法兰德斯中国商会 FCCC VCKK
FLANDERS-CHINA CHAMBER OF COMMERCE
VLAAMS-CHINESE KAMER VAN KOOPHANDEL

NEWSLETTER | 7 OCTOBER 2013

FCCC ACTIVITIES

China Market Entry: "Challenges and Successes" – Monday 14 October 2013, 15h30 – International Club of Flanders, Ghent

The Flanders-China Chamber of Commerce is organizing a conference: China Market Entry: "Challenges and Successes". This event will take place at 15h30 on Monday 14 October 2013 at the International Club of Flanders, Sint-Pietersplein 11, 9000 Ghent.

During this event, highly experienced experts and business leaders will share their knowledge and expertise based on their achievements in China.

Programme:

15h30	Registration
16h00	Welcome by Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce
16h10	"How are the development needs different in the Chinese labour market: Challenges and Opportunities, by Mr Howard Zhu, Managing Director CPM China/Competence@
16h30	Practical experiences on doing business in China: • Mr Maarten Michielssens, CEO, Econation • Mr Filip Goris, Regional Manager Asia, Recticel • Mr Lieven Danneels, CEO, Televic
17h30	Question and answer session
18h00	Networking reception

During this conference participants will receive the publication "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 on their way to success in the largest and most challenging market on earth.

This event is organized with the support of Flanders Investment & Trade.

Registration online before 9 October. Price members FCCC: €75, non-members: €95.

Lunch session: "New trends in China sourcing: Evolution and Practical Tips" – Monday, October 21, 2013 – VOKA, Kortrijk

The Flanders-China Chamber of Commerce (FCCC) and VOKA West-Flanders are organizing a lunch session "New trends in China sourcing: Evolution and Practical Tips" on Monday, October 21 from 11h15 till 14h00 at Voka – Kamer Van Koophandel West-Vlaanderen, President Kennedylaan 9a, Kortrijk.

Guest speaker is Mr Etienne Charlier, Managing Director, ProcurAsia.

The China industrial context has drastically changed over the last 10 years. The combination of higher manufacturing costs and a more developed industry has serious impact on sourcing. In this presentation, Etienne Charlier will present this main evolution and highlights the new strength of the country for companies looking for outsourcing manufacturing or sourcing parts and systems. He will also give practical advices and tips for people who want to learn more about how to evaluate Chinese partners, what product to source from China, and how to manage suppliers you buy from.

Price: VOKA & FCCC members: €60, non-members: €90, Ambassador members and members BC Global Sourcing: free of charge. Cancellations up to 5 days before the event in writing (by mail).

Registration at: http://flanders-china.be/eventdetail.asp?id=311&cat=up

IPR China and IPR Asean Conference – 29 October 2013 – Agoria, Brussels

Agoria, in cooperation with the Flanders-China Chamber of Commerce (FCCC), is organizing the next IPR Conference to be held at 14:00h on Tuesday the 29 October 2013 at the Diamant Building in Brussels. The conference is held in cooperation with FIT, BIE, AWEX, BCECC, FCCC, Belgian Chambers, CCIBW, CCIBV and EU China IPR SME Helpdesk. This event will include an interactive seminar and an optional individual free advice session after the seminar by the China and Asean IPR experts of the EU China IPR Helpdesk to each of the 12 first registered and individual advices requesting participating company.

The conference will provide updated information on general IPR protection in China plus a focus on trademark registration, protection and litigation in China, as well as information on how to protect IPR in China and in Asean countries, manage intellectual assets and use the Chinese and Asean IP systems to enforce IPR rights effectively. The testimonial speakers will share their experiences of IP protection and enforcement in China, and give practical tips on achieving the results required to do business effectively in China.

Last but not least, at this conference a guide folder will be provided containing the following information:
· Guide to Trade Mark Protection in China
· How to Conduct a Trade Mark Search
· Protection of Online IPR in China - Domain Names
· Guide to Protecting Your Trade Secrets in China
Registration at http://flanders-china.be/eventdetail.asp?id=312&cat=up by 22 October 2013 at the latest.
Programme:

13:30 – 14:00	Registration
14:00 – 14:10	Welcome word on behalf of all organizers by Francis Walschot, Director Regulations & Standardization, Agoria
14:10 – 15:40	Presentation with updated information on IPR protection in China and in Asean countries with a focus on trademark registration, protection and litigation in China by Simon Cheetham and Joao Miranda de Sousa, European Commission IPR China SME Helpdesk experts
15:40 – 16:00	Coffee & Tea Break
16:00 – 16:20	Testimonial by Fred Liu, Lawyer, Barco China
16:20 – 16:40	Testimonial by Marc Messely, Group Industrial Property Manager, Bekaert
16:40 – 16:50	Closing Word by René Branders, President of Agoria International IPR Work Group
16:50 – 18:00	Networking drinks
In parallel	
16:50 – 19:00	Free individual 'Clinical' advice session with the two IPR China and Asean experts - 20 minutes for each of the pre-registered companies with one specialist. Attention – Policy for the free individual 'Clinical' advice: First In, First Served – this individual 'Clinical' advice is available only to the first 12 earliest registered companies who request for free 'Clinical' advice

session. Pre-questions for the clinical sessions are requested together with registration for this conference participation.

Doing business with China for SME's – Thursday 7 November 2013 – 15h30 – Gent

The Flanders-China Chamber of Commerce (FCCC) and VOKA East Flanders are organizing the conference: "Doing business with China for SME's". This event will take place at 15h30 on Thursday 7 November at the Voka Box, Lammerstraat 18, 9000 Gent.

During this event, highly experienced experts and business leaders will share their knowledge and expertise based on their achievements in China.

Programme:

15h30	Registration
16h00	Welcome by Flanders-China Chamber of Commerce / VOKA East Flanders
16h10	"Practical aspects of intellectual property protection and Technology Transfer in China" (40 minutes) by Mrs Sari Depreeuw, Senior Associate, Dewolf & Partners, Brussels Office and Mrs Ava Tu, Associate, De Wolf & Partners, Shanghai
16h50	"Selling in China: a practical approach" by Kristina Koehler, China Director, Klako Group
17h10	"Experiences of Nuscience in China" by Patrick Keereman, CEO, Managing Director
17h30	Question and answer session
18h00	Networking reception

Participants to the conference will receive the publication "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 on their way to success in the largest and most challenging market on earth.

This event is organized with the support of Flanders Investment & Trade.

Registration online before 31 October at:
http://flanders-china.be/eventdetail.asp?id=313&id_cat=1&cat=up&lang1=

Price FCCC members: €75; non-members: €95.

PAST EVENTS

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

The Flanders-China Chamber of Commerce (FCCC) and the Weihai Municipal Government held the official opening ceremony of the Weihai EU Office in Ghent on 24 September 2013.

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 signed a cooperation agreement. At the same time, the Flanders-China Chamber of Commerce and the Weihai Foreign Investment Bureau also signed an MOU to promote cooperation between both sides. The Mayor of Weihai, Mrs Zhang Hui, outlined 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.

Mr Bert De Graeve, Chairman, Flanders-China Chamber of Commerce, CEO of Bekaert; Mr Daniel Termont, Mayor of the City of Ghent, Province of East Flanders; and Mrs Zhang Hui, Mayor of Weihai City, Shandong Province, addressed the ceremony. Two MOU's were also signed between the Weihai Foreign Investment Bureau and VITO and a second one between ECRAAL and the Weihai Foreign Investment Bureau.

The event was concluded by a networking reception attended by 120 participants. The meeting is organized with the support of Flanders Investment and Trade. Further information and an investment guide can be obtained at the FCCC: info@flanders-china.be.

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” took place on September 17, 2013 at Business Europe in Brussels.

This seminar was 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. The European Chamber presented its European Business in China Position Paper 2013/2014.

EU Trade Commissioner Karel De Gucht delivered a speech on the current state of EU-China business and economic relations. Mr Davide Cucino, President, European Union Chamber of Commerce in China, presented the European Business in China Position Paper 2012/2013, followed by a Q&A session and closing remarks by Mario Vizzotto, Chairman, BUSINESSEUROPE China.

A copy of the position papers 2013/2014 can be downloaded at the following website: www.euccc.com.cn

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 ofopportunities.” 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

De Wolf & Partners: What foreigners better know under the new PRC Exit and Entry rules

Philippe Snel at De Wolf & Partners Shanghai Office would like to raise your special attention to the new PRC Exit and Entry Law of July 1, 2013 (hereinafter, the “New Law”) as well as to the Regulation on the Entry and Exit of Foreigners being the implementation of the New Law which entered into force on September 1, 2013 (hereinafter, the “Implementing Regulation”). Pertaining to these two documents, a couple of previous entry and exit rules for foreigners have been changed, tightened or further clarified.

1. Visa Exemption
The New Law stipulates that any foreigner who travels to a third country or region through the Chinese territory by international aircraft, ship or train with a transit ticket and who stays in China’s port no more than 24 hours or in a special location not exceeding a specific time-limit can be exempted from visa application. Previously, only foreigner transit in China by aircraft was entitled for this preferential policy.

2. Change of visa category
Further to the Implementing Regulation, the visa categories have been adjusted into 12 types (8 types before) to further clarify the purpose of foreigner’s entrance into China. The essential changes are listed as below:

- M visa is newly established for the commercial and trade activity, which was previously covered by F visa;
- R visa is also a new category issued to foreign high-level talents that China needs, and to specialized talents that are urgently needed due to shortage; and
- L visa will from now on cover the tourism in China only. The previous family reunion has been moved out from the L visa and moved to Q visa (family reunion with a Chinese citizen or a foreigner with permanent residence permit) and S visa (family reunion with a foreigner legally staying or residing in China but not permanently).

3.Foreigner’s stay and residence in China
The New Law clearly clarifies that foreigners are allowed to stay within Chinese territory with a valid visa for maximum 180 days, except when special visa category requires otherwise. Any extension of visa shall be applied with local Public Security Bureau (hereinafter, the “PSB”) 7 days before the expiry.

It is worth to mention that in case the foreigner resides or stays at a domicile other than a hotel, the foreigner or the host shall register the same with the local PSB within 24 hours of his/her staying. Previously, the time-limit for such registration varied on the location of the domicile.

4. Foreigner's working in China
As a result of the New Law, the minimum validity period for work-related residence permit has been changed to 90 days where the maximum period (5 years) remains the same.

The New Law publishes for the first time the definition of illegal work of foreigners in China as: (a) working without a work permit and work-related residence permit as required; (b) taking up jobs other than that which has been permitted; and (c) working of a foreigner student beyond the prescribed types of work or duration which is in violation of the administrative rules on work-study.

Furthermore, the New Law and the Implementing Regulation have imposed a report obligation on the employer when he is aware of any illegal entrance, residence or work of its foreigner employee in China, and when his/her alien employee's employment ends, working location changes or when he/she dies or is missing.

5. Penalties
The New Law has increased the penalties on the foreigners in case of violation of the rules, i.e.:

Any illegal residence in China of a foreigner in serious situation will be fined for 500 RMB per day with 10.000 RMB as the maximum, or detained for no more than 15 days;

Any illegal work in China of a foreigner will be fined for 20.000 RMB as the maximum, and, where serious, he/she can be detained. Meanwhile, the employer will be fined for 10.000 RMB per illegal working foreignerwith 100.000 RMB as the maximum, and illegal gains (if any) will be confiscated.

Compared to previous penalties on the same issue, the level of punishment has been raised significantly, which underlines the intention of the Chinese government to intensify its crack-down on the illegal activities of the foreigners in China.

For more information on this topic please contact Philippe Snel (philippe.snel @dewolf-law.cn) of De Wolf & Partners Shanghai Office. De Wolf & Partners Shanghai Office focuses on all foreign direct investment related matters and general corporate issues. From our Shanghai Office, we mainly help foreign investors in structuring and implementing their investments into China, and assist high profile Chinese companies for their business to Europe and Africa (www.dewolf-law.com).

EXPAT CORNER

Ten expats receive Shanghai Magnolia Gold Award

Ten foreigners were presented with the Shanghai Magnolia Gold Award at the City Hall of Shanghai by Mayor Yang Xiong for their outstanding contributions to the city. The recipients from the United States, the UK, Canada, the Netherlands, Malaysia, Singapore and the Philippines included entrepreneurs, educators and scientific research and health professionals. Award winners this year included Fatt Heng Wong, General Manager of Roche Diagnostics (Shanghai); Michael Robert Phillips, Director of the Suicide Research and Prevention Center at the Shanghai Mental Health Center; Xiangli Chen, President of GE (China) Research and Development Center; Amit Midha, President of Dell Asia's Pacific and Japan Region; Xing-Zhi Cao, Chairman of SA-Sino (Shanghai) Communications Co; Larry Chan, Chairman of Liwayway China Co; Alan Hudson, Director of Oxford University's Leadership Programs for China; Scott Laurence Friedman, Director of Mount Sinai Hospital's Liver Diseases Division; Henk Westerhoek, Managing Director, Logwin Air + Ocean China; and David J Wilson, Director of SPX Corp (China) Co and President of SPX Flow Technology Asia Pacific. The Magnolia Gold Award has been given to 269 foreigners since 1993.

FINANCE

China expected to dominate regional debt market

China will dominate the region's U.S. dollar-denominated debt markets next year as economic growth driven by domestic consumption boosts energy and real estate bonds, according to Pacific Investment Management Co (Pimco), the manager of the world's biggest bond fund. Companies on the mainland and in Hong Kong have sold USD52.7 billion of notes this year, or a record 50% of all U.S. dollar securities in Asia outside Japan, the first time a single country has captured half of the region's U.S. currency market since1999. The yield premium on debentures from China has shrunk 46 basis points in the past 12 months to 378 basis points, compared with a jump of 17 basis points for Asian credits, according to JP Morgan Chase. With urbanization boosting spending and personal incomes growing, retail and consumer companies in China were expected to sell more bonds next year, Pimco said in a report. Chinese companies sold USD5.6 billion of bonds last month, more than twice as much as in August. News the United States central bank will maintain the size of its bond buying program sent China's borrowing costs in dollars down 19.3 basis points on September 19, the steepest one-day drop since May. As living standards rise, demand for energy has increased, which is having a knock-on effect in bond markets, according to Pimco. CNOOC sold USD1.3 billion of notes at a spread of 185 basis points, while China Uranium, a unit of China General Nuclear Power (CGNP), sold USD600 million of bonds at a spread of 220 basis points. In Asia's high-yield dollar market, Chinese firms make up about 55% of this year's bond sales, with property developers accounting for 41%, the South China Morning Post reports.

ICBC (Asia) issues Asia’s first Basel III compliant USD bond

Foreign investors could be a major source of funds for recapitalizing Chinese banks, with a new type of bond sold off-shore by Industrial and Commercial Bank of China (ICBC). ICBC (Asia) closed Asia's first Basel III compliant bond priced in U.S. dollars, raising USD500 million. The 10-year bond is callable in the fifth year. The deal qualifies as tier-2 capital, which are funds ICBC can present to regulators to show it has enough capital to protect against failure. To count as Basel III compliant, the bond included a write-down feature. The clause allows the Hong Kong Monetary Authority (HKMA) or the China Banking Regulatory Commission (CBRC) to force investors to take a loss on the bond if they believe ICBC – either the parent firm or the subsidiary – to be in trouble. Tianjin Binhai Rural Commercial Bank used a near-identical structure in July for a CNY1.5 billion bond, the first of its kind on the Chinese market. ICBC's deal is the first to gauge global investors' willingness to accept the risk that two regulators could make a somewhat subjective call that an issuer is non-viable, however this may be defined, thus inflicting large losses on bond holders. But ICBC, the parent company of ICBC (Asia), ranks first among all banks for operational income, and has the largest tier-1 capital at USD160.6 billion, making the non-viability clause almost irrelevant. The Basel III rules mean that Chinese banks need to start discounting the impact of their old-style (Basel II) capital by 10% each year. The top five banks alone will have to replace about CNY700 billion in tier-2 capital and CNY500 billion in tier-1 to satisfy the minimum requirements.

- Taiwan's central bank is holding yuan in its foreign exchange reserves portfolio, Governor Perng Fai-nan said. Taiwan aims to become an off-shore yuan trading hub, like Hong Kong and Singapore. “There is a realistic need to do so. China has the biggest foreign exchange reserves in the world. Its credit rating is good,” Perng told the Taiwanese parliament, saying the central banks of 11 countries had added the yuan to their portfolios. The mainland is Taiwan's biggest export market and, according to Perng, cross-strait trade has reached USD160 billion.

FOREIGN INVESTMENT

Negative investment list for Shanghai FTZ released

China released a negative list for foreign investment in its newly-opened free trade zone (FTZ) in Shanghai, allowing foreign investors as much freedom as their domestic peers in business fields not included in the list. The list, covering 18 sectors ranging from agriculture to manufacturing to finance to public services, specifies all the business areas in which restrictions will remain for foreign enterprises in the zone. Foreign investment in banking, finance companies and trust firms will remain subject to related restrictions. Foreign ownership in joint-venture securities firms and fund management companies is limited to no more than 49% and in insurers to no more than 50%. Foreign investment in research and development (R&D) and manufacturing of automobile electronic devices can only be made through joint ventures. The proportion of foreign investment in production of batteries for new energy vehicles is up to 50%. Foreign investors are forbidden from having a share in news agencies, publishing companies, radio and film producing companies and online gaming firms. Foreign participation is barred from internet bars, the gambling industry and pornography, according to the list. Investment in high-end properties such as hotels, office buildings, exhibition centers and villas, as well as large-scale wholesale markets for agricultural products also falls into the off-limits category.

Foreign companies can carry out businesses in any sectors that are not included in the list and this offers more leeway for foreign participants, Dai Haibo, Deputy Director of the Zone Administrative Committee, said. Business types included in the list account for 17.8% of all the 1,069 detailed sectors in the national economy, he said. The list is a temporary version for 2013 and the zone regulators will update the list every one or two years to better facilitate testing of liberalization policies in the free trade zone. Tu Xinquan, Vice Director of the China Institute for WTO Studies of the University of International Business and Economics, said the introduction of a negative list was a major reform to the approval system. A registration system has been introduced for setting up an operation in areas not on the list, replacing the former approval system. It will simplify procedures and reduce processing time from 29 days to four. The registration system would also apply to Chinese enterprises in the zone seeking outbound investment, the Shanghai Daily reports.

Qianhai bypassed as firms head for Shanghai FTZ

While Hong Kong officials have been concerned about the impact of Shanghai's free trade zone (FTZ), it seems it is already stealing business from Qianhai. Financial industry sources said several domestic and global firms that had originally planned to set up shop in Qianhai – the smaller special economic zone only an hour's drive from Hong Kong – were seriously considering the 29 square kilometer free trade zone in Shanghai instead. China Taiping Life Insurance, and China Petroleum & Chemical Corp (Sinopec) are among the firms rethinking their options. “The Shanghai free trade zone has definitely attracted more attention than Qianhai from the financial industry mainly because people believe Shanghai gets far more high-level support and wider policy coverage than Qianhai,” said one source, who refused to be identified. “The impact of Shanghai will be felt in the whole of China or even the rest of the world, but Qianhai's impact will be limited to Hong Kong-related businesses.” About a year ago, Qianhai was named by the central bank as the testing ground for full yuan convertibility, but the Shanghai FTZ will also experiment with yuan-related reforms. Some analysts are also increasingly concerned that Hong Kong's leading role in the region's financial industry may be undercut.

Foreign firms interested in operating retirement homes

International retirement home operators are showing increasing interest in China but experts say it will take a while to find a successful business model. The country's ageing population is expected to reach 34% of the total by 2050, making this an attractive business segment. The central government's guidelines issued last month also indicate it is keen to encourage private capital in the sector. “The guidelines are still a little bit vague,” said Bromme Cole, who runs Hampton Hoerter and recently authored “Enter The Ageing Dragon” about China's senior housing sector. “We were particularly happy to see the State Council saying they plan to allocate land for senior care,” said Cole Wright, Managing Director of Merrill Gardens, a U.S.-based operator of retirement communities. It is building its first joint-venture senior housing project in Shanghai, due to open next year. International operators are working with Chinese developers but some of them are not interested in the senior housing business as such. Many developers, said Cole, are trying to sell faster by bundling units specified for seniors in regular development projects rather than building senior-only projects. Some Chinese developers, such as China Vanke, Greenland Group, and Fosun Group, are building senior housing projects to diversify their income sources because of the market potential and the policy risks in the private residential market. But Cole said not one business model has proven to be successful so far even though he has been approached by many foreign players interested in the sector. “It is always difficult to judge when to enter a market. Enter too early and you are forced to wait for demand; enter too late and you will have entrenched competition,” Wright said. Merrill Gardens targets China's high-end market, charging from CNY6,000 to CNY12,000 a month. Services include meals, housekeeping and nursing. Cole said he believes the senior housing market will eventually be dominated by Chinese insurance companies because they understand the market and are happy with lower profit margins but stable rental income, the South China Morning Post reports.

A study backed by the United Nations has placed China just outside the leading third of 91 nations on how well their elderly fare, although some Chinese academics argue the ranking is overly optimistic. In determining its ranking, the “Global Agewatch Index” looked at how the elderly fared in four general areas: income security, health status, education and social environment. Nordic nations, Germany and Canada dominated the top five, with China ranked 35^{th}.

- Turkey said it could still reconsider its decision to co-produce the FD-2000 missile defense system with China Precision Machinery Import and Export Corp (CPMIEC), a firm currently under U.S. sanctions for violations of the Iran, North Korea and Syria Non-proliferation Act. The United States has expressed “serious concerns” over Turkey’s decision. NATO sources said collaboration with China on the system could raise questions of compatibility of weaponry and of security. Turkish President Abdullah Gül said there was a short list and China is at the top of it.

FOREIGN TRADE

More Chinese firms turning to Hong Kong for arbitration

An increasing number of mainland firms have been coming to Hong Kong to seek arbitration for their commercial disputes, according to James Rogers, a litigation and dispute resolution lawyer with international law firm Norton Rose Fulbright. Lawyers expect the trend to continue, with most involving marine, construction and commercial disputes. Hong Kong is geographically close, culturally accessible, and there are a large number of international and local law firms with Chinese-speaking practitioners experienced in international arbitration. “It is much easier for witnesses and company executives who are based in China, or elsewhere in Asia, to travel to Hong Kong for arbitration hearings rather than to London or other traditional arbitration centers in Europe,” Rogers said. Under the New York Convention, to which Hong Kong is a party, an arbitration awarded there is valid in more than 140 countries, including mainland China. Rogers also believes that the Hong Kong legal system, which is based on English common law, is an advantage and attracts parties to the region. “Singapore offers similar advantages but, for Chinese companies in particular, Hong Kong is the place to be,” Rogers said. Steve Vickers, Chief Executive of political and corporate risk consultancy Steve Vickers and Associates, said his company has been increasingly involved in fact-finding exercises in support of arbitration hearings, adding that Hong Kong is attractive to parties to get an impartial hearing.” He warned however that in Hong Kong, arbitration can still be prohibitively expensive, the South China Morning Post reports.

- China has displaced the United Kingdom as the world’s fifth biggest arms supplier in the five years to last year, according to SIPRI. Chinese exports of conventional weapons increased 162% in the five years from 2008 to last year compared with the five years from 2003 to 2007. Sales to close ally Pakistan accounted for most of the sales but China is also expanding its deliveries to other markets, mostly in the developing world.

HEALTH

Chinese children familiar with cigarette brands

A study published in the journal of the Academy of American Pediatrics found that of all young children from six low and middle-income countries, Chinese children are most familiar with cigarette brands. Nearly 9 in 10 five- and six-year-old children in China can identify a cigarette logo. The study covered six nations – Brazil, India, Nigeria, Pakistan, Russia, as well as China – where adult smoking rates are the highest, according to the World Health Organization (WHO). In China, 86% of children could identify at least one cigarette brand logo, and on average, knew almost four out of eight of the brands.

- Swarms of hornets have killed 42 people in northwestern China in recent months, mainly in Ankang, Shaanxi province, as temperatures rise and development drives the insects into cities. The attacks started in July, with 1,640 people having been stung. Of those, 206 are being treated in hospital. The hornets are about three to four centimeters long and thousands can inhabit a single hive.

MACRO-ECONOMY

China's official PMI highest in 17 months

Chinese manufacturing activity strengthened in September to its highest level in 17 months, providing further evidence of a rebound in the economy. China’s official purchasing managers’ index (PMI) crept up to 51.1 last month from 51 in August, the National Bureau of Statistics (NBS) said. The September PMI is the highest since a reading of 53.3 in April last year and comes alongside other recent numbers that suggest the Chinese economy is picking up steam. Another key indicator – the PMI as measured by HSBC – rose to 50.2 last month, up from 50.1 in August and well up from an 11-month low of 47.7 in July. China's economy expanded 7.7% last year, its slowest pace in 13 years. Year-on-year growth continued at 7.7% in the first three months of this year before dropping to 7.5% in the April-June period.

China's non-manufacturing purchasing managers' index (PMI) rose to 55.4% in September from 53.9% for August. The non-manufacturing PMI covers sectors including service, construction, software, aviation, railways and real estate. The services sector, which has so far weathered the global slowdown much better than the industrial sector, is an increasingly important pillar of the economy. Services accounted for about 45% of the economy last year and were the biggest employer. The Markit/HSBC services PMI will be published on October 8.

- The Asian Development Bank (ADB) has further downscaled its growth forecast for China this year to 7.6% due to weak domestic demand. In April, it predicted the economy would grow at 8.2%, but in July it cut the forecast to 7.7%. In its latest report, the Manila-based lender estimates that China will grow at 7.4% next year. Hong Kong's economy would grow by 3.2% this year, it said, down from an earlier forecast of 3.5%.

MERGERS & ACQUISITIONS

Sany Heavy to acquire 10% of Palfinger

Sany Heavy Industry, China's largest listed construction machinery maker, plans to pay €108 million for 10% of Austrian firm Palfinger. The deal will also result in Palfinger investing €110 million for a 10% stake in Sany's two lifting machinery subsidiaries. Palfinger is one of the world's leading lifting machinery makers. The final contracts, to be drafted in a few weeks, will require the approval of Chinese regulatory authorities, Sany Heavy's Board and Palfinger's Supervisory Board. Sany Heavy is a Shanghai-listed subsidiary of Sany Group, China's biggest construction machinery conglomerate. It is controlled by Liang Wengen, who was listed by Forbes as China's richest man in 2011. Xiang Wenbo, President of Sany Heavy and Sany Group, said: "Together with Palfinger, we can develop the globalization of Sany." Hubert Palfinger, Deputy Chairman of the Supervisory Board of Palfinger, said: "We are happy to have a strong partner as the second largest shareholder." Vik Chopra, Sun Hung Kai Financial Analyst, said: "Cross-border deals like this allow Chinese companies to access world-class technologies and allow developed-market companies to gain a foothold in China." In the first half, Sany Heavy's overseas sales soared 66.5% to CNY5.44 billion, accounting for 24.6% of its total revenue. However, Sany Heavy's total revenue fell 30.5% to CNY22.08 billion, while net profit declined 48.6% to CNY2.65 billion. Last year, Sany and Palfinger established two 50-50 joint ventures; one in China and the other in Austria. In July, Sany Heavy paid USD54.9 million for the remaining 10% stake in German concrete pump maker Putzmeister, completing its acquisition of the whole of Putzmeister.

REAL ESTATE

Creation of Shanghai FTZ leads to 20% rise in property prices

Prices of property in areas surrounding the newly established free trade zone (FTZ) in Shanghai's Pudong New Area have soared by up to 20% in the past two months, triggering warnings of irrational exuberance among investors. "People may have become over-optimistic about the central government's policy towards the free trade zone," said David Hong at China Real Estate Information. The surge in prices was fueled by speculative investments driven by inflated expectations about the effect the zone might have on property values, said Hong. He said investors should be reminded that Premier Li Keqiang and other top officials were absent from the official launch of the zone on September 29, signaling it may not be at the top of Beijing's policy agenda. Since the proposal to create a free trade zone was announced in July, property prices in the surrounding area had risen by 15% to 20%, compared with a 10% rise in the overall Shanghai real estate market, said David Zhang, Research Director at Centaline China in Beijing. The sharp jump in prices was driven by speculative buying, said Zhang, and investors appeared to be unaware that the zone would not be built overnight and much policy details had yet to be provided. “Perhaps investors are banking on more than what might be delivered in the zone”, he said.

Resistance at local level stalls property database

China's plan for a property database has stalled amid resistance from local governments that illustrates the difficulty Beijing faces in driving through anti-graft reforms. The database is not only seen as vital for authorities to control the housing market, it would also force corrupt local officials to come clean about properties bought from ill-gotten gains. President Xi Jinping has called corruption a threat to the Communist Party's survival but, as the failure of the property database initiative to gain traction shows, top-down plans to root out graft can be stymied by entrenched interests at the local level. “There are various concerns over the possible consequences of the nationwide database, especially for some officials who have the power of affecting the process. They will delay such moves intentionally”, said Chen Guoqiang, Vice Chairman of China Real Estate Society. The database, which would enable users to see how many properties a person owns and details about the homes, has been in the works since 2010, the South China Morning Post reports.

- Chinese property prices grew at a faster rate in September than the previous month as the effect of price-control policies weakened. The average price of new homes in 100 cities rose 9.48% year-on-year to CNY10,554 per square meter, according to the China Index Academy. The rise was faster than the 8.61% year-on-year increase in August. Beijing saw the most dramatic price increase of 3.75% month-on-month, with the average cost of a new home hitting CNY30,497 per sq m.
- Crystal Palace in London, a huge Victorian exhibition center and once the largest glass structure in the world, will be brought back to life with a GBP500 million investment from Shanghai-based real estate firm Zhong Rong Group. Crystal Palace was designed by Sir Joseph Paxton for the 1851 Great Exhibition in London's Hyde Park. It was later moved to South London. A replica, true to the Victorian building’s size and scale, will be built on the same site. The building would be 500 meters long and 50 meters tall upon completion in 2018. London Mayor Boris Johnson attended the launch event last week.

RETAIL

China Resources to take over Tesco stores

British retailer Tesco is paying state-owned China Resources Enterprises USD558 million to take over its 134 Chinese stores and its shopping mall in China. In exchange, Tesco gets a 20% stake in a joint venture with China Resources that will operate the combined retailing businesses. The China business of Tesco suffered a pre-tax loss of GBP222 million in its most recent financial year. The year before, it lost GBP125 million. “This deal will move us more quickly to profitability in China”, said Tesco CEO Philip Clarke. Tesco has an option for an additional 5% five years after the deal is done. The joint venture will be the leading retailer in seven of China’s eight wealthiest and most populous provinces, Tesco said. Tesco, which entered China in 2004, has stores in 11 provincial areas, most of them in Shanghai, Tianjin and Liaoning province. The deal is expected to close in the first half of 2014, subject to regulatory and shareholder approval. China Resources said the deal would drive the “internationalization” of China’s retail industry. China Resources is the market leader in the country’s highly fragmented supermarket business, with a 3% share of a grocery market worth CNY3.8 trillion, according to Euromonitor International. Revenue at the combined business is expected to be nearly GBP10 billion a year. Tesco said it would also leave Japan and would refocus on its mainstay UK market.

150 shopping centers to open in 20 major cities

150 shopping malls will open in 20 major Chinese cities this year, each with an average gross floor area of 80,000 square meters, according to Jones Lang LaSalle. That compares with 80 new malls opened last year. The area devoted to malls in Beijing, Shanghai, Guangzhou and Shenzhen will rise by 40% by 2015, while space in 16 smaller cities may even double. Chengdu is perhaps the busiest Chinese city for the construction of shopping centers. According to statistics from Jones Lang LaSalle, some two million sq m of new malls will be

completed in the Sichuan capital this year, followed by Shenyang, the capital of Liaoning province, with about one million sq m, and Wuhan, in Hubei province, with 800,000 sq m. The sharp increase in the number of malls has led to oversupply problems and high vacancy rates in some centers. In first-tier cities, the competition in the mall industry is reaching unprecedented levels. In Beijing, about 45 large new malls are expected to open this year and next, with a total gross floor area of 5 million sq m.

- Hutchison Whampoa is planning to float its healthcare and beauty retail business Watsons in the next 12 to 18 months. The initial public offering (IPO) could raise between USD8 to USD10 billion. Hutchison is also undertaking a strategic review of its ParknShop supermarket business and has set an asking price of between USD3 to USD4 billion. Other retail operations also include electronics chain Fortress. Hutchison earned about 53% of its 2012 revenue from the retail sector.

SCIENCE & TECHNOLOGY

Hong Kong under pressure from mainland universities

Hong Kong is in danger of losing its standing as top choice for China 's brightest students. Vice Chancellor of the University of Science and Technology, Tony Chan said, as the likes of Peking University and Tsinghua University were working hard to raise their standards. “They have global ambition and great students. That's the long-term competition we're up against. We have to keep running to stay in place”, he said. His warning came ahead of the release of a new global ranking of universities by Times Higher Education. Peking University ranked at No 45, up one place, while Tsinghua came at No 50, up two places. The first Belgian university was KU Leuven at No 61. The editor of the rankings, Phil Baty, said one area that might affect Chinese universities was that they focused too much on research productivity, as research output had grown rapidly. Chinese scientists published 1.14 million research papers over the past 10 years, making it the world's No 2 in terms of volume. In 2010, China ranked No 4 in volume. However, research showed that Chinese research papers published in international journals were cited only 6.91 times on average, far below the world average of 10.69 times, an indication of a culture among Chinese academics of putting volume ahead of quality.

Chan said Hong Kong's universities cannot compete with the mainland on money or talent. He said Hong Kong must play to its unique strengths: free flow of information and a robust rule of law. In Hong Kong, “you can get any information. You can access Facebook, Google, Twitter or weibo. Everything is available,” he said. But he added that Hong Kong universities should collaborate better with businesses in research efforts. “I often envy our counterparts in Korea, because they have scholarships and labs sponsored by companies like Samsung and LG, and when their students graduate, they can get into these companies”, Chan said.

- New research of northern China volcanic rocks suggests dinosaurs developed feathers to survive in an environment with large ice sheets. Researchers found that continental ice sheets might have reached as far south as present-day Hebei province about 124 million years ago, early in the Cretaceous period. Their paper, published on Nature.com, supports a hypothesis that dinosaurs lived through climate change more volatile than previously thought.
- Professor Wu Kongming, Member of the Chinese Academy of Engineering (CAE), has expressed his support for growing genetically modified food. He said the country risked increasing grain shortages and a dangerous dependence on foreign food imports if it continued to shun GM food. China imports about 80 million tons of grains, such as soya beans, rice and wheat, each year, some of it genetically modified. To produce that amount of food domestically, the country would need 53 million more hectares of farmland, 44% more than there was now, Wu said. He added that the country was running out of time to switch to GM food production.
- Four Guangdong high schools are introducing textbooks from Taiwan to teach traditional Chinese culture. A pilot scheme at a handful of high schools in the city will see how well the imported textbooks fit in with local teaching of traditional Chinese studies, with a focus on the classics. It will also be the first time modern mainland schools study Confucian classics in a systematic manner.

STOCK MARKETS

Forgame shares soar on debut in Hong Kong

Shares of Forgame, China's largest developer of web games, soared by more than a third in their Hong Kong trading debut, underscoring investor optimism for technology companies. Forgame's offer generated strong interest from small investors and was priced near the top of the marketing range, raising about USD206 million. Investors who missed out on the shares chased the stock, sending its value up as much as 36.5%, compared with a 0.8% rise in the market's technology sub-index. They closed at HKD67.50, up 32.35%. The technology sub-index of Hong Kong-listed companies has surged 51% so far this year, compared with a 2.4% gain in the benchmark Hang Seng Index. Forgame's offer has been swamped by orders from small investors, with the retail portion generating demand more than 300 times the shares on offer. The institutional tranche of the initial public offering (IPO) was very significantly oversubscribed. The company plans to use about 60% of the IPO funds to buy game licenses and for take-overs of other game publishers and developers in China and abroad. A fifth of the proceeds will be used to expand its online and mobile game business, with the remainder used to open offices abroad and on working capital. The company is controlled by its five founders, with other top shareholders including private equity firm TA Associates and venture capital company Qiming Venture Partners.

TRAVEL

National Day: low-key celebrations, heavy traffic

The first National Day since President and Party General Secretary Xi Jinping assumed office was marked by relatively low-key public celebrations, but traffic was clogged as usual as two-thirds of a billion Chinese hit the road for the “golden week” holiday from October 1 till 7. Across the country, holiday events lacked of the pomp of recent years with government leaders going out of their way to reduce flower displays and other regalia in an effort to conform to Xi's anti-extravagance campaign. In Beijing's Tiananmen Square, an 18-meter-high floral display used silk petals left over from last year. Flower arrangements in and around the heart of the capital were also less elaborate and lush than usual. Tianjin used less than one-fifth of the flowers shown in previous years. Qingdao used many recyclable silk flowers and Zhengzhou had only 200,000 pots of flowers, one-tenth the number last year. Extravagant gala performances were also toned down this year. The Politburo spent the morning before National Day visiting Zhongguancun Science Park, known as China's Silicon Valley, for a study session, which state media said was the first to be held outside the leadership compound of Zhongnanhai.

During the seven-day holiday, about 700 million people were traveling, exerting extra pressure on the transport infrastructure. Severe traffic jams were reported in several regions. Managers of Jiuzhaigou national park apologized to more than 4,000 travelers who were left stranded for up to 10 hours and forced to walk several kilometers in the dark to catch buses out of the world-famous valley in Sichuan province. Nearly 1 million people visited Beijing’s top tourist sites on October 2, with 175,000 of them crowding into the Forbidden City. In Hangzhou, more than 1 million people filled the promenades around West Lake, a single-day record. Overall, there were 8.4 million tourists at China’s 125 most-visited tourist sites over the first two days of the National Day holiday week, up 19% from a year earlier. Revenue at these sites was up 27% year-on-year, reaching CNY437 million.

Ban on forced shopping raises tour prices

A new law that bans “forced shopping” has prompted sharp rises in prices for outbound tours, as tour guides – who formerly got commissions for bringing tourist groups to designated shops – need to be paid more. Before, they could get a lot of commission from shopping and optional activities. A five-day tour to South Korea organized by the China International Travel Service (CITS) a year ago cost CNY4,000, but this year the price is more than CNY7,000. Hong Kong and Thailand are among destinations that have seen the biggest price rises. As a result, sales of such tours have fallen, even during a peak period for holidays. According to the new law, agencies and tour guides are prohibited from arranging for tourists to visit specific shops, or organizing other activities that tourists have to pay for on top of the tour fee. Managers in the tour business said bookings were down this year. Dun Jidong, Sales Manager in the tourism department at Ctrip, China's leading online travel-service provider, said that the new law was a good opportunity for travel agencies to return to a more benign competitive environment. “In the past, we simply competed for low prices. Now, serious players in this industry should do something about innovating their products and services," he said. Official data showed that tourists made more than 80 million cross-border trips last year, up 15% from a year earlier, the South China Morning Post reports.

- The National Tourism Administration (NTA) issued a 64-page rulebook containing regulations forbidding Chinese tourists to behave in "uncivilized" ways while overseas. General guidelines include not spitting on the streets, not shouting in public areas, not forcing locals to help take pictures, not throwing rubbish and not picking their noses.
- China's new passenger aircraft, Comac C919, which will compete with the Airbus A320 and Boeing 737 family of aircraft, was scheduled for its first flight next year, but that has now been delayed until 2015. The delay means the C919 will arrive several years after the upgraded and re-engined A320neo and Boeing 737 Max enter the market. Comac has received commitments to buy 380 of the C919 aircraft, mostly from Chinese airlines and leasing companies.
- Macao's gambling revenue rose 21.4% year-on-year last month thanks to robust spending by affluent gamblers. September's revenue came in at MOP28.96 billion (Macao pataca). The government is trying to increase the number of visitors to Macao from 28 million last year with the aim to transform the former Portuguese colony into an international tourism destination. To help ease the visitor flows, Macao's government last month introduced "walking routes" to divert traffic from the city center, which houses 23 of Macao's 35 casinos.

VIP VISITS

President Xi visits Indonesia and Malaysia

President Xi Jinping of China and his Indonesian counterpart Susilo Bambang Yudhoyono agreed to improve cooperation in several areas, during Xi's visit to Indonesia. Xi became the first foreign leader to address Indonesia's parliament during the two-day trip. China will open a consulate on the resort island of Bali. The two countries also plan to strengthen defense and security cooperation. They signed a currency swap agreement worth USD16 billion for three years that could be utilized to support Indonesia's sliding rupiah in a crisis. Xi said a Chinese cultural center would be built in Jakarta, and that 1,000 Indonesian students would be offered scholarships to study in China. Trade between China and Indonesia stands at nearly USD33 billion this year, making China Indonesia's second-biggest trading partner, after Japan.

China and Malaysia agreed to elevate bilateral ties to a "comprehensive strategic partnership," aiming to boost military cooperation and nearly triple two-way trade to USD160 billion by 2017. They announced plans to boost trade in the next five years, through measures such as supporting industrial parks in each other's countries, explore joint investments, broaden the use of local currencies in trade and hope to work together on rail and university projects. China is Malaysia's largest trading partner, with two-way trade last year of USD57 billion. Trade between the countries, which rose at an average annual rate of 15.7% between 2002 and 2012, is set to hit USD70 billion by the end of this year.

- Beijing will showcase its renewed focus on Southeast Asia and push for more trade deals during two major summits in the region. President Xi Jinping is attending the Asia-Pacific Economic Cooperation (APEC) summit in Bali on October 7 and 8, and this week a high-level Chinese delegation led by Premier Li Keqiang will attend the East Asia Summit in Brunei before visiting Thailand and Vietnam. The visits are part of a broader effort by Beijing to bolster ties with its southern neighbors amid Washington's "pivot" towards the Asia-Pacific region.

ONE-LINE NEWS

- Ni Fake, former Vice Governor of Anhui province, was sacked in June, and his case has now been turned over to judicial authorities for prosecution. Ni was involved in a famous scandal in 1999 in which then Premier Zhu Rongji was fooled during a tour of the province to inspect rice storage facilities. Anhui officials had filled an empty storehouse in Nanling county with rice days before his arrival. Ni was county Party

Secretary at the time. Ni “used his official position to enrich others and to receive a massive amount of wealth directly or through relatives”, the Communist Party’s Central Commission for Discipline Inspection (CCDI) said.

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