法兰德斯中国商会 FCCC VCKK

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

NEWSLETTER | 15 JULY 2013

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FCCC ACTIVITIES

Group Business Trip West-China (FIT) – 9-13 September 2013 – Chongqing and Chengdu; and FCCC Breakfast Seminar – 11 September 2013 – Chongqing

Flanders Investment and Trade (FIT) is organizing a group business trip to West-China, an enormous market. Minister-President Kris Peeters is leading the trip from 9 till 13 September 2013 to Chongqing and Chengdu.

On September 11, the Flanders-China Chamber of Commerce will organize a breakfast seminar in Chongqing.

Following the East, West China is now also starting to develop economically. Chongqing is under the direct authority of Beijing and is China's most populous (30 million inhabitants) and biggest (82,000 sq km, 2.5x Belgium) city. Chengdu (14 million inhabitants) is the capital of Sichuan province and as Chongqing an important economic center in West-China.

Opportunities for Flemish companies: Thanks to the economic development of West-China, there are several nice opportunities for Flemish companies. Important industries in the area are: foodstuffs, automotive, textiles, machinery, electronics, steel, pharmaceuticals, IT and the services sector.

FIT will organize an individual tailor-made meeting program (B2B), high-level business contacts, and official networking receptions.

Full trip: €800, per city: €400. Registration before June 14 on the FIT website.
http://www.flandersinvestmentandtrade.be/acties/2013/09/09/Groepszakenreis-Multisectoraal-China?opendocument

ACTIVITIES SUPPORTED BY FCCC

Mission for growth to China – 18-20 July 2013

This joint mission of Vice-President Tajani and Commissioner Potocnik of the European Commission to China is centered on the theme of “green growth”. It has three main objectives: (1) to promote sustainable and inclusive growth on both sides (2) to help our companies and in particular SMEs to operate in China; (3) to promote EU-China business contacts and opportunities.

Preliminary Programme

Thursday 18 July - Beijing

- Political meetings (time tbc)
- A.M. - Dedicated meeting for companies on “doing business in China” organized by the SME Center, the IPR/SME Helpdesk and Enterprise Europe Network to be jointly opened by VP Tajani and Commissioner Potocnik.
- Roundtable on Green business opportunities in China. Contacts between participating companies to the M4G and EU 'green' companies already present on the Chinese market (exchange of experience, main lessons learned …); discussions with Chinese high-level business or public actors on the potential of green economy in China.
- Evening - Reception at the EU Delegation with EU Member States ambassadors and the business delegation on 18/7 in the evening

Friday 19 July – Beijing and departure to Guiyang

- A.M. Matchmaking event organized with the help of EEN Network (local Chinese EEN contact points supported by their experienced European mentors from BE, DK, NL...) with important participation of Chinese companies (including SMEs).VP Tajani could pop up for a brief speech.

- Continuation of political meetings
- P.M. – Departure to Guiyang
- Evening - Welcome banquet by authorities

Saturday 20 July – Guiyang

- A.M. Participation to the "Eco-forum Global", a yearly prestigious meeting on the theme of the “Green economy” which is putting emphasis this year on green industry, green urbanization and green consumption.
- Multiple forums will take place in which Business representatives participating in the mission for growth may join in as speakers. A business roundtable and business contacts will be organised in the margins of the forum.
- P.M. Vice-President Tajani flies back on 20 July, but the “Eco-forum Global” continues on Sunday 21 July. Possibility for further speaking opportunities /business contacts for companies attending.

The deadline for registration is June 14, 2013. More information on the mission is available at the Flanders-China Chamber of Commerce: info@flanders-china.be

PAST EVENTS

FCCC Meeting reception in honour of the future Ambassador of Belgium in China, Mr Michel Malherbe – 19 June 2013 – Brussels

The Flanders-China Chamber of Commerce (FCCC) organized a meeting with the future Ambassador of Belgium in the People’s Republic of China, Mr Michel Malherbe, on 19 June 2013, at KBC in Brussels.

This event provided an excellent opportunity to meet the new Ambassador of Belgium in China and to talk to him about member companies' activities in China.

China Information Session: “Assignments from China to Belgium and vice versa: Update on immigration and personal tax aspects” – 29 May 2013 – Brussels

International mobility and flexibility have become key factors in today's business climate. Immigration procedures remain very strict and compliance with local immigration and social law is controlled and severely sanctioned in case of non-compliance. The Flanders-China Chamber of Commerce, in cooperation with Deloitte organized an information session on aspects of immigration and social legislation which focused on the posting of Chinese nationals to Belgium and vice versa.

The seminar was held at KBC BANK and presented by Matthias Lommers, Senior Manager, Erwin Vandervelde, Partner (immigration aspects) and Boris Deraeve, Tax Director (tax aspects). The aim of the event was to provide sound knowledge and understanding of the issues, to enable companies to meet various requirements on a timely basis and avoid losing precious time or wasting resources. The information session was followed by a networking cocktail.

PUBLICATIONS

FCCC publishes “FCCC Members' Portraits in China Vol.2”

The Flanders-China Chamber of Commerce (FCCC) has published the second volume of “FCCC Members' Portraits in China”. The booklet includes 17 portraits of member companies active in China. The China-based managers of those companies talk about how their firms became active in the country and the difficulties and pitfalls they faced to become successful in the largest and most challenging market on earth. They offer valuable insights and lessons about how to do business in China. Each manager interviewed makes a list of “do's and don'ts” based on their own hard-won experience. “All of them, without a single exception, enjoy their work and stay in China, despite less pleasant phenomena such as the worsening air pollution,” says FCCC Chairman Bert De Graeve in his introduction.

Some of the companies presented in “FCCC Members' Portraits in China” are well known, such as Volvo Car, which is now part of Geely Holdings. But the story of how the company is building two car plants in China has never been told as extensively before. Other companies, such as Huiyin Group, which is active in the solar power industry, and Klako Group, which is guiding its clients to become successful in China, are not so famous, but have an equally fascinating story to tell.

Trying to write a write a book “Doing Business in China for Dummies” is futile, one of the managers told the Flanders-China Chamber of Commerce. More fundamental than that is an underlying attitude. Respect the Chinese you come into contact with and be interested in their culture. Remember, he added, that you are and will always remain a guest in their country. Above and beyond the usual tips and tricks, the managers telling their story in this booklet show the right attitude to become successful in China.

“The growth of the Chinese economy is slowing down a bit,” says Chairman Bert De Graeve in the introduction, “but at 7.8% last year, it is still growing strong to offer a myriad of opportunities.” For those companies which have not yet taken the step to open a representative office, set up a subsidiary or form a joint venture, it is probably not too late yet to enter the Chinese market. “Do your homework” is one of the most frequently tendered pieces of advice for companies contemplating their first steps on the China market. One might as well start with “FCCC Members' Portraits in China, Volume 2”.

FCCC members can receive one copy free of charge.

List of interviews (companies in alphabetical order):
ACEA (Dominik Declercq), De Wolf & Partners (Philippe Snel), Eurbridge (Jan Van der

Borght), Huiyin Group (Juha Ven), Jones Day (Sébastien Evrard), Klako Group (Kristina Koehler), LMS (Luc Pluym), Moore Stephens (Andries Verschelden), Neuhaus (Frédéric Linkens), Orientas (Dirk Laeremans), procurAsia (Etienne Charlier), Proviron (Vanessa Doms), Soudal (Eddy Vloeberghen), Urban Stream (Sébastien Goethals), Volvo Car (Koen Sonck and Benoit Demeunynck), White Pavilion (Raf Vermeire), and Wyatt & Wang (Jacques Borremans).

FINANCE

Beijing eases entry for foreign banks

Premier Li Keqiang has approved a milestone plan to allow foreign banks to directly set up wholly-owned subsidiaries in Shanghai's new free-trade zone in a move designed to accelerate the opening of its financial services sector to global players. Foreign banks will be permitted to set up shop directly in the free-trade zone in the Pudong New Area. They will also be allowed to establish joint-venture banks with Chinese partners, either state-backed or from the private sector. The overseas partner can own the majority stake. The move potentially cuts years from the time foreign banks must otherwise spend following a step-by-step regulatory roadmap before opening branches or subsidiaries and is being seen as a sign of renewed efforts to kick-start financial reform. The government would also encourage domestic private firms and foreign enterprises to set up financial services companies, such as accounting and rating agencies, in the zone, widely expected to be a testing ground for major policy reforms to free up cross-border commodity and capital flows. Normally, a foreign bank needs to first set up a representative office, which will be used for communication and consulting purposes. It can apply to the China Banking Regulatory Commission (CBRC) to upgrade the office to a full-scale bank branch after two years, provided it has not breached any financial rules. If the foreign bank wants to set up more branches, particularly to expand into new cities, or establish a wholly-owned unit, it has to undergo a long approval process involving the banking regulator and relevant government bodies, such as the tax department. “The biggest hurdle to Shanghai becoming a regional financial center is to allow foreign banks to set up subsidiaries and enter the market freely,” said a source with close ties to the State Information Center, the think tank affiliated to the National Development and Reform Commission (NDRC).

- Hong Kong banks are nudging up the interest rates they pay on yuan deposits to fill the loss of yuan being sent back to the mainland. In order to compensate for a cash crunch across the border last month, many Chinese firms moved their offshore yuan deposits back to the mainland, suggesting a decline in such deposits in Hong Kong. Interest rates for yuan deposits climbed as high as 3.5% in Hong Kong, but they might fall to a normalized level of about 2% to 2.5% by the end of this month after the supply of onshore yuan liquidity stabilized, Kelvin Lau, Senior Economist at Standard Chartered Bank, said.
- Confidence among China’s bankcard owners fell for a third month in June as it was affected by the poor stock market performance and weakening sentiment due to the uncertain economic outlook, an industry report shows. The Bankcard Consumer Confidence Index dipped 0.87 from May and fell 1.11 from a year ago to 85.56 points, China UnionPay said.
- The People's Bank of China (PBOC) is tightening rules on interbank bond market trading by ordering all transactions to be conducted through the National Interbank Funding Center as it seeks to boost transparency. Transactions including forward deals and repurchases could not be reversed or changed once agreed between the two parties, the PBOC said in a statement. Clearing agencies should not settle trades outside the interbank market, and alterations to bond ownership, such as inheritance, that were not related to trading, needed to be supported by legal documents explaining the nature of the transaction.
- A branch of the People's Bank of China (PBOC) in Beihai, Guangxi, had to suspend operations after it was flooded by more than 1,000 people hoping to get interest-free loans. The bank said criminals had spread rumors that it would grant interest-free and subsidized loans to anyone who could show a credit report. Armed paramilitary police had to hold back the crowd.
- China’s big four banks extended an “unusually high” CNY170 billion in new yuan lending in the first week of this month. In June the banks may have extended combined new loans of CNY270 billion.

- Standard Chartered Hong Kong and Shenzhen International, a Hong Kong-listed operator of logistics facilities and toll roads, signed a one-year Qianhai cross-border bilateral loan agreement worth CNY100 million.
- Data released by the People's Bank of China (PBOC) showed total social financing, a broad measure of liquidity conditions that includes bank loans and bond sales, fell to CNY1.04 trillion from CNY1.19 trillion in May. The decline was matched by slower growth in the money supply. Broad M2 money supply rose 14% year-on-year, the slowest pace in six months. “The figures show the credit crunch last month had crimped both lending growth and direct financing,” said Wang Jin, Analyst at Guotai Junan Securities in Shanghai.
- Zurich Insurance has raised HKD2.19 billion from selling about 3.1% of New China Life Insurance's H shares, making it the first stake reduction in China's third-biggest life insurer after its listing in 2011. The proceeds from the sale would be reinvested in Asia. After the share sale, Zurich, which first invested in New China Life in 2000, still owns 9.4% of the Chinese insurer.
- The People's Bank of China (PBOC) might scrap the floor for lending rates by the end of the year, according to a draft plan. Banks are currently allowed to offer loans at rates of up to 70% of the benchmark rates set by the central bank. Under the new policy, rates can be set even lower, which in turn would lower the net interest margins of banks as they compete to undercut each other with cheap loans.

FOREIGN INVESTMENT

GSK managers accused of bribery

The Ministry of Public Security accused executives of pharmaceutical supplier GlaxoSmithKline (GSK) of conducting a large, long-running bribery campaign to expand the UK company’s market and raise the price of its medicine by persuading doctors to prescribe its products. The suspects are believed to have offered large bribes laundered through travel agencies to government officials, medical industry associations and foundations, hospitals and doctors “to open new sales channels and increase drug revenues,” the Ministry said. The GSK executives are also suspected of tax offenses involving collusion with travel agencies to issue false invoices. The Ministry of Public Security identified the employees as “high officials” of GSK but gave no details of the size of payments or who received them. “After questioning, the suspects confessed to the crime,” the Ministry statement said. Doctors have a major say about what kind of prescription drugs to give to patients and sales from hospitals account for at least 70% of overall drug sales in China, according to Sinohealth Intelligence. GSK’s China operations are currently the subject of a joint investigation by police in Shanghai, Changsha in Hunan, and Zhengzhou in Henan province. GSK said it was cooperating with the authorities but didn’t say how many of its staff were being questioned. The nationalities of the GSK executives under investigation are not known. Last month, GSK said it found no evidence of corruption or bribery in its Chinese business after an internal investigation which had lasted several months. GSK entered the Chinese market in 1987 when it formed the Tianjin Smith Kline & French Laboratories with Tianjin Zhongxin Pharmaceuticals and Tianjin Taiping (Group) Co. The UK drug maker operates a global research and development center in Shanghai and six manufacturing sites throughout China with a total investment exceeding CNY500 million, the Shanghai Daily reports.

FOREIGN TRADE

Foreign trade drops in June

China’s exports fell 3.1% in June from a year earlier, the first decline since January last year, while imports dropped 0.7%, leaving the country with a trade surplus of USD27.1 billion for the month. That compared with market expectations of a 4.0% rise in exports, an 8.0% increase in imports and a trade surplus of USD27.0 billion.

IPR PROTECTION

Publishers protest against free books offer

A number of publishers and copyright owners protested against a promotion campaign by China's largest online bookseller Dangdang.com more than two months ago. As part of World

Book Day, Dangdang organized a “zero yuan promotion” from April 17 to 19, when all copyrighted digital books on the portal could be downloaded for free. Publishers delayed their reaction because Dangdang is an important distribution channel for their paperback books, said Bi Yu, Vice General Manager of ZZHW Digital Media Co, a subsidiary of the China Writers Publishing House. Ge Xiaozheng, head of the publisher, said the e-book portal did not ask permission from copyright owners before it launched the campaign.

- The Anhui provincial intellectual property office recently announced that 1,719 invention patents from the province were granted in the first five months of the year, a year-on-year increase of 67.7%, the highest growth rate across China. In the same period, 8,383 invention patent applications were filed, ranking seventh nationwide, up 72.2%.

MACRO-ECONOMY

95 Chinese companies in Fortune 500 list

A total of 95 Chinese companies have made it onto the list of Fortune 500 companies compiled by Fortune magazine, with combined gross revenue of USD5.2 trillion, or 17% of the Fortune 500's total revenue. In 2012, China Petrochemical Corp (Sinopec Group) had the largest revenue of USD428.17 billion among all Chinese companies. China National Petroleum Corp was close behind, with annual revenue of USD408.6 billion. Sinopec Group ranked fourth and China National Petroleum (CNPC) ranked fifth on the global list, each up by one spot from the previous year. Globally, Royal Dutch Shell is the largest company in terms of annual revenue, with USD481.7 billion. Wal-Mart Stores and Exxon Mobil took the second and third spots. Besides ten Taiwan or Hong Kong-headquartered corporations, there are 85 Chinese mainland-headquartered companies, mostly state-owned enterprises (SOEs). Most are concentrated in the energy, resources, banking and telecommunication sectors. Fortune's Chinese website pointed out there are both positive and worrying aspects in the Chinese listings. Besides the dominant share of SOEs and the underdeveloped service sector, it said profits are unequally distributed among all listed Chinese companies. The nine top commercial banks account for 55.2% of all Chinese mainland companies' profits. Chinese companies' high-leverage ratios are also a source of concern.

Business confidence drops to seven-month low

The confidence of Chinese businesses fell sharply to a seven-year low in the second quarter. The number of Chinese respondents who expressed optimism outpaced those who were pessimistic by only 4% in the April-May period, significantly down from 25% in the first quarter, said Grant Thornton, a global auditing firm. It is the lowest since the firm started compiling China data in 2006. 40% of respondents cited an uncertain economic outlook as most threatening to their business, and fewer firms said they will increase funds in manufacturing and research in the next 12 months. “We hope the government could do more to reduce financing cost especially for small businesses to help them survive in the market,” said Xu Hua, Partner at Grant Thorton China. The survey, released after China’s exports in June posted the first annual drop since January 2012, covers 12,500 businesses annually in 44 economies, the firm said.

- China’s inflation rebounded to a four-month high in June, largely due to a lower comparative base, the National Bureau of Statistics (NBS) said. The Consumer Price Index (CPI) rose 2.7% from a year earlier, up from May’s increase of 2.1%. The lower comparative base, or last June’s relatively weak inflation, was said to be the main reason for the rebound, and it was unlikely to become a hurdle for possible easing policies, analysts said. Prices were largely unchanged from May, and inflation outside food was low, Moody’s Analytics said. Food costs rose 4.9% year-on-year last month.
- 75% of Chinese employers said they were recruiting or replacing staff at senior levels this quarter and 74% planned to hire next quarter, in stark contrast to only 54% who expected to hire in the first quarter, according to the latest ‘Global Snapshot’ survey. This demonstrates a significant increase in hiring confidence for replacement and growth positions, as employers clearly defined their intentions and goals for the year. This quarter’s hiring champions are the automotive industry (92%), retail & luxury goods (91%), and health care (88%).

- China's gross domestic product (GDP) rose by 7.5% in the three months to June 30. That compares with 7.7% growth in the first quarter. Last year, the Chinese economy grew by 7.8%, which was the lowest growth rate in more than a decade. "We don't think 6.5% or 7% will be a big problem," Finance Minister Lou Jiwei said. That is below Beijing's official 7.5% goal for the year and would be the slowest since 1990. A 7% expectation for the full year would imply growth of about 6.4% in the second half of this year – far short of what most analysts believe is needed to create sufficient jobs to guarantee social stability.

MERGERS & ACQUISITIONS

China third-largest M&A player in Africa

China has become the world's third-largest country doing mergers and acquisitions in Africa, favoring the oil and gas sector, according to a report by international law firm Freshfields Bruckhaus Deringer. The country made 49 M&A deals totaling USD20.8 billion in Africa since 2003, following the United Kingdom with USD30.5 billion and France with USD30.47 billion. The value of African inward investment has tripled in the last 10 years reaching more than USD182 billion, up 214% in 2012 compared with 2003. "Africa's rapid pace of growth makes it an obvious investment partner for China in many jurisdictions," said Rob Ashworth, Freshfields Asia's Managing Director. Chinese dealmakers favor the natural resources sector with USD8.1 billion invested in oil and gas across three deals and USD6.7 billion invested across 19 deals in metals and mining over the last 10 years, and their preference for these sectors will likely continue, said the report. Globally, there were 1,190 M&A deals totaling USD87.6 billion done in Africa over the same period. South Africa, Nigeria and Uganda became attractive destinations for Chinese investors with 23 deals totaling USD16.4 billion, said the report. One of the largest deals was the China-Africa Development Fund's acquisition of a stake in Misr Refrigeration and Air Conditioning Manufacturing Co, a Cairo-based manufacturer of refrigerators and air conditioning systems, from the Barakat Group, for USD5.6 billion in 2010. As of this year, over 2,000 Chinese companies have invested in Africa. Apart from the traditional big SOEs – such as PetroChina Co and Aluminum Corp of China – that are significant investors in the energy and mining sectors, private Chinese companies have in recent years become a key driving force, the China Daily reports.

- Smithfield Foods CEO Larry Pope tried to relieve U.S. Senators' concerns over a Chinese pork producer's purchase of his company in a hearing of the Senate Committee on Agriculture, Nutrition and Forestry. "We must take a long-term view of what is happening because of the importance of our food supply, security and safety," he said. The cornerstone of the transaction was growing Chinese demand. Without the opportunity to grow outside the United States, there is no opportunity, Pope said.

PETROCHEMICALS

Gabon withdraws rights of Addax Petroleum to exploit oilfield

Gabon has taken the exceptional step of withdrawing the right of Addax Petroleum, a subsidiary of Sinopec, to exploit an oilfield in the country. Production at the southwestern Obangue oilfield, totaling 9,000 barrels per day (BPD), has been transferred since the end of last year from Addax to the new state-run Gabon Oil Co (GOC), set up in 2011. Officially, the Chinese firm is being sanctioned for failing to meet "contractual obligations". Gabon's complaints against Addax include "bad management", "instances of corruption," "shortfalls in the respect of the environment" and dodging taxes on oil exports. "After several months of fruitless negotiations, we decided definitively to withdraw the Obangue field from Addax Petroleum," Oil Minister Etienne Ngoubou said. The incident is the first of its kind in Gabon and such measures against well-established firms such as Addax, which has operated in the central African country since 1996 and is the fourth oil producer there, are rare. Since it was bought by Sinopec in 2009, Addax has been exploiting five oil deposits on the basis of shared production with the Gabonese state, amounting to 23,000 BDP. The Sinopec subsidiary has responded by accusing Gabon of undue harassment and has taken the dispute to the International Chamber of Commerce in Paris. No date has been set for the ruling. Addax states that it wants to go on working in Gabon, which accounts for between 15% and 20% of its global production, although the Oil Minister has threatened to withdraw a second permit for the Tsiengui oilfield, also in the southwest, "if they don't make any efforts" within 15 months, the South China Morning Post reports.

- China Petroleum and Chemical Corp (Sinopec) opened its first lubricant plant outside China. Sinopec Lubricant (Singapore) covers an area of 242,811 square meters. Besides functioning as its Asia Pacific regional hub, the Singapore plant will also be an important production, service and logistics center, enabling Sinopec to better serve the needs of its customers in South-east Asia, Australia and New Zealand. The plant has an initial production capacity of 100,000 tons of lubricant per year.

REAL ESTATE

Ping An buys Lloyds Building in London

Ping An Insurance Group agreed to purchase the Lloyds Building in London from Commerz Real, a German closed-end fund, for GBP260 million. The transaction represents the first purchase by a Chinese insurance company in Britain. “This is a potentially landmark transaction, given it is the first by a Chinese insurance company overseas,’’ said Jon Crossfield, Director at Savills’ Central London team. “It is a high profile and confident entry to the market for them and further illustrates the dominance of overseas investors in London at present.” The Lloyds Building, a landmark property, is home to the world’s leading insurance market and leased entirely to the Society of Lloyds on a lease expiring in 2031. The building is located in the City of London and was bought by Commerz Real in 2005 for GBP231 million. “Prime net initial yields in the City of London are around 5%, so this building has traded just over 6%,” said Ben Cook, head of British inward investment at property consultancy DTZ in London. Robert Ciemniak, Chief Executive of Real Estate Foresight, a consultancy that provides analysis of Chinese property markets to investors, reckoned a 5% return in Beijing and Shanghai would require strong rental growth to underpin it. There is limited supply of A-grade offices in central business districts in Beijing and Shanghai for mainland insurers to invest in. “I believe that other mainland insurers will likely follow suit. Asset prices in some European countries have dropped a lot and are at bargain levels now,” said Chen Xingyu, Analyst with Phillip Securities in Shanghai.

Premium office rents in first-tier cities stay high

Premium office rents in China's first-tier cities have softened but remain high, while rents in second-tier cities are under pressure, according to a report by Cushman & Wakefield (C&W). Rents for grade A office buildings in Beijing, a barometer of China's commercial property market, retreated by 1.5% quarter-on-quarter in the second quarter to CNY514 per usable square meter, according to the report. Rents for such space in Beijing have been easing since last year. Nationwide, Beijing's grade A offices are still the most expensive, followed by those in Shanghai, which in the second quarter stood at CNY405 per usable sq m. Zhang Ping, Director of Cushman & Wakefield's Beijing research operations, said the decline in Beijing office rents reflects the broader economic slowdown and sluggish demand from multinationals, which are the major tenants of China's premium offices. Beijing has already bid farewell to the time when premium offices were in severe short supply and rents skyrocketed. Zhang said that in 2011, office rents in Beijing grew at an annual rate of 73%. The capital's average rent level ranked fifth globally that year, exceeding Manhattan's, but almost stopped rising in 2012, with annual growth of just 3.2%, and the city's rent level dropped to the seventh worldwide. The report said office supply in first-tier cities remains tight, as no sufficient premium office is expected to be available for companies in the next few years. Average vacancy rates in first-tier cities, namely Beijing, Shanghai, Guangzhou and Shenzhen, stood at 5% to 7%, while the average vacancy in 20 Chinese major cities monitored by C&W stood at 11%. C&W said total inventory of China's grade A offices stood at nearly 34 million sq m at mid-2013. It estimated in the next three years, 58 million sq m of new offices will become available, of which about 19 million sq m will be in first-tier cities. While markets in first-tier cities face short supplies, second-tier cities' office buildings are abundant, if not oversupplied, as developers have been flocking to these cities for potential growth. “Pressure is especially high in Qingdao, Chongqing and Chengdu, where vacancies are well above 30%,” Zhang said.

World's largest building opens in Chengdu

The New Century Global Center, now the world's largest structure by square meters, has opened in Chengdu. It is a massive structure covering 1.76 million sq m, or enough room to store 20 Sydney Opera Houses. It measures 100 m high, 500 m long and 400 m wide. Number two on the list of the world’s largest buildings is Dubai’s International Airport Terminal 3, at 1.71 million sq m, while Hong Kong International Airport Terminal 1 ranks 18th, with 6.3

million sq m. A selection of luxury stores, two five-star hotels, an IMAX cinema and an entire water park are all present in the New Century Global Center, which also contains a 5,000 sq m man-made beach that will feature artificial sunrises and sunsets, made possible through Japanese lighting technology. While its size may be immense, construction of the building only took three years. The New Century Global Center is one of several architecture projects, including a new subway line and an airport, that have been planned for Sichuan province's capital city. One of the investors in the New Century Global Center and Chairman of the Chengdu Expedition and Travel Group, Deng Hong, is currently under investigation for alleged corruption.

Land sales surge amid strategy shift

The value of land sales in major cities increased sharply in the first half of the year as developers replenished land banks after a rebound in property sales since the end of last year. Figures from China Real Estate Information Corp show Hangzhou's local government generated CNY60.13 billion from land sales over the past six months, 477% more than the CNY10.42 billion taken in the first half of last year. Property sales have been strong since the end of last year. Many developers have completed financing early this year, offering them sufficient capital to replenish land banks. In Guangzhou, the total value of land sales increased by 384% to CNY37.64 billion from a year ago, while Beijing's land sales value surged 358% to CNY66.42 billion. Shanghai generated CNY74.23 billion from land sales, 297% more than in the previous year. The value of Shenzhen's land sales jumped 274% to CNY11.16 billion. “Most of the developers are also shifting their acquisition targets from sites in second-tier cities to first-tier cities,” said Du Jinsong, Research Analyst at Credit Suisse. Local governments released more sites for sale in the first half. The Hangzhou government sold 30 sites in the past six months, compared with only 19 in the previous year. Shanghai released 55 sites, compared with 44 sites a year ago. Dickson Wong, Chief Executive at Centaline (China) for northern and southwest China, believes land supply would stay at high levels in the second half and land prices would continue to rise in major cities, the South China Morning Post reports.

- Developer CIFI Holdings has announced a USD156.5 million three-year syndicated loan to broaden its offshore platform and lower overall financing costs. CIFI said the syndicated loan was a dual-currency term facility of two tranches: a United States dollar tranche of USD75 million and a Hong Kong dollar tranche of HKD636 million. CIFI is expected to use the syndicated loan to acquire land.
- Individual Chinese investors are expected to invest a total of CNY1.1 trillion in overseas real estate investment, with the United States, Canada and Australia remaining primary choices, CB Richard Ellis predicted in a report. The firm made the projection based on assumptions that 5% of the investable assets of Chinese high-net-worth individuals, who have investment assets of more than CNY10 million, would be pumped into overseas real estate markets in the future.
- The main structure of the Shanghai Tower, a future city landmark looming over the Huangpu river, is set to be capped early next month. The CNY15 billion tower in the Lujiazui financial hub will reach a height of 632 meters to become the tallest building in Shanghai. Designed by U.S.-based Gensler Architects, it will go into official use in 2015.

RETAIL

Shanghai consumer confidence drops

Consumer confidence in Shanghai dropped to a nine-month low during the second quarter of this year due to a weaker domestic economy, fewer job opportunities and a sharp decline in the stock market. The Index of Consumer Confidence shed 1.8 points from a year earlier to 103.2 in the three months ending in June, a study conducted by the Shanghai University of Finance and Economics showed. A reading above 100 points to optimism. The latest figure fell from 106.8 in the first quarter and 107.5 in the last quarter of 2012, indicating a continued loss of confidence among Shanghai's consumers.

- High-end jewelers in Hong Kong are shifting their focus to lower-priced gem-set products as the price of gold fluctuates and China's anti-corruption drive hits sales. Chow Tai Fook saw 63% year-on-year revenue growth for the three months ending June 30 as consumers snapped up gold bangles, coins and bars. However, customers are opting for cheaper items than in the previous year. Mainland customers accounted for 78% of Chow Tai Fook's total sales, with most of their purchases being mass luxury products that cost less than HKD100,000.

- French brand Alexandre Zouari Paris has agreed to pay HKD1,200 per square foot a month when its lease comes up for renewal at Hong Kong's high-end IFC Mall in Central, setting a record for the shopping arcade in the core business district. The company will pay a monthly rent of HKD480,000 for its 400 square foot shop at the mall, owned by a consortium led by Sun Hung Kai Properties. Joe Lin, Senior Director of retail services at CBRE, said he believed the high-rent deals being cut by IFC were not only a record for Central but are also close to the levels commanded by shopping centers in Causeway Bay, the city's most expensive retail district.

SCIENCE & TECHNOLOGY

Two Shanghai universities to offer Coursera online courses

Shanghai Jiao Tong and Fudan universities signed cooperation agreements with Coursera to offer courses online in both Mandarin and English. About 2.7 million people worldwide have signed up for these massive, open online courses, known as MOOCs. "The online courses will enable students around the globe to learn whatever they are interested in and receive world-class education anytime and anywhere," said Huang Zheng, Vice President of Shanghai Jiao Tong University. Huang said this new way of learning was the biggest revolution in education history since printing was invented. He said universities should accept and quickly adapt to this new concept and prepare for the future. Huang said online courses can help narrow the education quality gap between different regions as students can interact with world-class professors.

Archaeologists find 5000-years old writing

Archaeologists have discovered some of the world's oldest known primitive writing, dating back 5,000 years, in east China. The inscriptions on artifacts found are about 1,400 years older than the oldest written Chinese language. Chinese scholars are divided over whether the markings are words or something simpler, but they say the finding will shed light on the origins of Chinese language and culture. The oldest writing in the world is believed to be from Mesopotamia, dating back slightly more than 5,000 years. Chinese characters are believed to have been developed independently. Inscriptions were found on more than 200 pieces dug out from the Neolithic-era Liangzhu relic site in Zhejiang province. The pieces are among thousands of fragments of ceramic, stone, jade, wood, ivory and bone excavated from the site between 2003 and 2006, lead archaeologist Xu Xinmin said. One of the pieces has six word-like shapes strung together to resemble a short sentence.

STOCK MARKETS

China to let U.S. securities watchdog view audit papers

China will for the first time allow the U.S. securities watchdog to view audit papers of a Chinese firm to end a six year long dispute in a bid to restore faith in Chinese companies. The China Securities Regulatory Commission (CSRC) will hand over documents of a company being investigated by the U.S. Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board for possible accounting fraud. The move aims to improve market order and protect the credibility of Chinese companies listed overseas, an unidentified CSRC official said. Xie Kaicong, Vice President of Guosen Securities (Hong Kong) Brokerage, said: "The first ever move taken by the CSRC will help boost confidence of foreign investors, and restore the value of Chinese companies listed overseas." The move is expected to reopen the U.S. stock market to Chinese firms, which has been nearly closed to new listings of Chinese companies for the past three years. At least 39 U.S.-listed Chinese firms have been charged with alleged fraud and 44 companies were delisted from the U.S. stock market for other violations including cheating.

- The China Securities Regulatory Commission (CSRC) plans to almost double the investment quota for the Qualified Foreign Institutional Investor scheme (QFII) to USD150 billion, up from the previous USD80 billion. The CSRC also said it will expand the trial Renminbi Qualified Foreign Institutional Investor (RQFII) program to Singapore, London and other unnamed cities. Currently, the program is limited to institutions in Hong Kong. China has granted QFII licenses to 22 foreign institutional investors so far this year, bringing the total number to 229 with a combined approved quota of USD43.5 billion.

TRAVEL

Largest railway station opens in Hangzhou

China's largest railway hub has opened in Hangzhou. The Hangzhou East Railway Station has five levels totaling 340,000 square meters or almost twice the size of the Great Hall of the People in Beijing. The main body of the station is 39.6 meters high. Hangzhou's government spent CNY12 billion to build the station, which opened on July 1 after five years of construction. City officials expect the station to serve an average of 30,000 passengers a day. It connects to high-speed rail, ordinary rail, subway, maglev train, bus and water transport, allowing virtually seamless transfers between most modes of transportation. The station also has a tourist center and a highway passenger depot. The Grand Canal Wharf outside the railway station allows travelers to experience a Hangzhou-style water bus. The station is expected to ease traveling between Hangzhou and Ningbo, Beijing, Nanjing, Huzhou, Shanghai and other cities. "The citywide effect of the Hangzhou East Railway Station is huge, genuinely bringing Hangzhou into the high-speed rail era," said Li Zhonghua, Vice President of the Zhejiang Provincial Railway Investment Group.

Beijing suffers worst flight delays

Only Beijing was worse than Shanghai for flight delays in the first six months of the year, according to a survey of 35 major airports around the world. Pudong International Airport had a punctuality rate of less than 30%, U.S.-based aviation data provider FlightStats said. FlightStats record a delay if an aircraft fails to take off within 15 minutes of its scheduled time. The average of all 35 airports, including London's Heathrow and JFK in New York, was 69.2% in June, compared to May's 75%, the survey said. The survey results didn't include the recent massive delays caused by the weather on China's busiest domestic route, Shanghai-Beijing. Airlines are mainly responsible for 40% of flight delays, the Civil Aviation Administration of China (CAAC) said. Some 20 domestic flights with the lowest punctuality rates would be publicized every month, the CAAC added. "The Administration will focus on improving the operation of the Beijing-Shanghai route through 2015," said Wang Liya, Director of the CAAC's Air Traffic Management Bureau.

Last month, only 18.3% of the 22,019 flights departing from the Beijing Capital International Airport (PEK) were on time, FlightStats said, and 42% of them saw delays of 45 minutes or more. Shanghai Hongqiao International Airport – the second worst on the list – had its on-time rate drop to 24% from 38.9% six months ago. Its ranking remained unchanged. Hong Kong International Airport also reported a noticeable increase in flight delays and cancellations. Its ranking had dropped from 22nd in January to 29th in June. Serious delays were not limited to Beijing and Shanghai. None of China's provincial airports surveyed by FlightStats – including Guangzhou, Kunming , Nanjing , Chengdu, Changsha and Urumqi – could manage to get half of their flights on time. Chinese airline performance was equally disappointing. China United Airlines had just 27% of its flights arriving on time. It was closely followed by Xiamen and Shanghai Airlines. Experts attribute the problem to excessive military control of the airspace and poor urban planning. "Nearly 80% of China's airspace has been reserved for military use. In other countries, such as the U.S., the situation is exactly the opposite," a senior executive of Hainan Airlines said. Zou Jianjun of the Civil Aviation Management Institute of China added that major cities tried to monopolize the aviation business by diverting travelers from nearby cities to their airports, creating congestion.

- Building of a 123-kilometer undersea tunnel linking Dalian in Liaoning and Yantai in Shandong province is once again being considered. The trip between the two coastal cities would be covered in 40 minutes, down from about 6.5 to 8 hours by boat. The investment of CNY260 billion was projected to break even within 12 years. Daily traffic flow between Dalian and Yantai was expected to increase to more than 100,000 vehicles by 2015.

- Beijing is introducing air-conditioned commuter shuttle buses with reserved seats in September. Commuters will be able to reserve seats and buy tickets online, according to Beijing Public Transport Holdings. The service is aimed at providing white-collar workers with more comfortable transport at a higher price.

VIP VISITS

Fifth SED between China and the U.S. held

The fifth Strategic and Economic Dialogue (SED) between China and the United States was held in Washington last week. The annual event was led by Vice Premier Wang Yang and State Councillor Yang Jiechi on the Chinese side, and Secretary of State John Kerry and Treasury Secretary Jacob Lew for the U.S. All four officials are new to their roles, as both nations have undergone cabinet reshuffles. Former National Security Agency contractor Edward Snowden's disclosures that the U.S. had been hacking into Chinese computer systems had put Washington in an awkward position, observers said. The U.S. side emphasized that it had not done any hacking to gain commercial secrets – an accusation leveled against China. China's rise is good for the U.S. and the world, U.S. Vice President Joe Biden said at the opening of the meeting. "I've heard the U.S.-China relationship described as everything from the next Cold War to the new G2 and, the truth is, neither are accurate," he said. The U.S. and Chinese economies are increasingly interconnected. Dialogue is better than confrontation and is important for both countries, Wang Yang added from the Chinese side. The most tangible outcome of the talks were initiatives to reduce greenhouse gas emissions and air pollution. The two sides agreed to cooperate on cutting emissions from vehicles and coal combustion, and to promote more efficient use of energy in buildings, transport and industry. U.S. President Obama met with Vice Premier Wang Yang and State Councillor Yang Jiechi after the meeting. China and the United States have also agreed to restart stalled negotiations on an investment treaty, with Beijing dropping previous efforts to protect certain sectors of its economy. They did not announce when the negotiations would begin.

- Nigerian President Goodluck Jonathan and Chinese President Xi Jingping presided over the signing of accords between their governments to facilitate US$1.1 billion in low-interest loans to help fund airport terminals in four cities, roads, a light-rail line for its capital, a hydropower plant and oil and gas infrastructure in Nigeria. Jonathan, on a four-day trip to China, brought along about a dozen of his Ministers including those for petroleum resources, trade and transport, as well as several Governors, senior government officials and businesspeople.

ONE-LINE NEWS

- Li Zhujiang, 59, Deputy Secretary General of the Standing Committee of the Guangdong People's Congress, has been accused of abusing his power and taking "extremely huge" bribes when he was the head of the province's maritime and fishery bureau from 2000 to 2009. He was removed from his post and expelled from the Communist Party. In Guizhou province, Wang Shujun, 43, Mayor of Anshun, is also under investigation for taking bribes of CNY9 million and two kilograms of gold.
- China has slashed the budget for its National Games by 78% amid slowing economic growth and a government campaign to rein in public spending. Spending on the 12th games, to be held from August 31 to September 12 in Liaoning, will be kept to a maximum of CNY800 million. Held every four years, the National Games are China's premier sporting event and a crucial testing ground for future Olympic champions.
- Premier Li Keqiang was named head of three entities: the Leading Group for Western Region Development of the State Council, the Leading Group for the Revitalization of Old Industrial Bases in Northeast China of the State Council, and the Leading Group for the National Response to Climate Change and Energy Conservation.

QUOTES OF THE WEEK

[China's development success is built] "on its willingness and ability to offer its workers and markets to the world's producers. So in 2007-09, foreign-invested companies were responsible for 28% of China's industrial value-added; 66% of its output from high-technology industries;

55% of its exports; and 90% of its exports of new and high-technology products. Thus, the country is a crucial contributor to systems managed by foreigners. If the citizens and governments of advanced countries look askance at these global companies, how much more so must the Chinese?”

Martin Wolf, writing in the Financial Times, July 9, 2013.

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