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

NEWSLETTER | 17 DECEMBER 2013

The Chairman and the Board of Directors of the Flanders-China Chamber of Commerce wish the members and newsletter readers a Merry Christmas and a Happy New Year. The next weekly newsletter will be published on January 6, 2014.

One-line news

Advertisements Hainan Airlines, your direct link from Belgium to China

FCCC ACTIVITIES

Upcoming activities

- 3 February 2014 – Brussels: Meeting with the Ambassador of Belgium in China and Consuls-General.
- 13 February 2014 – Brussels: New Year Reception. Speakers: Bert De Graeve, Chairman Flanders-China Chamber of Commerce; Kris Peeters, Minister-President of the Flemish Government; Chinese Ambassador (tbc).

Details will follow.

ACTIVITIES

The Conference Board: "Managing China in Transition" – 22 January 2014 – Brussels

The Conference Board – in partnership with the Flanders-China Chamber of Commerce – is organizing a briefing on "Managing China in Transition" on 22 January 2014, 16:30~18:30 h., in Brussels.

Introduction by Mr. Bert De Graeve, Chairman of the Flanders-China Chamber of Commerce and CEO of Bekaert; briefing by Mr. David Hoffman, Vice President and Managing Director The Conference Board China Center for Economics and Business.

As China's economy "downshifts" – hard or soft – it makes good business sense for MNCs to test long-held assumptions regarding China's status as both a sourcing/production base and as a target market for consumer products and capital goods for Multinational Companies (MNCs). On both fronts, the confluence of structural adjustment, financial system risk, geopolitical dynamics, and potential policy changes stand to fundamentally reshape the China opportunity set for MNCs. More factors seem biased toward negative outcomes than positive at this juncture; but there is much hope that the new leadership will do the right things to put China back on the marketization path, and curtail run-away profiteering and sector domination by State-Owned Enterprises and National Champions, as promised by Premier Li Keqiang in his first official briefing. If so, MNCs will necessarily gain heightened prominence, and associated regulatory hospitality, in this next reform cycle, if and when it comes.

This briefing will take stock of economic trends and policy developments to provide a "reality check" on China's attractiveness as an end market and competitiveness as a production base. The session will illuminate a set of key considerations for setting realistic objectives for growth and profitability in China, near- to medium-term.

Proposed Agenda

1. Review of key structural issues shaping the economy, policy and business environment
2. Review of current top-issues: anti-corruption campaign, "Likenomics", and anti-foreign investor incidents
3. Update on the current economic and policy fronts – 3rd Plenum outcomes and the prospects for marketizing reforms
4. Prognostications about the near- and medium-term opportunity set and risks

Registration details will follow on the FCCC website: www.flanders-china.be.

PAST EVENTS

China Information Session: Getting access for funding – Friday, 13 December 2013 – Brussels

The Flanders-China Chamber of Commerce organized an information session focused on getting access to funding from the EU, Belgium and China. This session was organized in cooperation with Agoria, Flanders Investment & Trade and the EU SME Center in Beijing on

13 December in Brussels. The session focuses both on Flemish companies wishing to expand in China as on Chinese companies investing in Belgium. Following an introduction by Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce, speeches were given by Mr Stephen de Pretre, EU SME Center Expert, EU SME Center in Beijing; Mr Rik Daems, Senator, Chairman China-Belgium Investment Fund; Mr Yves Roekens, Expert Financial Support to Companies, Flanders Investment & Trade; Mr Luc Nouwen, Head Corporate Business Development Corporate Banking Network Services, KBC Bank; Mr Roals Borré, Business Manager, PMV; and Mr Bart Cauberghe, Partner, GIMV. The event was concluded by a question and answer session and a networking lunch in the presence of Chinese and Belgian banks.

EU-China Business Summit 2013 – 21 November 2013 – Great Hall of the People, Beijing

The ninth China-EU Business Summit was held in Beijing on November 21, attended by Chinese and European businesspeople. The Summit was organized by the European Union Chamber of Commerce in China and CCPIT, under the patronage of the European Commission and MofCom, and with the collaboration of EU-China Business Association – for which the Flanders-China Chamber of Commerce (FCCC) is in charge of the Secretariat General and was represented by Mrs Gwenn Sonck – and BUSINESSEUROPE.

Jiang Yafei, Vice President of Huawei Technologies, said: “China and the EU are important trading partners, but the full potential of two-way investment has yet to be realized. The two have a lot to gain in working together on technology. We hope China and the EU can improve the way they work together in areas such as mobile internet, cloud computing and big data.” Markus Borchert, President of Nokia Solutions and Networks in China, said China is moving away from its image as a country of low costs to a country known for its innovation. In the first 10 months of this year, the EU's direct investment in China's non-financial sectors was USD6.4 billion, an increase of 22.26% year-on-year, the Ministry of Commerce (MOFCOM) said. Between January and October, China's non-financial direct investment in the EU stood at USD3.04 billion, 92.4% higher than in the corresponding period last year. The EU is also an important source of China's technology imports. In the first nine months of this year, China imported USD10.78 billion in technology from the EU, the China Daily reports.

The 16^{th} China-EU leaders' meeting was also held in Beijing on November 21, including European Council President Herman Van Rompuy, European Commission President Jose Manuel Barroso and Chinese Premier Li Keqiang. China and the European Union announced a grand plan for cooperation until 2020 and started talks on an investment agreement, mapping out the blueprint for the key relationship in the coming years. They also vowed to discuss the feasibility of a free trade agreement (FTA) and set the target for the bilateral trade volume in 2020 at USD1 trillion, nearly doubling the USD546 billion recorded in 2012. Premier Li Keqiang said of the China-EU 2020 Strategic Agenda: “The plan is unprecedented in its breadth of content, ranging from aerospace and counter-piracy to urbanization and energy.” President Van Rompuy told reporters that the two sides have made “a substantial step forward by launching negotiations on an investment agreement, covering both investment protection and market access”.

China and the European Union should foster new growth areas in cooperation, President Xi Jinping told EU leaders as they met one day before the China-EU summit. Xi also called on the EU to offer more convenience to Chinese investors. The summit was the first between leaders of the two sides after China's leadership transition in March. Areas singled out by Xi for cooperation include urbanization, innovation, aeronautics and astronautics. The 16^{th} China-EU summit was held as the two sides celebrated the 10^{th} anniversary of the Comprehensive Strategic Partnership.

Urbanization Forum & EU-China Exhibition on urban development – 20~22 November 2013 – Beijing

In the framework of the China-EU Summit on November 21, the Urbanization Forum and the EU-China Exhibition on urban development were held in Beijing. About 800 participants attended the forum, among which 500 from the Chinese side and 300 from the EU, including representatives from the Chinese central government, local governments, businesses, experts and media, and from the EU side, officials from the European Commission, representatives from EU missions in China and the business community. Several sub-fora were also held.

During the forum, 12 cities from Euope signed cooperation agreements with their Chinese counterparts. The cities of Ghent and Weihai signed a cooperation agreement in the presence of Premier Li Keqiang, President Barroso and President Van Rompuy.

Doing business with China for SMEs – 7 November 2013 – Gent

The Flanders-China Chamber of Commerce (FCCC) and VOKA East Flanders organized the conference: “Doing business with China for SME’s” on 7 November at the Voka Box in Gent. During this event, highly experienced experts and business leaders shared their knowledge and expertise based on their achievements in China. The speakers included Mrs Sari Depreeuw, Senior Associate, Dewolf & Partners, Brussels Office and Mrs Ava Tu, Associate, De Wolf & Partners, Shanghai; Mrs. An Lettens, Tax Manager, Moore Stephens Verschelden; Mrs. Kristina Koehler, China Director, Klako Group; and Mr. Patrick Keereman, CEO, Managing Director Nuscience. The event was concluded by a Q&A session and a networking reception. Participants to the conference 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 was organized with the support of Flanders Investment & Trade.

PUBLICATIONS

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

See FCCC Members' Portraits on the FCCC website.

EXPAT CORNER

Motorcycle accident leads to deportation

An expat from the UK who knocked down a woman while riding a motorcycle without a license is to be deported after serving five days administrative detention for working without a permit, police in Beijing said. He was also fined CNY5,000. The foreigner had previously been given seven days of administrative detention and fined CNY1,500 for driving without a license and injuring the woman. It was previously thought the woman had thrown herself in front of the motorcycle to extort compensation. The father of the expat, who also was working in China without a work permit, will be put under administrative detention for 14 days and fined CNY10,000. Both will be deported.

Only one-fifth of expats enrolled in social security

China's effort to cover foreign workers in its social security net has received a lukewarm response, with authorities conceding that only a small portion of expats have joined the system. Two and half years after the enactment of China's Social Insurance Law, which extends the country's social security program to foreign workers, more than 200,000 expats have participated in various social insurance programs, said Hu Xiaoyi, Vice Minister of Human Resources and Social Security. About 20% of expats working in China had joined the country's social security programs covering basic pension, medical, unemployment, working injury and maternity benefits. “This is a small ratio,” Hu told China Daily. China has negotiated social security agreements with a dozen countries over the past three years to simplify the payment of social security contributions for foreigners in China and Chinese citizens working overseas. The latest deal was signed with Denmark last week. But unemployment insurance is next to useless for expats, because if they become unemployed, they lose their visas and rights to stay in China. Some expats also gave up claiming medical expenses as the procedure was too complicated. To draw a pension, expats would have to work longer than 15 years in China. Lu Quan, Associate Professor specializing in social insurance at Renmin University of China, said he believed expats lacked enthusiasm to join Chinese basic social insurance due to flaws in the system. Wang Huiyao, Director General of the Center for China and Globalization, a Beijing think tank, said China should introduce more incentives for expats. “Only a small number of foreigners can obtain a Chinese 'green card', so most expats worry that it is not necessary to pay for social insurance programs in China as it is hard for them to stay in China for long,” he said. “The government should consider giving credits for foreigners to gain a green card if they have paid the social insurance for a specified period of time," he said, as reported by the China Daily.

FINANCE

Many city commercial banks in danger of bankruptcy

Many of the 144 city commercial banks are in danger of bankruptcy as they become the biggest victims of a mounting local government debt problem, with local authorities struggling to repay debts estimated to total CNY20 trillion, Haitong International Securities Chief Economist Hu Yifan said. "Those banks usually have a high incentive to lend to the property market. On the management level, they are not as good as the Big Five. In the coming two to three years, mergers and acquisitions of such banks will be a big trend", she said. "China now has about 50 cities constructing railways and 18 airports under construction," Hu said, adding that the money borrowed to build them was "highly unlikely to be collected". To help local governments deleverage, the banking regulator could allow asset management firms to buy stakes in urban commercial banks, she said. Meanwhile, a property tax would be a "golden bullet" to help the deleveraging process, Hu said. The central government could allow the Guangzhou, Shenzhen and Hangzhou city governments to introduce trial property taxes early next year and then expand the program to more cities to boost local government revenue, she said. In the longer term, Beijing would allow local authorities to issue bonds directly, without the need for approval from the central government, the South China Morning Post reports.

Britain faces yuan inflows, warns Bank of Britain

Britain has more at stake than many other countries from a relaxation of Chinese capital controls and must be ready to cope with a tidal wave of yuan flows over the next decade, according to a Bank of England study. The paper suggests that China's external assets and liabilities could jump from less than 5% of gross domestic product (GDP) today to more than 30% by 2025. "If China does liberalise, few other events over the next decade are likely to have more impact," said John Hooley, the author of the paper entitled "Bringing down the Great Wall? Global implications of capital account liberalization in China". Britain's large and open financial system, combined with its fast-growing financial ties with China, meant it was likely to be particularly affected by the latter's expected further opening up to global financial markets. Potential benefits included faster growth and more liquid capital markets but there was the risk that asset prices could inflate too quickly, the paper said. "A rapid increase in liquidity from China could lead to absorption pressures in some asset markets in the short run, which could lead to a mispricing of risk with adverse consequences for financial stability," it said. The report warned that China would need to sequence its opening up to foreign financial markets with policies to curb excessive domestic credit growth. "The potential changes in both the magnitude and composition of capital flows would dramatically alter the financial landscape in China and globally," it concluded, as reported by the South China Morning Post.

- The Organization Department of the Chinese Communist Party has issued a circular threatening to punish local officials who raise public debt for useless infrastructure and development projects. The circular also vows to change the assessment system for local cadres to include indicators such as the level of local debt and environmental degradation, in addition to gross domestic product growth (GDP).
- Taiwan's first yuan debt offerings by four big Chinese banks have been snapped up. Bank of Communications, Bank of China, China Construction Bank and Agricultural Bank of China raised a combined CNY6.7 billion from the so-called Formosa bonds. The successful bond sales in Taiwan, which has CNY123 billion of yuan deposits, have whetted Chinese firms' appetite for more debt issuance on the island. Analysts said the size of Formosa bonds could top CNY60 billion in two to three years.
- A record CNY2.6 trillion of interest and principal on securities issued by Chinese non-financial companies must be repaid next year, 19% more than this year and the most since China International Capital Corp (CICC) began compiling the data in 2008. "The probability of default will get much higher in 2014 as maturing debt reaches a record," said Shi Lei, head of fixed-income research at Ping An Securities. Bond sales by Chinese companies are down 23% at CNY1.57 trillion since the end of June, compared with the first six months of the year.
- About 90% of bank assets are controlled by China's central and local governments. A

list of privately-owned banks has been submitted to the China Banking Regulatory Commission (CBRC) for approval, with the first batch likely to emerge as early as the end of this month. The Chinese government wants to open the highly concentrated sector wider to private investors. About 35 private companies are applying for bank licenses, with ten expected to get the nod in the next couple of months.

- HSBC Holdings will sell its 8% stake in the Bank of Shanghai to Spanish lender Banco Santander. The London-based bank said the stake, acquired for around USD63 million in 2001, was worth USD468 million at the end of September. The transaction is subject to regulatory approval, and is expected to close in the first half of 2014. HSBC will give priority to business development in China and its partnership with the Bank of Communications (BoCom) in which it has a 19% stake.
- Chinese banks lent more than expected in November due to higher corporate demand while the growth of the money supply slowed month-on-month as the central bank sought to control liquidity. New yuan loans totaled CNY624.6 billion last month, up CNY102.6 billion from a year earlier. November's total social financing rose by CNY105.3 billion from a year ago to CNY1.23 trillion, reversing an annual drop in October. M2 jumped 14.2% last month year-on-year.
- China's fiscal revenue, including income from the central and local governments, rose 15.9% from a year earlier to CNY912.5 billion last month, down from a 16.2% growth in October. The central government's fiscal revenue rose 16.7% year-on-year to CNY428.5 billion in November. In the first 11 months of this year, central government income rose 6.5% to CNY5.7 trillion, missing the official annual goal of 7% as tax receipts on imports fell, the Ministry of Finance said.
- Anbang Insurance has acquired a CNY13.6 billion stake in China Merchants Bank (CMB). The insurer bought 1.13 billion Merchants Bank shares at an average of CNY12.07 each, raising its stake to about 5%. Anbang also increased its stake in Gemdale Corp, a Shenzhen-based residential developer, to 5%.
- China's regulators need to relax rules on the use of funds raised in Hong Kong for the dim sum debt market to take off, bankers said, after a record syndicated loan was closed last week. China Longyuan Power Group, the nation's biggest wind project developer, completed syndication of a CNY1.7 billion three-year offshore facility, the largest of its type since Beijing eased Hong Kong yuan lending rules in 2010. "If there were relaxations in the repatriation policy, that would bolster yuan loan growth in Hong Kong," said Ngan Kim-man, Manager of cross-border and yuan business development at Hang Seng Bank.

FOREIGN TRADE

EFTA to increase Chinese SME compliance training

The Brussels-based European Foreign Trade Association (EFTA) announced a plan to triple the organization's resources in China in 2014 in order to offer more training to Chinese businesses, especially small and medium-sized enterprises (SMEs) to help them improve their compliance. "The move aims to expand their capability to catch up with the global market and better tap into future opportunities," said Jan Eggert, the organization's Director General. "We will offer specific training on improving compensation, working hours and safety," Eggert said, adding that the program aims to include workers as well as managers. The training budget is roughly €1 million. As one of Europe's top associations for trade policy and global supply chains, the EFTA unites more than 1,000 retailers, importers, brands and national associations to improve political and legal frameworks for trade. Of the association's members, Chinese companies have shown the highest growth in compliance, from 18% in 2008 to 62% in 2011. India still topped that compliance level, with about 75% of its companies living up to the requirements in 2011.

- China has increased its soybean imports from the U.S. China had bought 26 million metric tons of soybeans from the U.S. as of December 10 for the 2013-14 market year (September 2013 to August 2014). The orders were about 4.5 million tons higher than China's soybean imports from the U.S. for the entire 2012-13 market year, the U.S. Soybean Export Council said. Soybeans are widely used in China for cooking oil and animal feed. China's soybean imports rose by 11.2% to 58.4 million tons in 2012 from a year earlier, according to the General Administration of Customs. China's edible oil imports also rose 9% year-on-year to 5.98 million tons in the first three quarters of 2013. Each Chinese resident consumed an average of 18.5 kg of edible oil in 2012, compared with 11 kg in 2001.

- The Chinese government has suspended imports of shellfish from the U.S. West Coast after discovering that recent shipments of geoduck clams had high levels of arsenic and a toxin that causes paralytic shellfish poisoning. Clams, oysters and all other two-shelled bivalves harvested off Washington, Oregon, Alaska and northern California are affected. The U.S. exported USD68 million worth of geoduck clams last year, of which nearly 90% were going to China.

HEALTH

1,300 arrested in fake-medicine crackdown

More than 1,300 people nationwide have been detained on suspicion of making and selling fake medicine, and police have closed more than 140 websites and online pharmacies since late July, authorities said. A campaign against illegal drug production and sales led to the seizure of 300 million pills and 9 metric tons of fake-medicine ingredients worth a combined CNY2.2 billion, the Ministry of Public Security said. It carried out three raids in August, September and October, uncovering more than 400 groups. Online drug sales totaled CNY1.6 billion last year in China, almost four times the figure for 2011, said Yin Ning, Deputy Director of the China Food and Drug Administration (FDA). Only 101 websites have been certified to provide services for online drug transactions and information, while the others are illegal. Most of the fake medicine seized had been made by mixing starch or deteriorated drug materials with ingredients such as tranquilizers and hallucinogenic drugs, the use of which is a health hazard, authorities said. Prosecutions for producing or selling fake drugs or toxic food jumped to more than 8,000 last year, more than five times the number in 2011, according to a report by the country's top prosecutor in March.

- Shenzhen authorities say tests of samples carried out since two cases of H7N9 bird flu surfaced in Hong Kong have proved positive, after first saying they were negative. However, 46 people in Shenzhen who came into contact with Hong Kong's second H7N9 flu patient have tested negative. The Health and Family Planning Commission of Guangdong said the risk of bird flu spreading in the province was high and warned the public to stay alert. A 39-year-old Dongguan man is in critical condition after being diagnosed with H7N9 bird flu.

IPR PROTECTION

Six Chinese in U.S. charged with stealing patented seed corn

Six men from China, including the Chief Executive of Kings Nower Seed, a subsidiary of Beijing-based DBN Group, have been charged with conspiring to steal patented seed corn from two of the leading seed developers in the United States, U.S. prosecutors said. Court documents allege the men were observed taking corn from test fields containing highly valuable seed owned by Pioneer Hybrid and Monsanto, hiding it in a storage unit and eventually taking it to a farm in Illinois which the FBI said had been purchased by Kings Nower Seed in March last year. In August last year, the FBI attached listening and GPS tracking devices to a car rented by two of the men and recorded conversations about how they collected seed, what they would do with it, and what might happen if they were caught. As they prepared to fly from Chicago to China, U.S. Customs searched them and found corn seed in their luggage. In a second case, two agricultural scientists from China are accused of conspiring to take seeds from a research facility in Kansas and pass them to a Chinese delegation visiting the United States. They have been charged with conspiracy to steal trade secrets.

- Global patent filings grew at their fastest pace in almost two decades in 2012, with China the driving force, the UN World Intellectual Property Organization (WIPO) said in its annual patent report. Filings rose by 9.2% last year, representing the fastest growth in 18 years, reaching an estimated 2.35 million. For the first time, residents of China accounted for the largest number of patents filed throughout the world, hitting a total of 560,681. China’s share of the total was almost 28% in 2012. Residents of

Japan ranked next, with 480,000 filings, followed by U.S. residents with 460,000.

- Statistics from the State Intellectual Property Office (SIPO) show the number of Chinese invention patent applications and authorizations accounted for more than 30% of the total filings over the past three months, indicating a maturing patent structure. Tao Xinliang, IP Professor at Shanghai University, said Chinese companies and institutions are also improving the patent quality and suggested the government encourage companies to create more core proprietary technologies.
- An international seminar on how to determine the value of IP was recently held in Tianjin with more than 150 officials, entrepreneurs and scholars learning international approaches to evaluating intangible assets. Li Guangyu, Deputy Director of the State Intellectual Property Office (SIPO), said that IP as a strategic element in corporate survival has enormous economic value and rational measurement is important to the integration of technology and business.

MACRO-ECONOMY

CASS hopes for 7.8% GDP growth in 2014

The best scenario for the Chinese economy in 2014 would be to achieve 7.8% GDP growth. That could be obtained if all the recently proposed reform initiatives are carried out and the global market shows a more robust recovery, said the National Academy of Economic Strategy under the Chinese Academy of Social Sciences (CASS). But CASS economists warned that there is the danger of an even greater downward pressure on domestic growth in 2014, as new investment in public infrastructure is becoming less effective, overcapacity remains serious in a number of major industries, growth in consumer spending remains feeble and local government debt financing is approaching an alarming level. Economists attending the forum where the CASS report was released said China is most likely to see 7.5% GDP growth and a 3.5% rise in the consumer price index in 2014, maintaining its performance from this year. But they said they have long-term concerns for the economy's investment-dominated growth model, while a consumption-driven new model may still take some time to develop. They aired their concerns ahead of the annual Central Economic Work Conference (CEWC), which was held last week and discussed development targets for next year. The CASS report said that the government's efforts to stabilize economic growth are still focused on supporting fixed-asset investment, which was the key force driving the third quarter's GDP growth rate up to 7.8% from 7.5% in the second. “But the marginal effects of the policy are diminishing, and that will be the main factor hindering future development,” it said. The report predicted that the growth rate of China's total social fixed-asset investment may slow to 20.1% in 2014, down from an expected 20.3% this year. Consumption growth is also likely to be slower in 2014 amid weak market demand, and that may contribute less to GDP, Fan Jianping, Chief Economist at the State Information Center (SIC), said. Fredrik Erixon, Director of the European Center Of International Political Economy, said economic growth can accelerate a bit next year if China's pledge to fast-pedal economic reforms is implemented, the China Daily reports.

Stable economic policies and reforms promised for next year

China pledged to maintain stable economic policies next year to sustain growth while forging ahead with reforms as the annual Central Economic Work Conference (CEWC) ended in Beijing. The government will stick to a proactive fiscal policy and a prudent monetary policy in 2014 to maintain a balance between growth and reform, according to a statement issued after the four-day conference. “China’s economy is still under downward pressure and the country should keep its policies stable and flexible, paving the way for further reforms,” it said. “2014 will be the first year that China will implement the decisions of deepening reforms, and we should stick to the principle of seeking advancement amid stability, through accelerating economic restructuring, promoting innovation and improving people’s livelihoods.” Reform and innovation will be core areas of next year’s economic work and the country will push forward interest rate liberalization and exchange rate reform, the statement said. The pilot programs to replace turnover with value-added tax (VAT) will be continued. The annual conference, which used to last for two days, took four days this year, indicating that more items were discussed. More efforts will be made to limit local government debt, which has become a major threat to financial stability. Although the conference did not reveal a growth target for next year – this will come in March when Premier Li Keqiang delivers the government work report – some analysts said the target for gross domestic product (GDP) growth may be lowered to 7% from the current 7.5%, the Shanghai Daily reports. The China Daily adds that six major tasks were announced at the conference:

- China must seek absolute self-sufficiency in grain production and allow only moderate grain imports;
- Overcapacity in certain industrial sectors must be reduced;
- Local government debts must be controlled;
- An overall regional development strategy will be mapped out;
- Job opportunities must be created for college graduates and workers in sectors facing overcapacity;
- Free trade negotiations will be accelerated and outbound investment approval will be simplified.

A separate two-day meeting on urbanization was also held. At the end of 2012, the number of urban residents for the first time surpassed that of rural residents. Restrictions under the household registration system, or hukou, will be removed in small cities and townships and gradually eased in medium-sized cities to make it easier for migrant workers to win full urban resident status.

- China's inflation growth slowed for the first time in three months in November. Analysts say it still indicated mild inflationary pressures and market liquidity conditions will be kept tight. The Consumer Price Index (CPI) expanded 3% from a year earlier last month, the National Bureau of Statistics (NBS) said, slowing from an eight-month high of 3.2% in October. The Producer Price Index (PPI) contracted 1.4% last month, following a 1.5% drop in October. "The CPI inflation is likely to be around 3% in December, with the whole year inflation at 2.7%," said Zhou Hao, Economist at Australia & New Zealand Banking Group.
- China must work harder to correct increased economic imbalances as it enters a new stage of development featuring lower yet more sustainable growth, according to a report by the Chinese Academy of Social Sciences (CASS). In 2014, China will face uncertain demand and much structural adjustment brought by its systemic reform, but the economy will be generally stable, said the CASS's National Academy of Economic Strategy in its latest report.
- China's industrial production growth slowed in November to 10.0% from 10.3% in October, but retail sales expanded at a faster pace of 13.7% compared to 13.3% in October. The data for November came after strong export and benign inflation figures for the month as China's economy shows signs of strength after a slump in the first half of the year. "We expect the government to maintain neutral monetary and fiscal policies in the next couple of quarters while increasing efforts on drafting and carrying out structural reforms," Bank of America Merrill Lynch economists wrote.
- Hong Kong could suffer a brain drain amid greater regional competition for talent, with a survey finding nearly one-third of 225 professionals polled wanted to leave the city next year. The survey by accounting body CPA Australia also found that about half of these respondents' employers might relocate their businesses to places such as mainland China and Singapore. However, more than 20% of those with operations in mainland China said they were considering coming back to Hong Kong.
- Raising the retirement age in China should be made a priority, Hu Xiaoyi, Vice Minister of Human Resources and Social Security, said. The retirement age in China is 60 for men and 55 or 50 for women, according to regulations, some of which have been in effect since the 1950s. Back then, life expectancy was only around 40 years, so the rules made sense, Hu said. "Public health has greatly improved and life expectancy is now 74 years, and with the improvement of working conditions, the average intensity of labor is much lower now," Hu said. China's labor force is gradually decreasing in numbers, and the country is also seeing a fast aging process.
- The National Development and Reform Commission (NDRC) announced that the building of new facilities for the production of steel, aluminum, cement, plate glass and ships is strictly prohibited, as those sectors are facing overcapacity.

PETROCHEMICALS

Expansion of PX projects no longer need ministerial approval

The expansion of existing paraxylene (PX) plants will no longer require ministerial approval "to simplify procedures and improve efficiency". The policy change will leave final approval for PX plant expansions with local governments, who environmentalists have long complained prioritize growth over potential ecological impacts. Short-term exposure to PX can cause irritation to the eyes, nose and throat, according to the U.S. Centers for Disease Control and Prevention. Chronic exposure can affect the central nervous system and even cause death. Plans to build or expand PX facilities in Kunming, Ningbo and Xiamen have been scrapped following mass street protests. Authorities have attempted to ease public concern by telling people that the chemical is "no more harmful than coffee". If all planned PX projects were cancelled, the country would see the domestically produced share of the PX it consumes fall to less than 50%, from 63% now. A possible consequence of the change in approval requirements is a rush to expand existing facilities, said a source close to the Ministry of Environmental Protection (MEP).

- Crude oil futures will start trading as early as March in Shanghai's pilot free trade zone, the zone's administrative committee said. The Shanghai International Energy Trade Center, which was launched last month, will be the platform for the long-awaited crude oil futures trading. With a registered capital of CNY5 billion, the center is the largest financial company set up in the zone so far.

REAL ESTATE

"Houses with limited property rights" pose a real problem

"Houses with limited property rights" have become popular recently, leading to sharp price rises until the Ministry of Land and Resources and the Ministry of Housing and Urban-Rural Development issued an emergency notice. The concept of houses with limited property rights is a result of China's dual land-use system: urban land is owned by the state and rural land by collectives. While houses built on urban land with permits are salable, it is illegal to build houses on agricultural land. Houses built on rural land earmarked for construction can only be sold to local residents. But the rapid urbanization of China has led to apartment buildings being built and sold in rural areas. Since such buildings are built without official permission, professional designs and quality control, the sale and purchase of the apartments are illegal and people who buy them cannot get ownership certificates. Despite being illegal, it is estimated that more than 30% of all urban houses belong in this category. The existence of a huge number of houses with limited property rights has disturbed the market order. Developers who build such houses do not follow the government's construction plans or pay attention to quality control, and if the houses are sold, their unclear ownership could cause disputes and thus pose a threat to social order. Many people thought such houses would be "legalized" after the Third Plenary Session of the 18th Communist Party of China Central Committee in November announced that "collectively-owned rural business construction land" would enjoy the same status as urban land in the market. But the Plenum intended to make it easier for rural residents to get loans to use rural land to its full potential, which is is totally different from legalizing houses with limited property rights. Therefore, such houses will remain illegal even after the reform. Some houses have been demolished on orders from the authorities, leaving many people homeless.

- The value of new homes sold in China between January and November rose 31.1% year-on-year to CNY5.87 trillion, slower than the 32.6% growth in the first 10 months and a 34.5% gain in the first three quarters. Over the 11-month period, 988.71 million square meters of new homes were sold, up 21.3% from the same period a year ago. In November, 131.5 million sq m were sold for CNY720.4 billion. Home prices continued to climb for the 18th consecutive month in November. The average price of new homes in 100 cities rose 0.68% from October to CNY10,758 per sq m last month.
- The property sector attracted CNY7.74 trillion of investment in the first 11 months, up 19.5% year-on-year. The growth rate is 0.3 percentage point higher than that in the first 10 months. The value of homes sold in November rose 19% to CNY720.4 billion, the highest since December 2011. "Housing demand in China is still very strong. Raising the minimum down payment is not working effectively," said Dai Fang, Shanghai-based Property Analyst at Zheshang Securities Co.

RETAIL

Campaign against lavish spending hinders spirit brands

Amid a crackdown on lavish spending at official banquets, expensive wine and spirit brands such as Moutai have fallen out of favor. This year's Chinese Luxury Consumer Survey of individuals with personal wealth of more than CNY10 million, found that high-end baijiu brand Moutai had dropped out of the Top 10 preferred gift items by male millionaires. Silver Base Group, the biggest global distributor of Wuliangye and Moutai, recently posted interim losses of HKD771.4 million, a 335% jump year-on-year, amid slumping sales and prices. The firm announced it is adjusting its product mix by launching several low- to mid-tier ranges.

SCIENCE & TECHNOLOGY

Chang’e-3 probe lands on the moon, Yutu rover deployed

China successfully carried out the world’s first soft landing of a space probe on the moon in nearly four decades, the next stage in an ambitious space program that aims to eventually have a Chinese astronaut set foot on the moon. The unmanned Chang’e-3 lander, named after a mythical Chinese goddess of the moon, touched down at 9:11 pm on December 14. The lander carried the six-wheeled moon rover called “Yutu,” or “Jade Rabbit”. China is the third country to carry out a lunar soft landing after the United States and the former Soviet Union. The last one was by the Soviet Union in 1976. The lunar probe touched down on a 400-kilometer-wide plain known as Sinus Iridum, or The Bay of Rainbows. The rover was deployed from the landing craft about seven hours after the landing. It will spend about three months exploring the moon’s surface and looking for natural resources. The rover can climb slopes of up to 30 degrees and travel at 200 meters per hour, according to the Shanghai Aerospace Systems Engineering Research Institute. The soft landing comes a decade after the country first sent an astronaut into space, and ahead of plans to establish a permanent space station by 2020 and eventually send a human to the moon. President Xi Jinping and other leaders visited the Beijing Aerospace Control Center to congratulate the staff members.

Sino-Brazilian satellite fails to enter earth orbit

China failed to put into orbit a satellite jointly developed with Brazil, due to rocket malfunctions. The Ziyuan-1-03 (CBERS-3) remote sensing satellite was launched on a Long March-4B rocket from the Taiyuan Satellite Launch Center in Shanxi province, but malfunctions resulted in the satellite failing to enter its preset orbit. Experts from both countries are analyzing the cause of the malfunctions. The satellite was the fourth in the CBERS series. Ziyuan-1-03 was developed by the China Academy of Space Technology (CAST), and carried four instruments including a panchromatic imager and a wide-field imaging camera. The launch failure on December 9 was the first time the Long March-4B rocket encountered a setback, following 19 successful launches. “Though the launch failed, we should still be confident in China's rocket technologies and launch capabilities,” said Wang Ya'nan, Deputy Editor-in-Chief at Aerospace Knowledge magazine. “One failure doesn't mean anything. Our success rate is still higher than that of our rivals”, he added. The country's last launch failure took place in August 2011, when a Long March-2C rocket malfunctioned in flight. The incident led to the delayed launch of Tiangong-1, China's first space station module. Before the last failure, China had launched 36 rockets, which carried 42 satellites, for foreign clients, and provided several piggyback launch services to foreign clients. China aims to take 10% of the international satellite market and 15% of the global commercial launch field by the end of 2015, according to the China Aerospace Science and Technology Corp.

STOCK MARKETS

China Everbright Bank to launch Hong Kong IPO

China Everbright Bank will be the third Chinese lender in three months to raise funds in Hong Kong, following Huishang Bank and the Bank of Chongqing, which raised a combined USD1.92 billion. The banking unit of China Everbright Group is attempting to raise capital in Hong Kong for the third time after market conditions led it to abandon efforts last year and the year before. Trading is to start on December 20. The offering would be Hong Kong’s biggest since China Petroleum and Chemical Corp, Asia’s largest refiner, raised USD3.1 billion in February. China Everbright Bank received commitments worth USD1.74 billion from 19 cornerstone investors including China Shipping (Group) Co and Prudential Financial. It hired

China Everbright Securities, China International Capital Corp, Morgan Stanley and UBS for the offering. Other Chinese banks including the Bank of Shanghai and China Guangfa Bank plan to list in Hong Kong within the next 12 months.

Cinda Asset Management makes upbeat HK IPO debut

Shares in Chinese state-owned distressed asset manager Cinda Asset surged 22.9% on its Hong Kong trading debut on December 12. Cinda, which was set up in the late 1990s to deal with an estimated CNY1.4 trillion worth of non-performing bank assets, leaned heavily on strong cornerstone investors, pre-selling more than 40% of the USD2.5 billion.The first listing hopeful among the country's bad-loan managers secured USD1.1 billion worth of cornerstone investments from 10 institutional investors, including the world's biggest sovereign wealth fund Norges Bank's USD150 million and the world's largest distressed asset investor Oaktree Capital's USD53 million. It has also been well supported by both institutional and retail investors. Oaktree and Cinda also agreed to set up a USD1 billion joint-venture partnership with a focus on the growing debt in China. A consortium of minority investors in Happy Life, a loss-making subsidiary of China Cinda Asset Management, has petitioned for financial compensation a day before the trading debut of the bad-asset manager. In a letter of complaint to the Hong Kong stock exchange and the Securities and Futures Commission (SEC), they argued that Cinda failed to fulfill its original agreement to float the insurance firm. The minority investors of Happy Life had requested Cinda shares in exchange for their equity stakes in Happy Life after share issuances had diluted their holdings. The disgruntled investors include state-owned firms Chery Auto and China Travel Service Group, as well as a privately-held investment arm of Hong Kong-listed Dingyi Group Investment.

- Overseas funds investing in China's yuan-denominated shares gained 1.59% in average return in November, trailing that achieved by domestic funds. The funds managed under the Qualified Foreign Institutional Investor (QFII) program, a main channel for foreign investors to tap China's securities market, performed below the 1.98% return posted by the domestic equity funds last month, said research firm Lipper & Co, a subsidiary of Thomson Reuters. In the first 11 months of the year, the average return of QFII funds fell 1.04% while domestic peers rose 10.50%.
- The China Securities Regulatory Commission (CSRC) released draft regulations on preferred shares, with final rules to be issued next month. Under the draft, three types of listed companies can publicly issue preferred shares: Shanghai Stock Exchange 50 index components; companies planning to acquire other listed companies by issuing preferred shares; and companies buying back common stock that plan to decrease their registered capital by issuing preferred shares.
- Hong Kong's Securities and Futures Commission (SFC) is seeking a court order to freeze HKD1.97 billion worth of assets held by Qunxing Paper and its subsidiary Best Known Group, alleging the firm provided misleading information to the public, and force it to buy back shares from all its shareholders. Qunxing, chaired by Zhu Yuguo, makes decorative base paper used in the manufacture of furniture and wooden floors. Trading in Qunxing's shares has been suspended since March 2011 after KPMG said it found inconsistencies in audit in 2010.
- The Chinese government has decided to expand its over-the-counter (OTC) market to all qualified small and medium-sized enterprises. The China Securities Regulatory Commission (CSRC) will simplify listing procedures.

TRAVEL

Government announces 2014 holiday arrangements

Lunar New Year's Eve on January 30 is to be excluded from next year's national holidays, a major disappointment for many people as the eve of the Spring Festival is actually the most important time for family reunions. The 7-day Lunar New Year or Spring Festival holiday will start on January 31 with Sunday, January 26, and Saturday, February 8, designated as working days. January 1 is to be a day off to mark the beginning of 2014. The April 5 Qingming Festival is on a Saturday, and the following Monday will be an additional day off to make up a 3-day break. The Dragon Boat Festival (June 2) and Mid-Autumn Festival (September 8) are also 3-day breaks because both fall on a Monday. Following the 3-day May Day holiday, there will be six working days. The Sunday before and the Saturday after the National Day Holiday from October 1 to 7 will be working days. Excluding the attached weekends, there will be 11 official days of holiday through 2014.

- Changes to the busy Beijing-Kunming air route have increased the maximum number of planes that can travel between the two cities by 40%. The Civil Aviation Administration of China (CAAC) said the modified route, which separates north and southbound flight paths laterally instead of vertically, would cut air traffic congestion for 54 cities along the corridor, including Chongqing, Chengdu and Xian. The air route is one of the busiest in China, handling 1,100 flights daily.
- China has eased requirements for trainee pilots hoping to fly private aircraft, a move experts say will boost the general aviation sector. Changes have been made to the standards for theoretical exams, flight tests and physical condition that a flight student for private aircraft must meet before obtaining a certificate, the Civil Aviation Administration of China (CAAC) said. The biggest change made to the previous requirements is in the physical criteria an applicant must meet. The relaxation is expected to unlock a market with huge potential. At present, only 345 people in China have private pilot licenses.
- There will be more charter flights between the mainland and Taiwan during the coming Spring Festival holiday. Fan Liqing, Spokeswoman for the Taiwan Affairs Office of the State Council, said that there will be no cap on the total number of direct cross-Straits flights from January 17 to February 14, the Spring Festival travel period. A number of flight routes will be added in some cities. Between Taiwan and Shanghai's Pudong International Airport, airlines will add 210 flights, twice the number in the past Lunar New Year holiday. With the participation of two more airlines – Spring Airlines and Juneyao Airlines – the price of plane tickets between the mainland and Taiwan is likely to drop.

ONE-LINE NEWS

- Shanghai East Best International Group has acquired the total equity of Shanghai Lansheng Corp. Both companies are state-owned and were previously held by the Shanghai State-owned Assets Supervision and Administration Commission. Lansheng Corp and East Best Group realized business incomes of CNY1.33 billion and CNY68.4 billion in 2012, respectively.
- Chinese venture capital firm New Horizon is acquiring a 30% stake of Punch Powertrain, a manufacturer of transmission systems for vehicles based in Sint-Truiden, Belgium. Gimv, LRM, Capricorn and a few other shareholders are selling part of their stakes.
- Chinese Vice President Li Yuanchao attended the funeral of former South African President Nelson Mandela as a Special Representative of President Xi Jinping. Mandela visited China twice during his lifetime. The Chinese Foreign Ministry called Mandela an “old friend of the Chinese people”. China and South Africa established diplomatic relations in 1998.

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