267 hotels during the holiday with a price cap of CNY5,000 for a night. According to the city's 12th Five Year Plan (2011-15), Sanya plans to invest more than CNY180 billion in 243 important projects, mainly for tourism, real estate and infrastructure. Having received more than 11 million visitors in 2012, an increase of 10% over 2011, Sanya has become a preferred tourism destination with tourism revenue reaching CNY19 billion last year, and the number of tourists is expected to grow by 8% in 2013.

China's first luxury cruise liner sails to Vietnam

China's first luxury cruise liner, the Henna, left Hainan for her maiden voyage, marking what experts say is a major breakthrough for the cruise industry. The three-day, two-night voyage saw the vessel travel from Sanya Phoenix Island International Port to Halong Bay in Vietnam. A further 39 voyages to Vietnam are planned in its first cruise season, from January to April. The Henna is owned by the HNA Tourism Cruise and Yacht Management Co. China's cruise industry growth reached more than 8% since the 1980s, much stronger than the global tourism industry's 4%, according to the China Cruise and Yacht Industry Association. China received 262 international cruise ships in 2011, a year-on-year increase of 17.5%, and 504,582 cruise travelers. Faced with this booming market, the National Tourism Administration set 2013 as National Ocean Tourism Year. The Henna was built in 1986 for Carnival Cruise Lines, a British-American-owned cruise line, and was originally called the Jubilee. The vessel was bought by the Chinese company in July from Pacific Sun P&O Cruises Australia and refurbished at Sembawang Shipyard in Singapore. The more than 70% booking volume for the Henna's maiden voyage has given the company confidence in potential demand in China. The vessel, which is 223 meters long and 31 meters wide, has 739 cabins as well as a full range of living and entertainment facilities. About 1,200 passengers were on board for the maiden voyage. According to cruise industry records, about 50% of passengers are aged between 20 and 40, while journeys are priced from CNY1,688 to CNY15,888. After its first season, the Henna will sail to Tianjin for its second season, which runs from May to October, with 40 four- to five-day voyages arranged around the Korean Peninsula. HNA expects to introduce a second ship within three years. Sanya Phoenix Island International Port is in its second phase of construction, which will make it able to accommodate four cruise liners. Total investment is more than CNY1.6 billion, the China Daily reports.

- Railway authorities will arrange 1,242 more trains every day on average during the 40-day peak travel season around the Lunar New Year holiday to meet the needs of an increasing number of migrant workers, the Ministry of Railways said. A total of 4,516 passenger trains completed 5.2 million journeys on January 26, the first day of the period. A record 3.4 billion trips are expected to be made during this year's Lunar New Year travel rush. The rail network is expected to handle 225 million trips.
- Anhui Governor Li Bin called for faster construction of an international cultural tourism zone in the province. The International Cultural Tourism Demonstration Zone of Southern Anhui covers six of Anhui's 16 prefecture-level cities, 27% of the province's land and 15% of its population. The zone presents Anhui's Huizhou culture, which has

a history of thousands of years and is one of China's three major regional cultures, the other two being Tibetan culture and Dunhuang culture. Huangshan Mountain is located in the zone.

- Guangzhou has rolled out detailed urban design plans for its Nansha district, with a light-rail line to connect the district to Hong Kong's airport. The plan includes a subway system, with seven lines and 34 stations linking Nansha to airports in Shenzhen, Guangzhou and Hong Kong, and Guangzhou South railway station.
- Shanghai's subway operation runs a deficit of some CNY800 million every year, but the operator has no plans to increase the ticket price to bridge the loss, the city's traffic authority said. Local legislators complained the ticket prices of subways and buses are still too high for local residents to afford. The city subway tickets cost from CNY3 to CNY10, compared with the fixed price of CNY2 in Beijing. A legislator suggested the traffic authority allocate money from the city's monthly car plate auction to cut public transit costs.

VIP VISITS

Japanese visitors try to ease tensions

Former Japanese Prime Minister Tomiichi Murayama paid a four-day visit to China in the latest diplomatic effort by both sides to ease bilateral tensions triggered by the territorial dispute over the Diaoyu islands in the East China Sea. Murayama, 88, became the third senior Japanese political figure to visit China in two weeks, following Natsuo Yamaguchi, Chairman of the New Komeito Party and former Japanese Prime Minister Yukio Hatoyama, who paid his respects to victims of the Nanking Massacre.

- China will further expand economic and trade cooperation with the neighboring country of Mongolia, particularly in mineral resources exploration, infrastructure construction and the financial sector, Wu Bangguo, Chairman of the National People's Congress (NPC) said when meeting with his Mongolian counterpart, Zandaakhuu Enkhbold, Chairman of the State Great Hural, in Ulan Bator. The two countries also signed agreements in economic and technology cooperation.

ONE-LINE NEWS

- Beijing's Municipal People's Congress has approved the appointment of Wang Anshun as Mayor. He was already acting Mayor and previously worked in the Ministry of Land and Resources.
- Liu Tienan, Director of the National Energy Administration (NEA), is under investigation for helping to arrange a USD200 million bank loan for businessman Ni Ritao to be used for the acquisition of New Skeena, a Canadian pulp mill. It has also been alleged that Liu had forged his academic credentials and sent death threats to his mistress after their relationship went sour when he served in the Chinese Embassy in Tokyo in the late 1990s. Liu was appointed Director of the NEA at the end of 2010.
- Yang Xiong was elected Shanghai's Mayor at the annual session of the city's People's Congress. He has served as acting Mayor since December and has been Vice Mayor since 2003. During the World Expo in 2010, he served as Executive Deputy Director of the Shanghai World Expo Executive Committee. Tu Guangshao, Ai Baojun, Shen Xiaoming, Zhao Wen and Jiang Ping were re-elected Vice Mayors. Newly elected Vice Mayors are Zhou Bo, Weng Tiehui, and Shi Guanghui.
- Banks and telecom companies have to delete customer information after use as the first code of conduct for personal data protection comes into effect. The code, not legally binding, came into force on February 1. It sets out rules and guidelines for companies to follow when they process personal data.
- Premier Wen Jiabao invited more foreign experts to work in China, pledging better conditions for them. He extended New Year's greetings to about 20 veteran foreign experts working in China's education, scientific research, culture and health sectors. They were invited to the Great Hall of the People for a seminar with the Premier. More than 550,000 foreign experts were working in China in 2012.
- As of February 1, courts will not protect the labor rights of foreigners working without a

work permit, according to an interpretation of labor laws released by the Supreme People's Court. Foreigners without a work permit, even if they are under an employment contract, will not have their "labor relationship" with employers recognized by the court. Many foreigners working as language teachers do not have work permits.

ANNOUNCEMENTS

Job search

Ms Faye Mao (Mao Xi) will finish her PH.D. in Communication Sciences at Ghent University in June and is looking for a job, preferably in the cultural or educational sphere or a teaching position at colleges, universities or institutions. She would like to be based in Belgium, but would not mind relocating to other places, depending on the job offer. Her CV may be obtained by sending an e-mail to info@flanders-china.be

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