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FLANDERS-CHINA CHAMBER OF COMMERCE
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NEWSLETTER | 28 JANUARI 2013

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FCCC ACTIVITIES

Invitation China 2.0: New opportunities for Belgian industry and meeting with the Belgian consuls-general in Shanghai, Guangzhou and Hong Kong – 30 January 2013, 17h00 – Antwerp

Delaware Consulting, De Wolf & Partners and Moore Stephens Verschelden, in collaboration with the Flanders-China Chamber of Commerce (FCCC) and the Benelux Chamber of Commerce in Shanghai (BenCham), are organizing a presentation and debate on "China 2.0: New opportunities for Belgian industry", followed by a networking reception attended by the consuls-general of Belgium in China. The event will take place on Wednesday, 30 January 2013 at 17h00 at Havenhuis, Entrepotkaai 1, 2000 Antwerp.

What will drive foreign business in China in 2013? The situation is changing, with a new leadership, new priorities and new rules, so come and listen directly to the people at the forefront of business in China and hear what the consuls-general of Belgium and some of the leading Belgian companies in China have to say about the fresh opportunities for Belgian industry there.

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

Programme:

17h00-17h30: Welcome & Registration

17h30-17h45: Introduction by Mr Philippe Snel, Chairman BenCham in Shanghai

As Shanghai Chairman of the Benelux Chamber of Commerce in China, Philippe Snel will describe the ever-shifting business context in China and explain how BenCham is helping Belgian companies. To this end, BenCham has launched a starter kit with practical insights and guidelines for doing business in China, based on the rich experiences of the other Benelux companies in China.

17h45-18h30: China 2.0 Panel Discussion

Wherever there are challenges, there are opportunities. What is China 2.0 and what does it mean to all of us?

A roundtable discussion with:

• Andries Verschelden, Partner and leader Global China Desk, Moore Stephens Verschelden China

• Cathy Buggenhout, Consul-General of Belgium in Shanghai

• Bert Van Genechten, Managing Director, Delaware Consulting China Shanghai-Suzhou

• Stefaan Vanhooren, President, Agfa Graphics, Member of the Executive Committee, Agfa-Gevaert Group

• Geert Roelens, CEO Beaulieu

18h30-18h35: Opening of the reception by Stefaan Vanhooren, Vice Chairman, Flanders-China Chamber of Commerce

18h35-20h00: Exchange of views and networking with the consuls-general

Reception in the presence of:

• Cathy Buggenhout, Consul-General of Belgium in Shanghai
• Johan D'Halleweyn, Consul-General of Belgium in Guangzhou
• Evert Maréchal, Consul-General of Belgium in Hong Kong

If you wish to attend, please subscribe through this link.

The participation fee for members of the FCCC is €55. The fee for non-members is €75.

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

The Flanders-China Chamber of Commerce (FCCC) is organizing a Chinese New Year reception on February 5, 2013 at 18 h. at the Flemish Parliament, Hertogsstraat 6, 1000 Brussels, with speeches by:

Mr Bert de Graeve, Chairman Flanders-China Chamber of Commerce

His Excellency Mr Liao Liqiang, Ambassador of the People's Republic of China in Belgium

Mr Kris Peeters, Minister President of the Flemish Government, Flemish Minister for Economy, Foreign Policy, Agriculture and Rural Policy

Members: €20
Non-Members: €45

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

Invitation to participate in the Sino-Belgian Survey 2013

How did Belgian companies perform in China in 2012?

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

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

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

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

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

OTHER ACTIVITIES

Deloitte Academy webcasts – 6 February 2013

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

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

- Experiences of the programme's introduction.
- Key issues in practice and steps businesses can take to manage them.
- Techniques and action plans for a smooth transition from a business taxpayer to a VAT

payer.

- Future developments – a look ahead at what may be next in VAT.

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

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

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MEMBERS' NEWS

Volvo to set up truck JV with Dongfeng Motor Co

Swedish truck manufacturer Volvo has signed an agreement with Dongfeng Motor Co (DFG) to set up a joint venture in which it will have a 45% stake. After the deal, Volvo will become the world's largest manufacturer of heavy-duty trucks. Dongfeng Commercial Vehicles (DFCV) will combine Dongfeng's know-how and strong position in China with the technical expertise and international experience of Volvo, according to Volvo CEO Olof Persson. The deal still needs approval from the Chinese authorities and anti-trust bodies. Volvo expects all procedures to be completed within one year. Volvo, which also manufactures trucks in Ghent, will pay €670 million for its stake. Volvo is already the world's third largest manufacturer of heavy-duty trucks. It sold 180,000 units in 2011. Dongfeng was the second largest in 2011, selling 186,000 heavy-duty trucks. About 142,000 of those were manufactured by the company which will become part of DFCV.

FINANCE

Plea deal for the founder of Xinhua Finance

Loretta Fredy Bush, the high-profile founder of China's Xinhua Finance, who was later indicted over an alleged USD50 million fraud, has agreed to a plea deal and appears poised to plead guilty to one count of conspiracy to impede the lawful functions of the U.S. Internal Revenue Service (IRS). Shelly Singhal and Dennis Pelino, two former Xinhua Directors who prosecutors say also were involved in the fraud scheme, have agreed to plea deals on the same IRS conspiracy charge. The pleas are expected to be entered in February, the Wall Street Journal reports. The accused were indicted in May 2011 on conspiracy and mail-fraud allegations that they orchestrated a series of undisclosed self-dealing transactions that netted them USD50 million. The conspiracy charge alleges that the three accused obstructed the IRS in efforts to determine whether USD3.5 million owed by Bush and Pelino amounted to forgiven debt and thus was taxable income. Charges of insider trading were dropped. Fredy Bush founded Xinhua Finance in 1999 and built a conglomerate that she touted as “China's premier financial information and media services company,” bolstered by an arrangement with a subsidiary of China's government-run Xinhua news agency. She started a Nasdaq-traded U.S. subsidiary, Xinhua Finance Media, and attracted prominent U.S. investors.

- Investors that lost money in a wealth management product sold by Huaxia Bank in Shanghai have recouped their principal amount from Zhongfa Investment Guarantee Co. Beijing-based Huaxia Bank blamed a former employee at a Shanghai branch for selling the high-yield wealth management product without permission, which involved a total of CNY100 million.
- Chinese Premier Wen Jiabao called on the central bank to push financial reform and use monetary policy to support the economy, during a visit to the headquarters of the People's Bank of China (PBOC). “Financial work is still facing a severe and complicated domestic and overseas environment,” Wen was quoted as saying. He called for more financial reforms, including the long-held goals of further liberalizing interest rates and making China’s yuan currency freely convertible, but gave no details of such moves.
- Bloomberg has dropped its lawsuit against Shanghai-based Da Zhi Hui Co after the latter made certain changes to its products’ monitors, keyboards and screen displays, thereby limiting the risk that consumers would confuse the two products. Bloomberg’s lawsuit, filed in December 2011, alleged that the designs of Da Zhi Hui’s terminals

were copied from Bloomberg machines. It sued Da Zhi Hui for unfair competition. The U.S. firm had demanded CNY6.6 million compensation and an apology from the Shanghai company.

- Liu Hao, Director of the China Development Bank's Hong Kong branch, has been moved back to Beijing after an internal probe into a loan deal for the USD9.4 billion bid by a Thai conglomerate for HSBC's holding in Ping An Insurance. His new job is equivalent in rank to the old one. Han Baoxing, who is a key player in offshore yuan-related matters at CDB, will replace Liu. The personnel change at the bank is still subject to approval from the China Banking Regulatory Commission (CBRC).
- Yuan transactions in the United States declined 38% last month from November, making 2012 a flat year for use of the currency, global transaction services organization Swift said. The U.S. represented 4.1% of yuan payments by value last month, compared with 6.6% in November (excluding mainland China and Hong Kong), Swift data showed. The yuan remains the world's 14th most widely used currency, with a market share of 0.57%, Swift said.
- Raine, a boutique merchant bank backed by some of the biggest names in Hollywood and Silicon Valley, has struck a deal with the China Media Capital (CMC) fund to work together on media, sport and entertainment acquisitions. CMC has a controlling stake in Star China, CMC’s joint venture with News Corp, and last year struck a deal to develop an animation production studio in Shanghai with DreamWorks Animation.
- Taiwan will follow Hong Kong and Singapore as an offshore yuan center by allowing local banks to conduct yuan business. Individuals can buy or sell CNY20,000 daily in notes or through accounts. They are allowed to transfer a maximum of CNY80,000 daily from Taiwan to China’s mainland.
- Citibank (China) Co said it had completed its first cross-border lending transaction in yuan. The bank said the transaction was conducted on behalf of a European food company, and was structured to optimize the company’s treasury activities by leveraging its China operation’s surplus cash. Financial details were not provided.
- China will start publishing regional data of total social financing (TSF), a homegrown indicator designed to measure overall liquidity in China’s real economy to further liberalize the country’s lending system. TSF sums up total fundraising by Chinese non-financial entities, including individuals and non-financial corporates, and has grown in importance as Beijing tries to diversify the financial system away from state-controlled policy lending.

FOREIGN INVESTMENT

China to invest abroad for food security

China must invest overseas to ensure its food security, said speakers at the recent Asian Financial Forum, including Fan Shenggen, Director General of the International Food Policy Research Institute. By 2020, China would need to import 100 million tons of grain each year, Fan said. Last year, it imported 3 million tons of rice, 3 million tons of wheat and 60 million tons of soya beans. China accounted for 60% of the world's trade in soya beans, said Frank Ning, Chairman of Cofco, China's largest food conglomerate. It also had a USD27 billion annual food deficit. China overtook the United States as the largest animal feed consumer in the world about 18 months ago, said Ismael Roig, Asia-Pacific President of Archer Daniels Midland, a U.S. food and commodities company. “China is facing exploding protein demand. The biggest shift in Chinese diet has been to protein. That has put enormous pressure on corn and soya beans. The most opportunities are in protein production,” Roig said. China’s rice imports jumped five-fold last year to 2.6 million tons, making it the world’s second largest buyer after Nigeria. While it might import a bit less this year, the country will still tap bumper global supplies to ease record-high domestic prices and top up stockpiles. “Domestic prices are high so there is motivation for trading companies to increase imports,” said an analyst with official think-tank China National Grain and Oils Information Center (CNGOIC). “Bumper rice harvests in most Asian countries will keep global rice prices far below domestic prices.” China’s rice prices rose last year for a third year in a row. China bought around 2 million tons of Vietnamese rice last year, a surge of more than six-fold from around 310,000 tons in 2011. The balance came from Pakistan. China’s rice imports have been in part driven by government stockpiling, the South China Morning Post reports.

FOREIGN TRADE

Iceland and Switzerland preparing FTA with China

Iceland and Switzerland are racing to become the first European countries to ink free trade agreements with China. China and Iceland are making efforts to finalize and sign the FTA in February or March. The talks started in 2005. The two sides still differ on a few minor issues that are not related to the bilateral FTA itself. Bilateral trade rose 21.1% year-on-year in 2012 to USD180 million. Chinese exports rose 24.6% year-on-year to USD95.39 million, and imports increased 17.7% to USD88.96 million. Negotiators from China and Switzerland have already finished the lion's share of the FTA draft with food and agriculture still being the thorny issues on which an agreement has not been reached. Switzerland is trying to protect the sector, as it is a net importer of agricultural products.

- China's diesel imports dropped 55% from a year earlier to 109,625 metric tons in December, the General Administration of Customs said. Exports rose five-fold to 362,400 tons. Liquefied natural gas (LNG) imports were at 1.83 million tons, up 21%, and coal imports, including lignite, rose 31% to 35.11 million tons.
- In 2012, trade between China and France dropped 2% year-on-year to USD51.02 billion, according to the General Administration of Customs. Chinese exports to France declined 10.3% year-on-year to USD26.9 billion, while imports from France rose 9.3% to USD24.12 billion. The French Ministry of Finance said that the country's trade deficit with China reached €27 billion in 2011.
- The foreign trade of the Tibet autonomous region topped USD3 billion last year, a year-on-year increase of 152.02%, ranking first in growth among China's provincial-level economies. A Spokesman for the Customs Office of the regional capital of Lhasa said exports took up 98% of Tibet's foreign trade.
- Shanghai expects to set up China's first free trade zone within its Waigaoqiao bonded area in the Pudong New Area as the city bids to become a global trade hub by 2020. Unlike a bonded area, a free trade zone offers businesses lower taxes, a more liberal currency exchange, and better efficiency due to less supervision.
- The European Union should not translate its economic difficulties into protectionist policies by looking for "unnecessary fights" with China as it slowly repairs its own economy. Such "bad trade policies or habits" would not be good for Europe in the short term and would also risk damaging the long-term relationship between two of the world's biggest traders, former EU Trade Commissioner Peter Mandelson told China Daily. The latest statistics showed China's trade with the EU slipped 3.7% year-on-year to USD546 billion in 2012. Sino-EU trade is not expected to see dramatic growth this year either.
- China says it will impose anti-dumping duties on two chemicals from the United States and the European Union for five years. The two chemicals, ethylene glycol monobutyl ether and diethylene glycol monobutyl ether, are widely used in applications such as metal cleansing, paint stripping, dry cleaning and printing. The Ministry of Commerce (MOFCOM) said it will impose a 10.6% duty on those chemicals manufactured by American companies Equistar Chemicals and Eastman Chemical Co, and a 14.1% duty on those made by Dow Chemical Co and all other U.S. companies. It said it will levy duties of 9.3% to 18.8% on the products from EU companies.

IPR PROTECTION

Number of copyright registrations on the rise

The National Copyright Administration announced on January 17 that the total number of copyright registrations in China last year surpassed 800,000. More than 680,000 were copyrights on works of art, an increase of 49% over 2011. More than half of the registrations were made in Beijing. Copyrights filed for proprietary software reached nearly 140,000, an increase of 27%, with about 2,000 of the software designs related to cloud computing technologies.

MACRO-ECONOMY

Shanghai's economic growth under national average

Shanghai's economy expanded 7.5% in 2012 compared to a year earlier but fell short of the city's target of around 8%. The growth rate slowed from 2011's 8.2% increase, and was slightly weaker than the nation's average of 7.8%. However, it was picking up, with 7% expansion in the first quarter of last year, 7.2% in first half and 7.4% in the first three quarters, the Shanghai Statistics Bureau said. The slower expansion rate compared to the national average was mainly due to weakening exports and the city's faster restructuring, Yan Jun, Chief Economist at the Bureau said. Thanks to the accelerating economic upgrading, the output of Shanghai's service industry accounted for 60% of its total gross domestic product (GDP) which totaled CNY2.01 trillion last year. The service sector expanded 10.6% year-on-year to CNY1.2 trillion in 2012, contributing 82.7% to last year's overall growth, led by a surge of 12.6% in the financial industry. The manufacturing sector gained 3.1% to CNY791.3 billion last year, and the agricultural sector edged up 0.5% to CNY12.8 billion. With only 0.06% of China's land, 1.8% of its population and 1.7% of its investment, Shanghai produced more than 4% of the nation's overall economic output, Yan said. Its aggregate output surpassed Hong Kong's in 2009 and Seoul's in 2011. Last year, Shanghai's industrial production increased 2.9% on an annual basis to CNY644.6 billion. Automobile manufacturing, one of Shanghai's six pillar industries, accelerated 7%, and biomedicine added 7.9%. But the production of fine steel and machinery equipment, another two pillar industries, both fell last year due to economic restructuring aimed at reducing high-energy consuming industries. Retail sales in the city rose 9% to CNY738.7 billion in 2012, slower than 2011's 12.3% jump. The value of e-commerce climbed 75.5%, offering hope of a strong growth point for the future. Fixed-asset investment increased 3.7% to CNY525.4 billion. Shanghai's trade lost 0.2% to USD436.7 billion last year, with exports slumping 1.4% but imports increasing 1%. The disposable income of urban residents in Shanghai grew 10.9% to CNY40,188 in 2012, the Shanghai Daily reports.

Beijing invests more in culture and scientific research

Beijing's gross regional product (GRP) reached CNY1.78 trillion in 2012, about 3.43% of China's GDP, up 7.7% compared with a year earlier, the slowest expansion in 13 years, the Beijing Municipal Bureau of Statistics said. "A slow economic growth in big cities such as Beijing, Shanghai and Guangzhou is normal amid land-cost increases, the departure of manufacturing and underdevelopment of their services sectors," said Ding Ningning, Researcher at the State Council's Development Research Center. He called for more attention to education, research and development to attain sustainable economic growth. Beijing had the highest GRP among 31 provincial-level regions, a report by the Chinese Academy of Sciences (CAS) said in July. The services sector saw output in 2012 increase 7.8% year-on-year to CNY1.36 trillion, about 76% of the city's total GRP, while output of industries increased 7.5% year-on-year to CNY406 billion, said Xing Zhihong, Deputy Director of the Survey Office of the National Bureau of Statistics in Beijing. Beijing's fixed assets investment went up 9.3% year-on-year in 2012 to CNY646 billion. The services sector received an investment of CNY560 billion, up 9.7%. Investments in culture, sports and recreation surged 77%, while investments in scientific research and technical services rose 44.6%. Beijing's business climate index reversed a five-quarter drop and reached 128.1 in the fourth quarter. Commercial housing sales surged 35% in 2012, in contrast to the successive drops in the previous two years, the China Daily reports.

China still top in manufacturing competitiveness

Despite rising labor costs and an aging population, China is still regarded as the top destination for manufacturing, and will retain this top spot over the next five years, according to an international survey by Deloitte Touche Tohmatsu and the United States Council on Competitiveness, based on interviews with more than 550 CEOs and senior leaders at manufacturing companies around the world. Germany and the U.S. came after China in terms of manufacturing competitiveness. China is also seen by CEOs as the only emerging economy offering the same supplier network advantages as developed economies. Some Chinese experts and exporters are more pessimistic about the future of the nation's manufacturing sector, citing rising wages, an aging labor force and a rising exchange rate. Zhou Shijian, Senior Trade Expert at Tsinghua University, said the top spot was an "overestimate", as Chinese manufacturers are losing their competitive advantage. The renminbi's appreciation against the U.S. dollar is particularly negative for Chinese products' competitiveness, Zhou added. Exporters in China's eastern provinces are suffering from a labor shortage, with factory owners often complaining about their high staff turnover rate.

Growth to be maintained after soft landing

China's economy is now recovering from a "soft landing", but the big challenge this year will be to prevent overheating while still promoting growth, Fan Gang, Director of China's National Economic Research Institute, told a session on China's growth prospects at the World Economic Forum (WEF) in Davos. Fan said growth could be supported by local governors' plans for infrastructure spending and new housing construction spurred by migration from rural areas to cities. The challenge will be, he said, to see how the central government and the banking system can work together to maintain growth while not allowing the added government spending to promote further heavy borrowing and overheating of investments. If that happens, Fan said, "I do believe that this year China can grow around 8% to 8.5%, and that will lay down a good foundation for the next couple of years". Fan said 2013 could also be the year to start a new round of financial, economic, regulatory and social reforms that the Chinese are all expecting. "The new leadership is now talking about reform and reform and reform, and restructuring, restructuring and restructuring," he said. The leaders are calling for recommendations, Fan said. He added that key reforms needed are in the central government's relationship with local governments and the markets, the monopoly of state companies and how to promote fair competition, and on social security issues including income distribution and redistribution, and taxation.

Qianhai zone near Shenzhen to focus on service industries

The 15 sq km Qianhai experimental zone near Shenzhen will not be expanded, as the pilot project will focus instead on modern service industries, Shenzhen Mayor Xu Qin said. As of last year, at least 302 enterprises had been approved to enter Qianhai, known as a Shenzhen-Hong Kong cooperative service industry zone, with a total registered capital of more than CNY37.2 billion. The Mayor also stressed that the function of Qianhai would not overlap with Hengqin in Zhuhai or Nansha in Guangzhou, because the Qianhai pilot project will focus on innovative financial business, electronic commerce logistics, scientific and technological research, and other specific service industries. Qianhai, Hengqin and Nansha are the three key projects supported by the central government to boost Guangdong economic development and cooperation with Hong Kong and Macao. Last month, newly elected Communist Party General Secretary Xi Jinping visited Qianhai and Hengqin during a southern tour that mirrored that of former paramount leader Deng Xiaoping, by following Deng's exact route through Shenzhen 20 years ago. While in Qianhai, Xi told local officials: "Please carry out reform boldly. The central government has granted you very special policies. Qianhai will be a place for the renewal of service industries." The Hong Kong Securities Professionals Association has agreed to cooperate with the authority administering Qianhai to help develop the area into the "Manhattan of the Pearl River Delta" by attracting Hong Kong and international financial firms to invest in Qianhai. The target for the zone's gross regional product is CNY150 billion by 2020. HSBC is among the 37 financial firms that signed non-binding agreements in July to pour investments worth more than CNY300 billion into Qianhai.

- China's fiscal revenue growth slowed sharply in 2012 due to slower economic growth and tax breaks, the Ministry of Finance said. National fiscal revenues rose 12.8% year-on-year to CNY11.7 trillion, with the growth rate dropping 12.2 percentage points from a year earlier. Of the total fiscal revenues, tax revenues hit CNY10.1 trillion, up 12.1% from a year earlier, but the growth rate fell 10.5 percentage points from the 2011 level. Corporate income tax revenue rose 17.2% annually to CNY2 trillion, while individual income tax revenues dropped 3.9% to CNY582 billion.
- Guangzhou officials have set an economic growth target of 10% this year, lower than last year's 10.5%, which was the lowest rate for 22 years. Delegates to the local People's Congress said the slower target rate reflected a shift in local government priorities towards economic quality and improving livelihoods. Guangzhou Mayor Chen Jianhua said the city will focus on industrial upgrading and will push what he called a new urban development model. Seven new metro lines, as well as two more runways at Baiyun International Airport, will start construction this year.
- Economic growth in China will be about 8.5% this year, with domestic demand being the driving force for expansion, a Bank of Communications (BoCom) report predicted. Exports will rise about 8.5% this year from 2012 and imports will climb 10%, the report

said. Domestic demand will continue to replace investment as the leading engine for economic growth.

- The cost of pork rose more than 10% in the past two months. All provinces, regions and municipalities saw rises, except Hainan. Shandong recorded the steepest rise with an 18.2% increase in pork prices. Shanxi, Liaoning, Henan, Hubei and Shaanxi saw increases of more than 15%.
- The preliminary HSBC China Manufacturing Purchasing Managers Index (PMI) rose to 51.9 in January, compared with a final reading of 51.5 in December. The preliminary January figure, a 24-month high, adds to recent signs of a rebound in the Chinese economy. The preliminary PMI figure, also called the HSBC Flash China PMI, is based on 85% to 90% of total responses to HSBC's PMI survey each month, and is issued about one week before the final PMI reading.
- Shanghai's urban residents earned the most among China's 21 provincial areas that have posted their income growth with an average disposable income of CNY40,188 last year. However, incomes rose more slowly than the national average increase of 12.6% and well below the country's fastest rising average income – the 13.5% rise recorded in Jiangxi province. Shanghai was the only city where people earned more than CNY40,000 on average last year. Beijing came second in the disposable income list with CNY36,469 and Zhejiang province was third with CNY34,550.
- Guangdong would double per capita incomes from 2010 levels by 2018, two years ahead of the national goal, provincial Governor Zhu Xiaodan told the opening session of the provincial People's Congress. The province was eyeing economic growth rates of 8% for the next five years. The Governor vowed to speed up the transformation of the province from the "world's factory" into a base for strategic and innovative industries. He said the province planned to invest CNY400 billion in 280 projects this year, and also highlighted the importance of driving domestic consumption through further urbanization.
- Of 18 regions to release their annual GDP figures so far, 16 have surpassed the national economic growth level, which slowed to 7.8%, the slowest since 1999. Tianjin led the nation with 13.8% year-on-year GDP growth. Guangdong province had the highest GDP at CNY5.7 trillion. The only two regions that delivered lower-than-average growth were Beijing, with a growth rate of 7.7% and Shanghai with 7.5%.
- Legislators in both Beijing and Tianjin have called upon governments to transfer some industries from the capital to the port city. Tianjin should better promote its proximity to Beijing to attract more companies and talent to move to Tianjin by offering favorable terms, a member of Tianjin's Municipal People's Congress said. He added that Tianjin's advantages include land prices, labor cost and logistical convenience as a port city.
- Industrial companies in China posted an annual 17.3% jump in combined profit to CNY895.2 billion in December, the National Bureau of Statistics (NBS) said. The December growth eased from November's 22.8% gain, which marked the fastest growth last year. For 2012, industrial profits rose 5.3% to CNY5.56 trillion. Of the 41 major industrial sectors, 29 reported rising profits in 2012.

MERGERS & ACQUISITIONS

China to encourage M&As in 9 industries

China will encourage mergers in nine industries which are facing large overcapacity risks. Car manufacturing will see 90% of China's vehicle production capacity coming under the control of its top 10 companies by 2015, which may lead to five giant auto groups, the Ministry of Industry and Information Technology (MIIT) announced. The other industries to be restructured before 2015 include cement, shipbuilding, rare earths, pharmaceuticals, electronic information, agriculture, and steel. "All the nine industries have one thing in common: their economies of scale are phenomenal, but their organizational structures are not reasonable," said Zhu Hongren, the Ministry's Chief Engineer. Zhu also said that the industries suffer from "redundant development, overcapacity and malicious competition." China's annual car production capacity is approaching 35 million units though the industry delivered under 20 million units last year amid cooling demand. For the already restructured steel industry, its 10 biggest mills account for only around half of the industry's total capacity. The new target is to let the top 10 mills control 60% of total capacity by 2015. Overcapacity has been identified as one of the biggest problems facing the sector and the reason why profit margins remain perilously thin. Total steel capacity now stands at 980 million metric tons – a surplus of nearly 300 million tons. Steel mills will not be permitted to build new capacity in 47 large cities, including Beijing, Shanghai, Tianjin and Chongqing.

PETROCHEMICALS

CNY12.8 billion to be invested in shale gas exploration

The successful bidders of China's second shale gas licensing auction plan to invest CNY12.8 billion to explore 19 blocks over the next three years, the Ministry of Land and Resources said. Two private-sector enterprises are among the 16 successful companies, as well as coal and power firms. The auction offered 20 sites which cover 20,002 square kilometers in Guizhou, Hunan and Jiangxi provinces. One block was removed after it failed to receive enough bids. Coal producer China Shenhua Energy Co is entering the sector to broaden its presence in the energy market and optimize its business model as an integrated energy company. China, which is believed to hold the world's largest reserves, has said it aims to produce 6.5 billion cubic meters of shale gas annually by 2015 and 60 billion to 100 billion cu m by 2020. It has yet to produce any shale gas commercially. Chinese shale gas is trapped in formations that are between 3,000 meters and 5,000 m deep, deeper than those in the United States, and the complex geological conditions could lead to higher drilling costs, Gordan Kwan, Mirae Asset Securities Analyst, warned. The first shale gas auction was held in 2011, the Shanghai Daily reports.

Pipeline from Myanmar to Yunnan prepared for service

Oil and natural gas could be flowing through pipelines from Myanmar to China by the end of May "if everything goes as planned", the China National Petroleum Corporation (CNPC) said, after Vice Foreign Minister Fu Ying's trip to Myanmar. The main parts of the pipelines in Myanmar were finished and those in Yunnan would be completed this month. The 1,100-kilometer pipeline, from the port of Kyaukpyu in Myanmar to Ruili city in Yunnan, could transport 22 million tons of oil and 12 billion cubic meters of natural gas a year. Oil will be shipped from the Middle East, while the gas will come from Myanmar's Shwe gas fields, in the Bay of Bengal. Analysts interpreted CNPC's statement as an indication that the USD2.5 billion project still faced uncertainties. Myanmar's decision to suspend a USD3.6 billion dam project that featured Chinese investment cast another shadow over Sino-Myanmese relations. Fan Hongwei, Expert on Myanmese affairs, said the imminent completion of the pipelines was an attempt by the two countries to show that bilateral ties were still on a normal track. But he added that Myanmar's opposition, which had complained that the project would damage the environment, might create obstacles.

Sinopec misses production targets

Sinopec, Asia's largest refiner, processed 1.81% more crude oil last year than in 2011, a pace roughly half an earlier target of 3.5%, the company said. Sinopec processed 221.31 million tons, or about 4.43 million barrels per day (BPD) of crude oil last year. Diesel production grew a meagre 0.29%, versus 9.3% in both gasoline and kerosene. Sinopec, which makes up about 47% of China's total crude throughput, said its domestic sales of refined oil products grew 5.2% last year to 159 million tons, slower than the previous year's 7.6%. Production of ethylene fell 4.47% in its first annual decline in years, though analysts expect the sector to turn around soon. "We believe China's petrochemical demand has bottomed and is set to rebound, judging by the recent improved [purchasing managers' index] and export growth headlines," Analyst Gordon Kwan at Mirae Asset Securities said. The company added its total crude oil output, including domestic and foreign production, was up 2.04% at 328.28 million barrels, or 899,400 BPD. Sinopec's foreign production is primarily in Angola. The company has said it will acquire from its parent company, Sinopec Group, more overseas assets, such as in Russia and Kazakhstan. Production of natural gas showed a relatively robust growth rate of 15.66% at 598 billion cubic feet, the South China Morning Post reports.

- China's imports of liquefied natural gas (LNG) in December surged to a record 1.83 million metric tons, 21% more than a year ago. LNG purchases rose as heating demand generated by colder weather boosted use of the fuel. In 2012, China imported a record 14.68 million tons of LNG, up 20.3% from 12.21 million tons a year earlier.

China buys the bulk of its LNG under multi-year contracts from Indonesia, Malaysia, Qatar and Australia. In December, China imported 1.54 million tons of natural gas by pipeline, a fall from November's 1.61 million tons.

- China has ordered a unit of Shenhua Group to suspend production at its coal-to-olefins plant in Inner Mongolia for violating environmental regulations and hit the firm with a CNY100,000 fine. The plant, which at 600,000 tons of polyethylene and polypropylene a year is the largest coal-to-olefins facility in China, will remain shut until the environmental ministry completes checks on the facility. China has three demonstration coal-to-olefins projects, with a total capacity of 1.56 million tons. Shenhua has another 500,000 ton per year project in Ningxia, while Datang International Power Generation has a 460,000 ton a year project.
- China produced 17.94 million tons of crude last month, up 5.6% from a year earlier, according to the China Federation of Logistics and Purchasing (CFLP), equivalent to 4.24 million barrels a day. Output totaled 207.5 million tons in 2012, up 1.9% from 2011. The country's crude processing rose to a record in December at 10.2 million barrels a day. Output at PetroChina Co's Changqing field will rise to 50 million tons this year from a record 45 million tons of oil and gas as of December 26, according to the China National Petroleum Corp (CNPC).
- PetroChina is interested in buying 60% in phase 1 of the West Qurna oilfield in Iraq from Exxon Mobil for USD50 billion. As one of the biggest oilfields in Iraq, West Qurna phase 1 has reserves of about 10 billion to 15 billion barrels, with a highest daily output of 1 million barrels. The China National Petroleum Corp (CNPC), parent company of PetroChina, has three oil projects in Iraq – the Al-Ahdab, Rumaila and Halfya oilfields, with an overall daily output of about 1.6 million barrels, accounting for about half of Iraq's total daily output. Half of Iraq's oil production is expected to eventually go to China.

REAL ESTATE

Officials sell properties ahead of anti-corruption crackdown

Second-hand residential property transactions increased by 360% in the first half of this month in Beijing, compared with the same period last year, according to the city's housing management commission. Some property agents have suggested that the recent crackdown on corrupt officials may be contributing to a rise in home sales. “More government cadres have been willing to sell their apartments in the past two months, and they want the deal completed as quickly as possible,” said a property manager in Beijing. The number of such transactions was even higher in Guangzhou and Shanghai. Tracing of property ownership could be part of an upcoming crackdown on corruption. The housing ministry has been working on a national database of home ownership. The database was meant to provide better information for deciding housing policies, but it has also drawn the attention of anti-graft officials as a tool to weed out corrupt cadres. Real estate is often a major choice for corrupt officials to hide illegal income. A senior urban-management official from Guangdong, now known as “Uncle House”, was sacked in October after investigators found that he and his family had acquired 22 homes on a meagre family income.

- Shanghai will levy a property tax at a preferential rate of 0.4% on homes priced at no more than CNY27,740 per square meter this year. Homes costing more per sq m get a standard rate of 0.6%. New homes in Shanghai were sold at an average CNY13,870 per sq m last year. 76.6% of homes sold, costing an average CNY10,782 per sq m on average, were located beyond the Outer Ring Road.
- China Vanke has made its first foray into Hong Kong's property market by acquiring a residential site on the Tsuen Wan waterfront in partnership with New World Development. It won the tender for the West Rail Tsuen Wan West station project at a cost of HKD3.43 billion, or HKD5,088 per buildable square foot. The winning bid was 10% to 27% above analysts' estimates. “It is a sign that the mainland's big property players have started implementing active strategies in Hong Kong,” Ringo Lam, Valuation Director at surveyors AG Wilkinson & Associates, said. Vanke Property (Hong Kong), a subsidiary of China Vanke, will take a 20% stake in the winning consortium, with the rest owned by New World.
- Lending to the property sector accelerated in the fourth quarter last year. Total new

yuan lending to the property sector, including for land and real estate development as well as mortgages, totaled CNY1.35 trillion last year, CNY89.7 billion more than in 2011, the People's Bank of China (PBOC) said. Outstanding loans to the property sector amounted to CNY12.11 trillion as of the end of last year, up 12.8% from 2011. Last year, the value of new home purchases jumped 10.9% from 2011 to CNY5.34 trillion.

- Zhou Weisi, a neighborhood community official in Shenzhen, accused of hoarding property worth CNY2 billion and bribery, has been turned over to prosecutors. A whistleblower claimed that the accused had more than 80 houses, villas, factories and mansions, as well as over 20 luxury cars and a high-end hotel, far more than the income of an official would support. The accused said his property was accumulated legally by his businesses.
- Blackstone Group has invested more than CNY3 billion in a 600,000 square meters parcel of land in Nantong, Jiangsu province, through a real estate fund owned by Blackstone. The latest move follows Blackstone's recent purchase of an office block in Shanghai, together with Ting Hsin International Group, for around CNY2.3 billion. Blackstone Group plans to start raising capital for an Asia real estate fund soon.

RETAIL

China's consumer spending one-third of U.S. by 2016

China's total consumer spending may grow by a compound rate of 15.2% over the next four years to reach USD4.3 trillion in 2016 among seven markets studied, including Mexico, India, Turkey, South Africa, the U.S. and Britain, according to a joint research report released by market research firm Mintel and the Economist Intelligence Unit (EIU). By 2016, China's consumer expenditure would account for a third of U.S. spending, up from about 22% now. "Sluggish economies in western countries have pushed China to shift its own economic development model to rely more on domestic consumption," said Steven Xu, Chief Representative of the Economist Group in China. Prepared food is expected to grow by an annual 20.9% on average as consumers gradually shift from commodity food as lifestyle changes.

- The Chinese government will lower bank card charges for businesses ranging from retailers to property developers in order to reduce their burden and boost consumption. The move will take effect on February 25 as part of government efforts to trim distribution costs and expand domestic demand, according to a statement by the National Development and Reform Commission (NDRC). The cuts will save Chinese businesses about CNY4 billion a year. Individual consumers will also benefit from the move, as high card charges are sometimes passed on to buyers in higher product prices.
- Japanese retail and financial services firm Aeon Group has opened the first MaxValu branded premium food supermarket in Guangzhou, Guangdong province. The opening means all of Aeon's three retail brands – Jusco, MaxValu and Aeon Mall – have a presence in the Chinese market. The new MaxValu store in Guangzhou has a floor area of 2,500 square meters with more than 15,000 products on display. The company said the second store will open in Suzhou, Jiangsu province, in late 2013.
- Chicken sold to KFC's parent Yum Brands in China contained excessive levels of chemicals, Xinhua reported, escalating a month-long food scare that has hit Yum's sales in its biggest market. The Shanghai municipal food safety committee said KFC's checks on its suppliers were lax, and that it found excessive levels of chemical residue in some of the fast food chain's supplies.

SCIENCE & TECHNOLOGY

Asians and Native Americans descended from ancient Chinese people

Present-day Asians and Native Americans are descended from a group of people who were already in China 40,000 years ago, according to an analysis of fossil DNA. It showed that the early modern humans in what is now Beijing had already diverged genetically from the ancestors of modern-day Europeans. The lead author of the research paper is Svante Paabo of the Max Planck Institute for Evolutionary Anthropology. "More analyses of additional early modern humans across Eurasia will further refine our understanding of when and how modern humans spread across Europe and Asia," he said.

- Medical researchers in Shanghai say they have discovered why certain types of disease-causing bacteria develop resistance to antibiotics, a development that could prolong the useful life of existing drugs without having to develop expensive replacements. The over-prescription of antibiotics is widely blamed for the emergence of drug-resistant bacteria worldwide, and China is one of the worst offenders – per capita consumption of the drugs was 138 grams a year in 2011, 10 times the global average.

STOCK MARKETS

Individual investors returning to the stock markets

117,600 new stock trading accounts were opened from January 14 to 18, a 13.4% rise on the previous week, bringing the total number of active trading accounts to more than 12.6 million, indicating increased interest from individual investors, who are buying again in fear of missing out on bargains. However, the performance of China's listed companies is still far from stellar. An examination by China Securities Journal earlier this month of the projected earnings released by China's 1,045 A-share listed companies revealed that 960 companies said their combined net profits are likely to range between CNY145.74 billion, representing a 13.78% decline year-on-year, and CNY174.53 billion, indicating only a slight rebound of 3.24%. The Ministry of Industry and Information Technology (MIIT) and 11 other government authorities announced plans to merge and restructure large enterprises, involving 900 listed companies, with a total market capitalization of CNY4 trillion.

- Shares of China Vanke rose their 10% daily limit after the developer announced plans to move trading of its foreign-currency shares to Hong Kong from Shenzhen. Converting B shares to H shares will make it easier for foreign investors to buy them and help raise Vanke's profile in the international market. No fundraising would be involved. Vanke's shares are expected to start trading in Hong Kong in April. The developer's main business would still focus on the mainland, where it has projects in 60 cities.
- Li Ning Co announced it would raise HKD1.87 billion by issuing convertible securities to revive the brand. The stock fell as investors found the company's makeover plan far more costly than they had anticipated. Li Ning, backed by Singapore sovereign fund GIC and U.S. private equity fund TPG Capital, plans to offer one convertible security for two shares, according to a filing with the Hong Kong stock exchange.

TRAVEL

China expands spending on railways

China massively accelerated its rail spending in December, enabling the nation to meet its ambitious target of CNY630 billion of capital expenditure on railways last year. Capital expenditure on railways was CNY124 billion in December, a huge increase from CNY81.8 billion in November, according to the Ministry of Railways (MOR). December's capital expenditure was 10 times larger than the CNY12.3 billion in January 2012, which saw a 69.6% year-on-year decline. Rail capital expenditure for the whole of last year rose 7% to CNY630.98 billion. Last year, the Ministry raised its capital expenditure target for 2012 three times from CNY516 billion to CNY630 billion. By the end of last year, China's high-speed-rail network reached 9,356 kilometers, the world's longest, while its total rail length was 98,000 km. "The Ministry of Railways is implementing an unprecedented program of high-speed-rail investment whose effects are only just beginning to be felt. Early evidence highlights wider economic benefits," a recent World Bank report said. The World Bank said China's high-speed railway was creating substantial economic benefits not captured in conventional cost-benefit analyses. While traditional cost-benefit analysis focuses on passenger time savings and cost savings, wider economic benefits include increased business activity facilitated by faster travel.

Annual Chinese New Year travel period starts

The annual Chinese New Year travel rush period started on January 26. This year Chinese New Year falls on February 10. Shanghai Railway Station said about 7.8 million rail journeys will be made during the 40-day rush period, a 10% rise compared to last year. The rail network's capacity would be increased to carry 225 million passengers, but could not meet the demand for tickets which was 10 times that, the government said. The largest flow of passengers will be on the roads. The Ministry of Transportation said more than 3.1 billion journeys would be made by bus, a 10% increase from last year. Airlines will also be busy. The government estimated a 5.2% increase in air travel, or about 35 million trips, during the holiday season.

- China will build three pilot civil aviation industrial zones to support the development of domestically-made passenger aircraft, the government announced. China has invested more than CNY10 billion to produce aircraft domestically, which includes the C919 jumbo passenger jet and the ARJ-21 regional airplane developed by the Commercial Aircraft Corp of China (CAC). All facets of the C919 production process will be done in China in a bid to reduce reliance on overseas firms.
- The number of direct flights between Taiwan and the mainland will rise more than 10% this year to 616 flights every week. It has been agreed to add 58 flights to the present 558 weekly flights, said Lee Wan-li, Deputy Director General of Taiwan's Civil Aeronautics Administration. The mainland will put eight more destinations on the map, including Lijiang in Yunnan, while Taiwan will add Chiayi city in the south.
- Many Chinese airports are relying on local government subsidies to stay afloat as 70% remain in deficit. About 134 smaller airports are finding it harder to stay afloat as their passenger volume hardly reached one million per year each. But Chen Xiaoning, Vice President of Guangdong Airport Management said: “An airport is a public facility and it means more than profit and loss. It's pointless to focus purely on profitability.” Three of the four airports supervised by Guangdong Airport Management are making losses. Baiyun Airport is the only one that is profitable. Under the 12th Five Year Plan to 2015, China will build 56 airports, relocate 16 and expand 91 at a cost of CNY425 billion.
- Tour packages to Japan, once popular during the Spring Festival holiday, remain largely unsold. The Japan National Tourism Organization said only 52,000 Chinese mainland visitors entered the country in November, a 43.6% year-on-year decline, with a sharp decrease in tour groups. Japanese tourism in China followed a similar trend. According to the China National Tourism Administration, 226,100 Japanese tourists visited China in November, down 31% year-on-year. Industry insiders say they see no sign of a quick recovery, even though the yen lost 10% of its value in the past three months, making Japanese visits cheaper for Chinese tourists. Military and political tensions in the South China Sea are also threatening the development of Asia's burgeoning cruise holiday market, shipping and travel experts say.
- Taiwan is to increase its quota for tourists from the mainland by 40% to allow 7,000 arrivals a day, in a bid to boost travel from the mainland. The Tourism Bureau said the daily quota for solo tourists was being doubled to 2,000, while 5,000 group tourists would be allowed in, up from 4,000. It expects the changes to come into effect in May. The mainland has replaced Japan to become Taiwan's biggest source of visitors, with 2.58 million arrivals last year.
- Dragonair is spending hundreds of millions of dollars revamping its business and economy class cabins as it expands its fleet, recruits extra cabin and flight crew, and adds new destinations. Chief Executive Patrick Yeung declined to specify how much the revamp is costing, but it would “definitely be much higher” than the HKD195 million program Dragonair launched in 2003 to upgrade its cabins. Dragonair's passenger fleet has almost doubled, from 21 aircraft in early 2003 to 38 at present. The airline carried a record 7.8 million passengers last year, while the passenger load factor rose more than 7%.
- A new luxury shopping “boulevard” selling high-end brands opened at Shanghai’s Hongqiao Airport. Most stores offer clothing and accessories. Brands like Shanghai Tang, which offers traditional Chinese clothing, and Bally, were among the first to open stores at the airport’s Terminal 2, with others such as Burberry and Salvatore Ferragamo opening by mid-year. The airport was ranked as an international four-star airport in a five-tier system last year, and also China’s best airport during 2011-2012 by Skytrax.

ONE-LINE NEWS

- Communist Party General Secretary Xi Jinping pledged to crack down on corruption among senior officials but also on low-ranking corrupt officials and enhance checks and balances on officials' power by “confining them in the cage” of a regulatory system. He told a plenary session of the Central Commission for Discipline Inspection (CCDI) in Beijing that in the war against graft, “we should persist in beating tigers in tandem with the flies”, solving bribe-taking issues which have plagued the general public in their daily life.
- Beijing has decided to reopen controversial plans to dam the Nu River (also known as the Salween river outside China) in Yunnan province – eight years after Premier Wen Jiabao suspended the plans out of environmental concerns. Some environmentalists were stunned by the plan's revival, which is part of an effort by the government to promote hydro-electricity as a cleaner alternative to coal.
- Japanese Prime Minister Shinzo Abe said that his administration would prepare for the resumption of top-level dialogue with China, after Beijing said it would consider the possibility of holding a leaders' summit to ease strains caused by the territorial dispute over the Diaoyu islands. Still, analysts didn’t expect a meeting between Abe and Communist Party General Secretary Xi Jinping would be held any time soon.

QUOTES OF THE WEEK

“My advice has always been clear to my successors in Brussels: Don’t take action which is going to damage the relationship in the long term. Don’t change the emphasis from being open to being protectionist. Don’t start looking for unnecessary fights with China. Because growing that relationship between China and Europe is really important for both of us in the long term. So don’t do anything in the short term that you will regret because it risks damaging the long-term relationship.”

Former EU Trade Commissioner Peter Mandelson, quoted in the China Daily, January 26, 2013.

ANNOUNCEMENTS

InterChina: Overcoming regulatory barriers in China

InterChina has published an article “Dancing with Shackles On, practical strategies for overcoming regulatory barriers in China”.

Nearly all international companies agree that acquisition of a Chinese company is an effective way to grow faster in China. Some companies, however, give up too easily because they believe that the odds, protectionism, and resistance from authorities are insurmountable. Despite the grumbling often heard about the difficulties of completing deals in the current regulatory environment, InterChina believes that a practical approach can still lead to successful transactions. In recent years, many companies have completed acquisitions in “restricted” industries in China that were not previously deemed possible. In this article, InterChina puts forth many practical insights on how foreign investors can overcome regulatory hurdles in creative and legitimate ways. Three strategies have proven to be especially effective over the past few years.

Download the entire article.

Klako Group: Case study on incorporating a Hong Kong company

Klako Group is presenting two case studies on incorporating a Hong Kong company.

Case Study 1: A Hong Kong Company to optimize sourcing activities in China
When a Canadian importer of consumer goods was being urged by large retail clients to offer FOB Asia prices in addition to ex-warehouse delivery, the company's management contacted Klako Group to evaluate set up options in Hong Kong or China. After analyzing the client's specific requirements, Klako group's consultants presented a customized and cost-effective outsourcing solution for their Hong Kong trading company. In order to save rental expenses, the client is using Klako Group's office address as their Registered Office.

Case Study 2: Hong Kong Company – Outsourcing Solutions for Accounting, Tax & Payroll
When a large German retailer decided to set up a buying office in Hong Kong, their Asia-Pacific Manager contacted Klako Group for advice on how to keep the organization lean and the expenses low. The client's primary concern was that their buying office staff should not spend time on administrative functions, but focus exclusively on merchandising and order follow-up. In order to ensure efficiency, the Asia-Pacific Manager decided to utilize Klako Group's outsourcing services for all administrative functions of the buying office.

Read more in Klako Magazine.

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