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

NEWSLETTER | 16 SEPTEMBER 2013

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FCCC ACTIVITIES

Launch "EU Business in China: Position Paper 2013/2014" – 17 September 2013 – Brussels

The annual launch seminar of the "EU Business in China: Position Paper 2013/2014" will take place on Tuesday 17th September 2013 at 12h00 at Business Europe, Av. de Cortenbergh, 168, 1000 Brussels.

This seminar is organized by the European Union Chamber of Commerce in China (European Chamber) in collaboration with Business Europe and the EU-China Business Association (EUCBA), for which the Flanders-China Chamber of Commerce acts as secretariat-general. On the day, the European Chamber will present its European Business in China Position Paper 2013/2014.

Speakers:
• Karel De Gucht, Commissioner for Trade, European Commission
• Davide Cucino, President, European Union Chamber of Commerce in China

This is the 14th edition of this annual publication which has grown in importance and stature to become a vital contribution from private business to the development of EU-China trade relations, and to improving the business environment for all EU companies in China. The leadership transition in China brings new opportunities for EU-China trade relations. However reforms are still urgently needed after four decades of rapid but sometimes uncoordinated growth. The domestic regulatory environment has important international implications for China. To a large degree, domestic regulations shape Chinese companies' ability to internationalize and compete on the global market. Also, market access restrictions for foreign companies in China create imbalances that may cause tensions and create difficulties for Chinese companies seeking to expand abroad.

The "EU Business in China: Position Paper 2013/2014" expresses the opinions of European business regarding the challenges of operating in the Chinese market. But it also wants to contribute by providing constructive recommendations on how China could move to a more balanced and sustainable economic model, while ensuring a level playing field for all companies, international and domestic, operating in China. Drawing on the industry knowledge and expertise of the European Chamber's 1,700 member companies, this year's Position Paper presents Chinese and European policy-makers with more than 600 key recommendations. The Paper will be presented to Chinese government and EU policy-makers with the aim of improving the investment climate in China. Representatives from the European Chamber's working groups and forums will also be on-hand to answer specific questions related to their industry sectors. EU Trade Commissioner Karel De Gucht will join to deliver a speech on the current state of EU-China business and economic relations.

Tentative Agenda:

12h00 – 13h00	Registration and buffet lunch
13h00 – 13h15	Introduction by Mr Stephen Philips, Chairman, EU-China Business Association
13h15 – 13h30	Speech on EU-China business relations by Mr Karel De Gucht, European Commissioner for Trade
13h30 – 13h45	Q&A Commissioner Karel de Gucht
13h45 – 14h15	Presentation of the European Business in China Position Paper 2012/2013 by Mr Davide Cucino, President, European Union Chamber of Commerce in China

14h15 – 14h30	Q&A
14h30 - 14h45	Closing remarks by Mario Vizzotto, Chairman, BUSINESSEUROPE China network

The participation fee is 85 €. Registration online before 12 September.

Opening Ceremony of the Weihai EU Office in Ghent, Belgium – 24 September 2013 – 16h00

The Flanders-China Chamber of Commerce (FCCC) and the Weihai Municipal Government will hold the official opening ceremony of the Weihai EU Office in Ghent on Tuesday 24 September 2013 at 16h00 at the Hotel NH Gent Belfort, Hoogpoort 63, 9000 Ghent.

The opening of this EU Office is the result of intense cooperation between the Flanders-China Chamber of Commerce (FCCC) and the Weihai Foreign Investment Center. On this occasion, the city of Ghent and the city of Weihai will also sign a cooperation agreement. The Mayor of Weihai, Mrs Zhang Hui, and representatives of the Weihai Investment Bureau will give an outline of the investment environment in Weihai, Shandong province, where several Flemish companies such as Bekaert, Beaulieu and Weihai Golden Solar Thermal Industrials have a major investment.

Agenda:

16h00	Reception
16h30	Address by Mr Bert De Graeve, Chairman, Flanders-China Chamber of Commerce, CEO of Bekaert
16h40	Address by Mr Daniel Termont, Mayor of the City of Ghent, Province of East Flanders
16h50	Address by Mrs Zhang Hui, Mayor of Weihai City, Shandong Province
17h10	Video presentation about the Weihai investment environment
17h20	Signing of the official opening of the Weihai EU Office in Ghent and the cooperation agreement between Weihai and Ghent
17h30	Networking reception

Weihai City is situated in Shandong province and has seen an impressive economic growth over the past two decades. The city has been listed as one of the most dynamic cities with the fastest economic development in China. Weihai is a well-known port city in China and is therefore a lucrative industrial base with key industries. It has attracted a vast amount of foreign investment to focus on developing the industries of shipbuilding, automobiles and parts, electronics and information, electromechanical equipments and tools, textiles and garments, food and pharmaceuticals.

The meeting is organized with the support of Flanders Investment and Trade.

Registration online before 19 September.

ACTIVITIES SUPPORTED BY FCCC

Hebei delegation at the 68th Ghent Trade Fair – 14 to 22 September 2013 – Ghent

The Chinese province of Hebei, with whom East Flanders has had a friendship relation for more than 20 years, will send a delegation to participate in the 68th Ghent Trade Fair.

Following the successful participation of China as guest country in 2005, the province of Hebei will be the official guest country time. Spectators will have to opportunity obtain information about utensils inspired by Chinese tradition. Hebei province will also send a team of Chinese artists, who will exhibit their works. A business delegation from Hebei will present itself to East Flanders to establish contacts with local entrepreneurs.

Companies from the following areas will be present: textiles, electromechanical and wooden products. Interested companies can meet them on 16 September 2013 by sending an email to info@flanders-china.be

Free entry tickets valued at €5 can be printed online. Click here to print the free ticket.

PAST EVENTS

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) organized a group business trip to West-China, an enormous market. Minister-President Kris Peeters led the trip from 9 till 13 September 2013 to Chongqing and Chengdu.

On September 11, the Flanders-China Chamber of Commerce (FCCC) organized a breakfast seminar in Chongqing. Mrs Gwenn Sonck, Executive Director of the Flanders China Chamber of Commerce, welcomed the participants and introduced the speakers.

Mr Luc Maton, Member of the Board of the FCCC and General Manager Asia Region of Ahlers, introduced the Flanders-China Chamber of Commerce and its activities. He emphasized the publication of newsletters, the organization of seminars and the sharing of guanxi (networks) to exchange experience and knowledge on China's economy and doing business in the country.

Flanders' Minister-President Kris Peeters expressed his support for the Go West policy of the Chinese government. Chongqing is one of the very fast-growing cities in China with still a big margin for further expansion, he said. He said he hoped the seminar would prove to be a great opportunity to expand the ties between the business communities of Flanders and Chongqing.

Mr. Chen Yu, Chairman of the Chongqing Sub-Council of the China Chamber for the Promotion of International Trade, welcomed the delegation to the city and gave a brief introduction of China's Go West policy and of Chongqing, from its origins in ancient times to its modern development. He also covered the priorities for doing business in Chongqing.

Mr Ulrich O.Birch, Chairman of the European Chamber Southwest Chapter and Senior Consultant at Consenec, a joint venture between ABB, Alstom and Bombardier in Switzerland, gave the perspective of European investors in Chongqing. Mr Birch has been based in Chongqing since 2005, so he has experienced quite some dramatic changes in the development of the city. He emphasized that the municipal government was very accessible to help overcome difficulties. The city benefits from preferential policies, such as a lower corporate income tax, but finding qualified personnel is still an uphill battle, the more so as more companies are investing. Chongqing has a strong manufacturing base and is a natural logistics hub.

Mr Claude Gong, Tax Partner, Deloitte & Touche Chongqing, more generally covered the challenges and opportunities for doing business in the West of China, including in Chongqing. His talk was more focussed on investing. China's Five Year Plan emphasizes development in the West of China to narrow the gap with the coastal areas, he said.

A brief Q&A session concluded the seminar.

In Chongqing, Minister-President Kris Peeters also had a meeting with Mayor Huang Qifan.

The Flanders-China Chamber of Commerce is preparing a special report on Chongqing which will be made available to the members.

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).

MEMBERS' NEWS

GROEP T participates in mission to Chongqing

FCCC Member GROEP T also participated in the mission. In the morning of September 12, the Flemish delegation headed by Minister-President Kris Peeters participated in the Life Science Seminar in the Tianfu Life Sciences Park in Chengdu. Several Flemish, Dutch and Chinese academics presented their research, ranging from diabetes to hospital management and traditional Chinese medicine (TCM). Dean Koen Eneman introduced Groep T's health engineering projects. In the afternoon, Groep T participated in the info sessions "Study in Belgium" in Chengdu's Via Via Café. Wim Polet explained what it means to study in Groep T. Late in the afternoon a new agreement was signed on the campus of the South West Jiaotong University – in the presence of the Minister-President – by Groep T to extend for a period of four years the "2+2 program", whereby Chinese students follow courses for two years at Groep T following the first and second years in their mother university.

EXPAT CORNER

Longer wait for China residency permits irks foreign firms

Foreign executives in China are upset at a new rule that allows authorities to hold passports for up to 15 working days when processing and renewing residency permits, saying it could disrupt essential business travel within China and abroad. The increased processing time from five working days had prompted a flood of complaints from the expatriate community, said Gary Chodorow, a Beijing-based immigration lawyer at Hong Law Offices. "What concerns companies is profits. When people are grounded they are not doing business. They are not making money," he said. The new rules took effect on July 1. Chinese officials have said they aim to deal with the rising flow of foreigners coming to China and to protect national security and social order. The Ministry of Public Security handles residency applications, which are renewed annually. Chodorow said the new rules could hamper travel for foreign executives who oversee offices throughout Asia, especially as cities such as Beijing and Shanghai have encouraged multinationals to establish Asia-Pacific headquarters there.

- A U.S. law to fight tax evasion globally, the Foreign Account Tax Compliance Act (FATCA), is driving some worried Americans to give up their citizenship, but has not stopped the waves of Chinese applying for United States citizenship or green cards. FATCA demands that banks and tax havens around the world give more information on U.S. taxpayers to the United States government, making it harder for U.S. tax evaders or corrupt Chinese officials who become U.S. citizens to hide their ill-gotten wealth.

FINANCE

Banks expected to issue asset-backed-securities (ABS)

The China Banking Regulatory Commission (CBRC) is expected to allow banks to sell up to CNY300 billion in asset-backed securities (ABS) soon. The launch of a large-scale ABS program could beef up leverage in the financial system, which has been escalating at a rapid pace since CNY17.5 trillion was pumped into the economy in 2009 and 2010, an amount equivalent to 24% of the GDP of those two years. Lax risk controls could lead to a financial crisis, just as toxic ABS triggered the United States subprime crisis, economists have warned. Fitch Ratings said that unless ABS quotas were lifted dramatically, the small size of China's securitization market – less than 0.1% of banks' total assets – meant any attempt to clean up the country's banks by a large-scale transfer of bad loans could be problematic. Premier Li Keqiang said the government would expand the ABS program, after it approved the sale of CNY50 billion of ABS last year and CNY22.85 billion in 2011 in a pilot scheme. The likely sharp increase in the ABS quota this year underlined the determination of the government to promote securitization – which helps ease pressure on banks' capital adequacy ratio (CAR) and transfers credit risk to investors – UBS Securities said in a report. The authorities would encourage ABS sales to allow new lending for the building of railways, ships and government-subsidized homes, the People's Bank of China (PBOC) has said. The program will allow bond market participants to invest in new products. Outstanding loans of Chinese banks stood at CNY68.78 trillion at the end of June. That means CNY300 billion of ABS would be 0.4% of total loans. Large-scale sales of ABS were unlikely to take place in the near future because regulations were not in place, said Pang Xiusheng, Vice President of China Construction Bank (CCB), as reported by the South China Morning Post.

Interest rate liberalization in Shanghai FTZ opposed

Wu Xiaoling, Vice Chairwoman of the Financial Committee of the National People's Congress (NPC) and former Vice Governor of the People’s Bank of China (PBOC), said Shanghai's free-trade zone (FTZ) should not implement the liberalization of interest rates paid on yuan bank deposits to avoid providing opportunities for speculators to exploit the difference with interest rates outside the zone. But she added it would be appropriate to improve the yuan's convertibility on the capital account and trials allowing foreign capital to invest in Chinese securities in the zone. Many economists see interest rate deregulation as a precursor to a freely tradable yuan because it would prepare banks better for global market fluctuations when the capital account is fully opened. Wu said deposit rates should only be liberalized if banks' pricing capability is improved, a deposit insurance system is set up, and bankruptcy regulations for financial institutions are in place. The insurance system and the bankruptcy regulations could be ready in a year if policymakers coordinate well, she said.

- Ping An Bank will sell CNY14.8 billion of additional shares to its parent Ping An Insurance (Group) Co of China in the third-largest capital raising by a Chinese bank this year. That will increase the insurer’s stake in China’s 12th-largest bank by market capitalization to 59% from 52.38%. Shenzhen-listed Ping An Bank will use the proceeds of the sale to replenish its core capital and increase its capital adequacy ratio (CAR) to meet regulatory requirements. The deal is awaiting regulatory approval.
- Foreign companies are increasingly using cross currency swaps to fund onshore operations in China rather than raising money via the dim sum bond market in Hong Kong. Multinational companies said they could raise more money, more quickly and more cheaply by borrowing in dollars and swapping the money into yuan than if they borrowed directly in yuan through the offshore yuan-denominated bond market. Monthly swap trading volumes have jumped to about USD5 billion from just a few hundred million dollars in early 2012.
- New yuan lending totaled CNY711.3 billion in August, an increase of CNY7.4 billion from a year ago. Total social financing amounted to CNY1.57 trillion in August, more than double the CNY750.4 billion in July.
- Shanghai remained the world’s sixth most competitive financial center for the third consecutive year, following New York, London, Hong Kong, Tokyo and Singapore, according to the Xinhua-Dow Jones International Financial Centers Development Index, which tracks the performance of 45 global financial centers. Shanghai has been rated the center showing the most potential for four consecutive years, beating competitors in terms of market growth, economic prospects, and innovation. But the city fell from 12th place to 14th in terms of service, and also scored low on industrial support and openness, the report said. Beijing remained at No 11 and Shenzhen rose four places to 15th.
- HSBC and Standard Chartered are expected to be among the first batch of foreign banks to offer a wide range of banking services in China's first free-trade zone (FTZ), in Shanghai, due to be launched on September 27. The CBRC had sought feedback from banks in recent months about their business plans in the FTZ. A Bank of East Asia (BEA) Spokeswoman said the bank would consider establishing a presence in the zone, depending on regulatory conditions. Beijing is expected to allow all lenders in the free-trade zone to provide unrestricted banking services similar to the offshore yuan trading offered by HSBC, Standard Chartered and other banks in Hong Kong.
- The yuan is expected to become the fourth most used currency in global trade by 2020, surpassing five currencies, including the Japanese yen. The share of yuan invoicing would quadruple to USD3 trillion in seven years, Standard Chartered Senior Economist Kevin Lau said. About 28% of China's total trade would be settled in yuan by then, double the current level. Lau said he expected Hong Kong's yuan deposits

would reach CNY750 billion by December, with Taiwan's reaching CNY150 billion. The yuan surpassed the Swedish krona and New Zealand dollar to become the ninth most popular currency in global trade this month, a Bank for International Settlements report said.

- Dim sum bond issuance continues to be sluggish after the slowest summer sales in three years as the advantage to mainland firms of borrowing offshore diminishes along with reduced expectations for appreciation of the yuan. Issuances excluding certificates of deposit slumped to CNY1.9 billion in the past two months, compared with CNY22 billion in the same period last year and CNY24 billion in 2011.
- With the Mid-Autumn Festival (September 19~21) and National Day (October 1~7) holidays approaching, along with a possible tapering of quantitative easing in the United States, concerns that another cash squeeze could hit China's money market this month are gathering steam, but economists say the central government has the will and the way to avoid a crisis this time. The People's Bank of China (PBOC) tolerated soaring interbank rates in the first few days of June's liquidity crunch to signal its displeasure at rampant lending irregularities, but Bank of America Merrill Lynch Economists Zhi Xiaojia and Lu Ting said that China's new leadership could not afford to be hit by another unnecessary interbank liquidity squeeze.

FOREIGN INVESTMENT

China becomes world’s third-largest investor

China became the world’s third-largest investor for the first time last year when its outbound direct investments (ODI) rose 17.6% to USD87.8 billion. Commerce, finance, refinery, retail, wholesale, manufacturing, logistics and construction were the main industries that attracted most Chinese outbound investment, according to the 2012 statistical bulletin of China’s outbound direct investment. Chinese ODI to the United States accelerated 123.5% in 2012 to USD4.04 billion, making the U.S. the second-largest overseas market for Chinese mainland funds after Hong Kong. China ranked only 13th globally for the overall outbound investment of USD531.9 billion the country had accumulated by the end of last year, because China’s outbound investment started much later compared with developed countries. Its total investment amount equaled only 10.2% of the U.S.’s, 29.4% of the UK’s, 34.4% of Germany’s, 35.5% of France’s, and 50.4% of Japan’s ODI. Last year, 1.49 million jobs were created thanks to China’s investment abroad, the Shanghai Daily reports.

Analysts warn investors on policy risks in new zones

Investors are eager to go to new economic zones such as the free trade zone in Shanghai and new zones – including Qianhai (15 sq km), Hengqin (106 sq km) and Nansha (800 sq km) in Guangdong province – but analysts warned that they should take potential policy risks into account. “The macro concept of the free-trade zone is very attractive, but the details of the implementation are still unclear. What will happen if there are conflicts between national legislation and legislation in the zone or in the city?”, said Michael Tam, Partner at law firm Berwin Leighton Paisner. Home prices have been rising even though many parts of the zones have yet to be built. Analysts said central government backing made Shanghai and the Pearl River Delta zones safe bets, but other cities also wanted special economic zones and investors should be wary of politicians' pet projects.

- Chinese investment in Britain soared nearly 80% year-on-year to more than USD4 billion last year, according to China's Ministry of Commerce (MOFCOM). Britain rose to fifth place as an overseas destination for investment from China last year from eighth in 2011 and 21st in 2010, which ranks the country as the third most important investment destination in Europe. Strategic investments from China Investment Corp (CIC) and the State Administration of Foreign Exchange (SAFE), totaling more than USD5 billion, had been made in real estate and infrastructure.
- Unilever started construction of its third manufacturing plant in China in Meishan, Sichuan province. The laundry powder plant will have an investment of CNY300 million and have an annual capacity of 200,000 tons with industrial output worth CNY2 billion after it becomes operational in early 2015. The plant is expected to become one of the Anglo-Dutch consumer goods company’s biggest factories worldwide. Unilever, which also has two manufacturing plants in Anhui province and Tianjin, is looking at

several provinces for its fourth plant. Unilever aims to boost its total sales in China to CNY50 billion by 2020 from CNY16 billion to CNY18 billion currently.

- Bayer is being investigated in China over a “potential case of unfair competition”. It is unclear whether the investigation is related to the corruption probe that has involved GlaxoSmithKline (GSK) and other foreign pharmaceutical companies in China. Bayer declined to respond to queries about whether any illegal payments to doctors or hospitals were involved, the Financial Times reports.
- By the end of last year, China had injected a total of USD68.2 billion into Latin America. Last year, the foreign direct investment (FDI) from China into the area reached USD6.17 billion, six times that of 2003. “The form of investment from China in Latin America is changing,” said Wang Jianjun, a senior official with the National Development and Reform Commission (NDRC), at the 5th Latin America China Investors Forum held in Beijing. He said Chinese companies were earlier engaged mainly in engineering, procurement and construction (EPC) projects, but in recent years countries like Brazil and Peru have been offering two new forms of investment: build-operate-transfer (BOT) and public-private partnerships.

FOREIGN TRADE

Fashion brands to gain from China-Sri Lanka free-trade deal

Fashion brands from Hong Kong, Europe and the United States could gain from a possible free-trade agreement between Sri Lanka and China that would remove all tariffs on goods from the island nation. Sri Lanka, whose earnings from garments account for half of its entire industrial output, has long been a manufacturing hub for upmarket lingerie, T-shirts and blouses. The country is the largest supplier for Victoria's Secret and an important manufacturing hub for Gap, Marks and Spencer and other European brands. If the free-trade deal materializes, all textile products from Sri Lanka would be exempt from tariffs, which currently range from 14% to 25%, depending on the product type. Under a previous preferential trade agreement between eight countries in the Asia-Pacific region, garment products from Sri Lanka enjoyed a discount of 3% to 5%. Sri Lanka's central bank Governor Ajith Nivard Cabraal said the free-trade talks could be completed by early next year. Sri Lanka already has free-trade agreements with India and Pakistan. China already accords tax-free treatment to garment products from Bangladesh, Indonesia and Vietnam. Sri Lankan exports to China have much room to increase since China is ranked a relatively low 16th among the island nation's export destinations, according to the Central Bank of Sri Lanka. China, on the other hand, has become the country's second-largest source of imports, after India. The top five Sri Lankan merchandise imports into China are natural fibers, tea, rubber, ores, textiles and garments, the South China Morning Post reports.

- Customs data showed exports rose a more-than-estimated 7.2% in August, while imports trailed forecasts with a gain of 7%.
- Exports of Swiss watches to China fell 17.5% from January to July. They were also down 9.6% to Hong Kong, the biggest market for Swiss watches, but the slowdown was less marked in July than in the first half of the year.

HEALTH

Anti-smoking campaigners up against tobacco monopoly

Anti-smoking campaigners are fighting an increasingly uphill battle against the powerful tobacco monopoly. A total of 300 million people, 50% of men and 2.4% of women in China smoke, according to the World Health Organization (WHO). While the overall percentage of China’s smoking population has fallen slightly from 26.8% to 25.3% over the last decade, increased prosperity has led to more intense smoking habits. The average number of cigarettes smoked by a Chinese citizen per day increased from 3.7 in 2003 to 5.3 last year, according to Euromonitor International. The tobacco monopoly is making too great a contribution to central and local government coffers to be easily reformed, with an estimated 7% to 10% of state revenue coming from tobacco sales. In Yunnan, tobacco contributes almost half of the provincial government’s revenue. Since the Chinese government promulgated the monopolization of the tobacco industry in September 1983, the global market share of the China National Tobacco Corporation (CNTC) has ballooned to 41.3%. Two out of three cigarettes sold in Asia are CNTC products. The company rakes in more than CNY320 million in profits every day on cigarette sales, according to figures released for the first time last month. A Ministry of Health survey of hotels and restaurants in Shandong, Gansu, Xinjiang and Heilongjiang found that only 1.4% had anti-smoking signs, despite a national ban on smoking in indoor public places since 2011.

MACRO-ECONOMY

China billionaires pass 300 as richest get richer

The number of dollar billionaires in mainland China has passed 300 for the first time, according to the Hurun Report, which named property tycoon Wang Jianlin of Wanda Group as China's new richest person, saying he had more than doubled his worth to USD22 billion. There were a total of 315 dollar billionaires in the country, it said, up 64 from a year ago. The average fortune of the top 1,000 stood at USD1.04 billion – more than double the USD440 million during the global financial crisis five years ago. However, three of last year's 10 richest people in Chengdu, the capital of Sichuan, have been detained amid a corruption crackdown in the province, and two others on the list are in prison. Inclusion on the Hurun rich list can be a mixed blessing, according to Oliver Rui, Professor of finance and accounting at the China Europe International Business School (CEIBS) in Beijing. Market values of companies controlled by those on the rich list drop "significantly" in the three years following their appearance, he said in a research paper. Among businesspeople on the list, 16.95% were subsequently "charged, investigated or arrested", compared to 6.84% among those who were not included, he found. Real estate was the biggest source of the ultra-rich's fortunes on this year's list. Lei Jun of mobile phone maker Xiaomi rose the fastest in the rankings this year after his worth shot up seven-fold to USD2.6 billion. Beijing is still the top choice of residence for the mainland's billionaires, with 140 on the list living in the capital, 17 more than last year, while Shenzhen and Shanghai rank second and third in popularity with 76 and 71 respectively. Women make up 21% of the list, with 14% of them self-made billionaires. Yang Huiyan, 32, heiress to property developer Country Garden, is the richest woman on the Chinese mainland. Chen Lihua, 72, of Fu Wah International, which also operates in the real estate sector, is this year's richest self-made woman, ranking 12th with a fortune of CNY37 billion.

Premier Li Keqiang says recovery still fragile

Premier Li Keqiang said at the meeting of the World Economic Forum (WEF) in Dalian that the basis of China's economic recovery is still fragile and promised to promote growth by opening markets to private competition and improving the investment climate for foreign companies. Chinese leaders have increased spending on railway construction and cut taxes for small businesses but have resisted pressure for across-the-board stimulus measures. Li announced no new initiatives but affirmed the government's determination to focus on structural reforms aimed at making the economy more productive and efficient. "China is now at such a crucial stage that without structural transformation and upgrading we will not be able to sustain economic growth," Li said. The government wants to nurture more self-sustaining growth based on domestic consumption rather than trade and investment, but it still has to clarify how far it will go implementing reform initiatives. "We will improve the investment climate and create an environment in which all players have equal access to factors of production and legal protection," the Premier said. "Facts will continue to prove that to come and do business in China is a wise decision for multinationals to expand their business."

- The new generation of migrant workers is younger, moving farther from home and craves a more stable life in the big cities. They are also more likely to move to cities as a family, are more politically aware, but also feel alienated and, in some cases, resentful towards local residents who are entitled to more social welfare and rights under the household registration system, according to the "Development Report on China's Migrant Population 2013". The country's migrant population numbered 236 million last year, meaning that one-sixth of the total population had moved from their permanent registered homes to work or study elsewhere.
- China's industrial production rose 10.4% in August from a year earlier, picking up from 9.7% in July and June's 8.9%, the National Bureau of Statistics (NBS) said. It was led by the steel sector, an indication that railway and property investment has warmed up. Fixed-asset investment grew 20.3% to CNY26.2 trillion in the first eight months. Retail sales increased 13.4% to CNY1.88 trillion in August.

- Global buyers may source more products from China in the current quarter. The International Sourcing Confidence Index, a gauge of sentiment among multinational companies which source products in China, rose to 51.28 in the third quarter, up from 50.40 in the April-June period, according to the Shanghai International Sourcing Promotion Group Co. Shanghai hosted the International Sourcing Fair at the ShanghaiMart last week.
- Industrial production grew 10.4% year-on-year in August, the fastest rate since March last year and up from 9.7% in July. The main driver was a 32% increase in infrastructure investment, from July's 22.8% growth. Growth in outstanding yuan loans remained modest last month at 14.1%, the slowest pace since 2006.
- The consumer price index (CPI) rose 2.6% last month, the National Bureau of Statistics (NBS) said. The producer price index (PPI) dropped 1.6%, the 18th straight decline, after a 2.3% decrease in July. China's consumer inflation will be fairly stable in the coming months, and it won't become a major issue for policymakers, according to Steve Wang, Chief China Economist with Reorient Financial Markets.

PETROCHEMICALS

Building of JV petrochemical complex stalled

A PetroChina-led project, in partnership with Royal Dutch Shell and Qatar Petroleum, for a USD13 billion refinery and petrochemical complex in east China, has stalled over finding a suitable site for the plant. The 400,000 barrels per day (BPD) refinery and 1.2 million tons a year ethylene complex in the coastal city of Taizhou in Zhejiang province, would be the single largest investment in the refining and petrochemicals sector for PetroChina. Taizhou authorities have proposed filling in an area that encompasses six mini isles, but the work would cost about CNY10 billion, about an eighth of the total project cost.

- All members of the middle and top management of the China National Petroleum Corporation (CNPC) – numbering around 1,000 – have been ordered to surrender their passports to prevent them from fleeing the country amid a corruption investigation. They were also ordered to daily report their whereabouts to be available to testify.
- Russia's Rosneft has offered a stake of up to 30% in East Siberian oil producer Taas-Yuryakh to China National Petroleum Corp (CNPC) as a part of their broader cooperation. Earlier this year, Rosneft agreed to more than double its oil supplies to China from 300,000 barrels per day (BPD) it now ships. Taas-Yuryakh initially plans to produce up to 1 million tons a year (20,000 BPD) from its East Siberian Srednebotuobinskoye field and aims to increase output to 6.15 million tons by 2016. The field has reserves of nearly 1 billion barrels.
- China's investment in exploration of oil and gas resources is expected to reach CNY80 billion in 2013, up from CNY19 billion in 2002 and CNY67.3 billion in 2011. In the 2008-2011 period, some 5.01 billion tons of petroleum reserves and 2.6 trillion cubic meters of natural gas were discovered. China imported 58% of its oil and nearly 30% of its natural gas in 2012.

REAL ESTATE

Yeland Group buys first plot in Qiantan

Yeland Group Co bought the first land plot in Qiantan in the Pudong New Area, marking the developer's initial foray into Shanghai's property market. The Shenzhen-listed property developer paid CNY1.67 billion, or an average CNY28,899 per square meter, a premium of 44.5%, for the 11,557 sq m parcel, which is designated for office and residential purposes. Qiantan, lying south of the former Expo site and covering 2.8 sq km, is positioned as a new business and residential zone. Separately, Rongxin Group from Fujian province bought a 113,399 sq m residential parcel in Songjiang district for CNY1.237 billion, or CNY10,800 per sq m on average.

- In the January to August period, CNY3.85 trillion of new homes were sold in China, up 35.7% year-on-year. By area, 634.07 million square meters were sold, up 24.4% year-on-year. In August alone, CNY86.59 million sq m of new homes worth CNY514.6 billion were transacted.

- Sun Hung Kai Properties, the largest developer in Hong Kong in terms of market value, said its underlying net profit fell 14.11% for the twelve months to June to HKD18.62 billion, worse than expected. Its net profit, which included property revaluation gains, amounted to HKD40.33 billion, down 6.4% from last year. Profit generated from property sales dropped sharply to HKD7.19 billion down from last year's HKD13.1 billion as the property market slowed down.
- Yuexiu Property won an auction for a site in Wuhan, the capital of Hubei province, for CNY9.01 billion. Indirectly controlled by the Guangzhou government, Yuexiu outbid rivals such as Shanghai-based Shimao Property and Beijing-based Financial Street to win the site, which will be developed into an office-residential-shopping complex. The 182,270 square meter site – at CNY12,617 per sq m – became the most expensive sold in Wuhan in terms of lump sum and accommodation value.

SCIENCE & TECHNOLOGY

China designing world's fastest helicopter

The China Helicopter Research and Development Institute is designing the four-rotor "Blue Whale", which is set to become the world's fastest helicopter. By tilting its four rotors from a horizontal to vertical position, the helicopter promises to reach speeds of more than 700 km/h, 40% faster than Boeing's V-22 Osprey. With a cruising speed of 538 km/h, developers say the Blue Whale will lift 20 tons of cargo and fly more than 3,100 kilometers without refueling. It will fly as high as 8,600 meters, also higher than the V-22. The Institute hopes to produce functioning prototypes within the next five years. Most conventional helicopters do not exceed speeds of 200 km/h. Tilt rotor type helicopters like the Blue Whale have rotor pods – called nacelles – mounted on fixed wings. The rotors provide lift in the horizontal position and forward thrust in the vertical position once the craft is airborne. The Blue Whale is being developed mainly for military applications.

- Zhang Shuguang, 57, former Director of the Transport Bureau of the defunct Ministry of Railways (MOR) said half of the CNY47 million in bribes he took was to lobby membership in the Chinese Academy of Sciences (CAS). He did not say whether anyone at the Academy took money to back his membership bid in 2007 and again in 2009. He fell seven votes short of the required two-thirds support in the first election, and was one vote short the second time around. CAS admits a maximum of 60 new members in elections held every two years.
- The China National Institute of Standardization is preparing for a national anthropometric survey to examine changes in the measurements of average Chinese – including their waistlines – since the last survey in 1986. The survey will take about five years, targeting Chinese citizens aged between 18 and 75 and sampling about 20,000 people in six areas with a nationwide geographical spread. The survey is expected to start in the latter half of 2014. According to research conducted in 2009, the average weight of Chinese aged above 35 had notably increased and the average waistline of an adult man had grown by 5 centimeters since 1986. The updated research will help in designing products from cars to smartphones.

STOCK MARKETS

Huishan Dairy aims to raise USD1.3 billion in IPO

China Huishan Dairy, in which Hong Kong businessman Cheng Yu-tung has a roughly 25% stake, plans to raise up to USD1.3 billion through a float in Hong Kong that is poised to be the city's largest initial public offering (IPO) since June. The firm, based in Shenyang, Liaoning province, runs vertically integrated operations in the milk supply chain, from cow breeding to manufacturing. It plans to sell 3.79 billion shares at an indicative price range of HKD2.28 to HKD2.67 each, translating into an expected price-earnings ratio of 14.5 to 17 times next year's forecast earnings. There are at least three cornerstone investors – Yili Group, Cofco Agricultural and Norges Bank – which are expected to buy USD220 million worth of shares, representing about a 10th of the entire IPO. If successful, Huishan will join five dairy firms listed on the Hong Kong stock exchange – including China Mengniu Dairy and China Modern Dairy

– which are trading at an average price-earnings ratio of 24, based on next year's forecast earnings, and a price-book ratio of 1.5 times. Founded in 1951, Huishan has been looking to sell shares in Hong Kong for the past three years following the toxic milk scandal in 2008. Huishan's annual production of raw milk reached two million tons, and output of baby formula powder totaled 240,000 tons last year. It owns 400,000 cows and runs six advanced manufacturing plants in Liaoning, the South China Morning Post reports.

Hong Kong-listed companies show slower revenue growth

First-half results for Hong Kong-listed companies confirm a general downturn in China's economic growth. Data on the constituents of the MSCI China Index collated by Nomura Securities shows first-half revenues grew 12.5% on average, compared with 14.5% in last year's first half and 16% in its second half. In contrast, net income rose 16.9% in this year's first half, 2.6% in the same period last year and 7.7% in last year's second half. Broken down by sector, real estate was the best performer, with sales revenues up 45.5% and net margins of 30.4% on the back of renewed buying and strong rental returns in the larger cities. Close to the bottom of the table was discretionary spending – including non-essential consumer goods such as cars and clothing – where revenue grew only 3.8%, a sharp drop from the second half of last year, when it rose 12.4%. For MSCI China firms, the biggest surprises by sector were telecommunications and insurance (outperforming the earnings consensus by 6%), followed by health care (beating the consensus by 4%). Discretionary spending underperformed the consensus by a substantial 13%, according to Nomura data. Describing the economy as "bottoming out", Francis Cheung of CLSA, said a tough job market, slowing wage growth and the continuing anti-corruption campaign were having an impact on consumer spending.

Shanghai FTZ to boost China airline stocks

China's biggest domestic airlines are among stocks that will extend gains as Shanghai opens a free-trade zone (FTZ), according to U.S. investment bank Goldman Sachs. China Southern Airlines and China Eastern Airlines, along with Lao Feng Xiang, a Shanghai-based jewelry company, and Hong Kong-traded Shanghai Industrial Holdings, are to benefit, Goldman Sachs Analysts led by Liu Chenjie wrote in a note. Banks, shippers and port operators have led gains since August 22, when the Ministry of Commerce (MOFCOM) said the city's free-trade zone (FTZ) proposal had been approved in July. Shanghai International Port Group has since climbed 170%, the most among the 995 companies on the Shanghai index. China Eastern, which is based in Shanghai, has climbed 35%. The Shanghai Composite Index has risen 15% since reaching this year's low on June 27. "Be selective in choosing potential beneficiaries. Given actual earnings boost may show up only in the medium term, we prefer beneficiaries that have upsides based on existing businesses, with the Shanghai free-trade zone potentially providing room for additional upside", the Goldman Sachs Analysts wrote.

TRAVEL

Hong Kong Express Airways to offer cheap flights

Hong Kong Express Airways says it hopes to get 10% of the city's market for passenger flights by offering cheap fares when it transforms itself into a budget airline next month. A one-way ticket to Kunming, Yunnan province, excluding taxes and fuel surcharges will be HKD298 – less than half that offered by Cathay Pacific Airways. The HK Express fare to Phuket, Thailand, will be HKD368 – a third of the fare of low-cost rival Jetstar Hong Kong, which awaits approval to become the city's second budget carrier. Flights to Tokyo's Haneda airport, the priciest among the airline's seven destinations announced last week, will be HKD758, on par with Osaka-based low-cost carrier Peach Aviation. The airline's Deputy Chief Executive, Andrew Cowen, said that not all tickets would be that cheap. Cowen said HK Express would add six aircraft next year, and by 2018 its fleet would be 30-strong. He would not estimate the proportion of total sales that promotional tickets would account for, as airfares were adjusted according to demand, he said. President Zhang Qiang said the airline could break even within two years and gain a market share of 10% in the near future. The 10 budget carriers that fly to Hong Kong have a combined market share of 5%. Joining Cathay's and Dragonair's opposition to Jetstar Hong Kong's application for an operating license, Cowen said too many airlines competing for too few flight slots and parking stands would result in congestion. Jetstar Hong Kong Chairwoman Pansy Ho said the market was big enough for new players, with a new midfield terminal and a third runway on the way, the South China Morning Post reports.

- Daocheng Yading airport in Sichuan province, the world's highest altitude civilian airport at 4,411 meters above sea level, is expected to start operations on September 16. Flights to the provincial capital of Chengdu will take 65 minutes. The trip previously took two days by road. The cost of a one-way ticket will be CNY1,600. Routes connecting Daocheng with Chongqing and Maerkang county are expected to start before October 1 and flights to Guangzhou, Shanghai and Xian are expected to start next year. The airport is 159 kilometer from the Yading Nature Reserve, known as "the last Shangri-La".
- Shanghai's Metro lines will stretch over 500 kilometers when Line 12, 16 and Line 11's north section between Anting and Huaqiao station in neighboring Jiangsu province, start operation at the end of the year. Shanghai already boasts the world's longest Metro network at 462 kilometers. It should cover 600 km by the end of 2015 and 800 km by 2020.
- Shanghai's landmark Oriental Pearl TV Tower will undergo repairs and renovation work for the first time in 19 years following the October 1 holiday. The renovation is expected to last over 7 months and will mainly cover the exterior below 254 meters. The normal operation of the tower will not be affected. The 468-meter high tower is one of the most popular attractions in Shanghai.
- Two theme hotels in Shanghai Disneyland have started construction. The properties, comprising a luxury hotel and an economical hotel, will have a total of 1,220 guest rooms. Shanghai Disneyland started the first phase construction in May. One of the key attractions will be the park's centerpiece of an Enchanted Storybook Castle which is designed to be the world's tallest and largest Disney castle. Shanghai Disneyland is expected to open by the end of 2015.
- Beijing's proposal to charge drivers for traffic congestion has stirred strong public debate. Congestion fees are being mooted under the city's latest clean air plan to cut gas emissions and heavy traffic loads. Many residents blamed the traffic problems on weak government management and car owners should not have to pay.
- One of the most severe storms in recent memory paralyzed Shanghai during September 13's evening rush hour. Several subway lines were suspended and major roads were closed as soaking rain and strong winds slammed the city. At 2 pm, the Shanghai Meteorological Bureau issued a rare red rainstorm alert, its highest official warning.
- China's largest cruise ship, the Henna, with about 2,300 passengers and crew on board, was held at South Korea's Jeju island for more than 48 hours when a local court prevented it from leaving after a claim was filed against it by shipping services firm Jiangsu Shagang International. The court demanded that operator HNA Tourism pay a deposit of about HKD21.4 million for the ship to be allowed to leave. 1,100 of the 1,659 passengers were flown back to Beijing on five chartered Hainan Airlines flights and the others would return on the ship when it is released.

VIP VISITS

President Xi Jinping wraps up trip with Kyrgyzstan visit

China agreed to extend credits worth more than USD3 billion for energy projects in Kyrgyzstan during a visit by President Xi Jinping. He held talks with Kyrgyz President Almazbek Atambayev on the last leg of a major regional tour that has already taken him to Russia, Turkmenistan, Kazakhstan and Uzbekistan. USD1.4 billion of credits will be used for the 225-kilometer Kyrgyzstan-China gas pipeline which will pump gas originating from energy-rich Turkmenistan to the Chinese city of Kashgar. The rest of the credits will go on rebuilding a power plant in Bishkek, constructing a new motorway and expanding an oil refinery. Atambayev also said Kyrgyzstan supported a Chinese initiative to create a joint economic zone based along the route of the fabled historic Silk Road.

Premiers Li Keqiang and Di Rupo meet in Dalian

Chinese Premier Li Keqiang met his Belgian counterpart Elio Di Rupo at the World Economic Forum (WEF) meeting in Dalian. Premier Li stressed at the WEF meeting China's need to stabilize economic growth and push forward with structural reforms. Recent economic data, including industrial output and power usage, showed a recovering trend, Li said. "The most prominent problem or pressure comes from the need to ensure adequate employment. The government will adopt active policies to boost jobs, and such policies must be carried out under the condition of stable economic growth", he said.

ONE-LINE NEWS

- The Chinese government is to abolish 76 official awards as it seeks to rein in waste and extravagance. Government departments will, for example, no longer be able to award prizes for "administration in accordance with the law" for tax collectors. A similar campaign in 2009 had resulted in annual savings of CNY6.4 billion.
- Chinese insulin maker Gan & Lee Pharmaceuticals is investigating allegations that it spent around CNY800 million to bribe doctors to promote the firm's drugs over five years. A sales representative said the bribes were aimed at raising sales ahead of a planned initial public offering (IPO) in Shanghai. Its sales reached CNY540 million last year. The most high-profile investigation into corruption in the pharmaceutical sector in China involves British drug maker GlaxoSmithKline (GSK).
- Zhang Shuguang, 57, former Deputy Chief Engineer of the defunct Ministry of Railways (MOR) admitted at Beijing's No 2 Intermediate People's Court taking bribes worth more than CNY47 million between 2000 and 2011, while he was in charge of procuring rolling stock and other equipment. Yang Jianyu, former President of Guangzhou Zhongche Railway Vehicles Equipment Co, also testified that he hired Zhang's mistress on a monthly salary of CNY16,000 since 2009 to please him.
- A Chinese court sentenced Cai Bin, a mid-level bureaucrat in Guangzhou nicknamed "Uncle House" for his large property holdings, to 11 and a half years' jail and fined him CNY600,000. He was convicted of taking CNY2.75 million in bribes. He was reported on social media to have accumulated at least 22 properties.
- Chinese drug company Sino Biopharmaceutical has set up a team to investigate allegations broadcast on state television that its 60%-owned subsidiary Chia Tai Tianqing Pharmaceutical Group had paid for illegal overseas trips for doctors. The Hong Kong-listed company is the second Chinese firm to come under the spotlight, underlining the fact that domestic companies are not immune to a recently launched drive against corruption in the sector.
- China's government will protect whistleblowers who report corruption via an officially sanctioned website, the Central Commission for Discipline Inspection's Secretary General, Cui Shaopeng, said. "I can tell everyone in a responsible way, all reports logged on the website will receive legal protection, and we will severely deal with revenge attacks. Our attitude is very clear on this," he added.
- Jin Jianping, a top energy executive from Tianjin who stepped down from the helm of Hong Kong-listed Tianjin Jinran Public Utilities at the start of this month, was placed under internal investigation by the Communist Party for serious disciplinary violations. Tianjin Jinran is the sole supplier of natural gas in Tianjin, with 2.7 million customers and 11,420 kilometers of gas pipeline.

ANNOUNCEMENTS

EU-China Exhibition on Urban Development 2013 – 20-23 November 2013 – Beijing

Companies active in sectors such as transportation, architecture, urban planning or energy conservation and looking for ways to kick-start or grow their business in China, are invited to join the EU-China Exhibition on Urban Development and promote their products and services to Chinese decision makers eager to develop joint solutions in sustainable urbanization.
Key features of the exhibition are:

- showcase for new concepts, technologies and development patterns in sustainable urbanization;
- designed to promote the practical cooperation between cities, enterprises, research centers, NGOs and think-tanks from the EU and China;
- 500 exhibitors expected from Europe and China;
- accompanied by seminars and workshops organized by partners and stakeholders;
- co-organized by the European Commission and the National Development and Reform Commission (NDRC) of China and backed by the EU-China Partnership on Urbanisation;

- in parallel to the EU-China Summit.

The exhibition will take place at the Beijing Exhibition Center on November 20-23, 2013. More information: www.euchinaurban.org/exhibition

EU-SME Centre article: Building Rome in a week (or two) – The construction sector in China

With total investment reaching CNY100 trillion in 2012, China's construction market is enormous and will keep growing quickly in the foreseeable future. Currently, the country is constructing more than one third of all buildings worldwide, with added square meters of living space amounting to the equivalent of a city like Rome in about two weeks and a country like the UK or Spain every single year. A recent sector report published by the EU SME Centre identifies a number of factors indicating that the sector will continue to be one of the main drivers of China's growth, providing European SMEs offering high-quality products sustainable opportunities in selected niche markets. More information at: www.eusmecentre.org.cn

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