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

NEWSLETTER | 12 MARCH 2012

FCCC ACTIVITIES

Sino-Belgian Business Survey: Results & panel Discussion, 15 March 2012, 20h00, Living Tomorrow, Vilvoorde

The Chinese economy outperformed most economies with its 9% growth last year. But how well did our Belgian companies perform in China? What are the greatest opportunities and threats that lie ahead of us? Through the results of 15 simple yet crucial questions we took the temperature of the Sino-Belgian business conditions.

The results of the survey will be shared with you through a panel discussion with a number of Sino-Belgian industry leaders. These panel members already confirmed their presence:
Herman Van de Velde, CEO Van de Velde
Dirk Vyncke, Chairman Vyncke Clean Energy Technology
Ivan Van de Cloot, Chief Economist Itinera Institute
Geert Defieuw, Director Intellectual Property & Education Umicore

This event is organized by Moore Stephens Verschelden, the Flanders-China Chamber of Commerce and Flanders Investment & Trade.

Programme:
19:30 - 20:00 Welcome and registration
20:00 - 20:45 Presentation results of the survey and panel discussion
20:45 - 21:00 Q & A
21:00 - 22:00 Networking reception

This meeting will take place at Living Tomorrow, Indringingweg 1, 1800 Vilvoorde. Register by sending an e-mail to info@flanders-china.be before 12 March 2012. After subscribing you will receive a confirmation by e-mail. Participation fee for FCCC members: €30, non-members: €45.

Unlocking the Middle Kingdom: The keys to success in China's developing tax landscape, 15h00, 3 April 2012, Gent

The opportunities for growth through investment in China are an increasingly important focus for businesses in today's global economic environment. China's tax legislation is, however, developing apace and big strides are being taken to modernize the tax system. How can your organization make sure that it adapts quickly to the challenges and opportunities offered in this changing tax environment?

Simon Tan, Tax Partner Deloitte and **Coen Ysebaert**, Tax Partner Deloitte & Chinese Services Group Leader will present a practical insight into:

- Managing China tax risks
- Availability of tax incentives
- Challenges for cash repatriation and treaty benefit applications
- Permanent establishment risk management
- Typical investment and financing structures
- Latest updates on indirect share transfers
- Opportunities for managing ETR
- China VAT reform and the Shanghai Pilot Programme

This meeting will take place on Tuesday, 3 April 2012 at 15h00 at the House of the Province of East Flanders, Seminariestraat 2, 9000 Ghent.

Registration online at the Flanders-China Chamber of Commerce website before 28 March 2012. Participation fee for FCCC members: €55, non-members: €85.

Hannover Messe 23-27 April: Partner Country China, exciting opportunities for FCCC members

The Flanders-China Chamber of Commerce, through its membership of the EU China Business Association, is offering an exclusive opportunity to participate in Hannover Messe from 23-27 April.

Hannover Messe is a leading global trade fair embracing the whole spectrum of technological and engineering expertise from around the world. China is the Partner Country this year – hence our involvement.

FCCC members can benefit from a range of first-class opportunities as a co-exhibitor on the joint DCW-EUCBA stand 'Doing Business with China' to high-profile sponsorship and speaking opportunities in a number of China-related events, including “Invest in China” and “EU-China Business & Technology Forum”. An opportunity is available to sponsor the overall programme and gain even higher profile. Please contact DCW (see flyer) to explore this.

Click HERE for the flyer and complete information, including registration and contact details. Please note all enquiries should be sent directly to DCW. The deadline for registrations to attend this event has now been extended to 14 March 2012.

Annual Flanders-China Job Fair, 26 April 2012, Leuven

The Flanders-China Chamber of Commerce (FCCC) and Group T-International University College Leuven are organizing the Annual Flanders-China Job Fair at Vesalius Campus (Andreas Vesaliusstraat 13, 3000 Leuven) on Thursday, April 26, 2012 from 13:00 to 18:00.

This job fair is a unique opportunity to present your company to Group T's Chinese and other international students, to its alumni, and to young Chinese professionals.

During the job fair you will be able to meet students from the following programs:

- Bachelors of Science in Engineering: Electromechanical Engineering, Electronics Engineering, Chemical Engineering
- Masters of Science in Engineering: Electromechanical Engineering, Electronics Engineering, Chemical Engineering, Biochemical Engineering
- Postgraduates: International Postgraduate Program in Enterprising, International Postgraduate Program in Logistics Management

The Flanders-China Job Fair also gives you the opportunity to offer these students and alumni internships, company projects, and longer-term learning tracks in your company.

Program

13:00 Registration
Setting up of stalls
14:00 Official opening of the fair by:
H.E. Liao Liqiang, Ambassador of the People's Republic of China to Belgium
Prof. Dr. Johan De Graeve, President and Chief Executive of Group T
Ms. Gwenn Sonck, Executive Director of FCCC.
14:15 Job fair, one-on-one meetings with students and alumni
17:00 Networking drink
18:00 End

Companies are welcome to publish their profile, job openings, and projects online and will also receive online access to the students' CVs.

The registration fee is €300 for members, €475 for non-members. Read more and register online (till April 19, 2012) at www.flanders-china.be.

During the month of April, the Flanders-China Chamber of Commerce organizes similar job fairs in collaboration with Ghent University.

FCCC Industrial fact-finding trip to Shandong province (21-24 May 2012)

Many Flemish companies in China are continuing to focus on a small number of large, well-known cities, like Beijing, Guangzhou, Shanghai and Shenzhen. However, numerous member companies are encountering mature, increasingly saturated markets with limited growth opportunities in these locations and finding themselves facing mounting competition, both from foreign rivals and from increasingly sophisticated Chinese companies.

The FCCC's 's strategy is to give our members a better insight into business opportunities in second- and third-tier cities.

The FCCC has a strong network in China thanks to partnerships and investments by our founding members in several cities.

We would like to organize an industrial fact-finding trip to Shandong province with a limited group of companies, to become better acquainted with the area and meet potential partners and senior officials. The mission will start from Beijing and take in the cities of Jinan, Qingdao and Weihai.
Shandong is China's third most populous province and also has the third-highest GDP. It offers attractive opportunities for business in the following sectors: food and agriculture, infrastructure, energy, minerals and chemicals, renewables and the environment, advanced engineering, professional services, retail and consumer goods. In short, all major industries are represented in Shandong, and its broad range of industrial and commercial activity offers great potential prospects for Flemish businesses in many sectors.

During the visit, participants will gain a clearer picture of the trade- and investment-related advantages of Shandong's various cities and development zones. Furthermore they will be given access to senior Chinese officials and meet European entrepreneurs who have already invested in these areas and potential Chinese business associates.

The dates for the visit to Shandong province are **21 to 24 May 2012**.

Please send us any comments you may have and **let us know by 15 March 2012** whether or not your company would be interested in taking part in this focused industrial fact-finding mission, by sending an e-mail to gwenn.sonck@flanders-china.be. We will send you the programme and a subscription form as soon as we have evaluated the interest in such a visit. Please do not hesitate to contact us if you require more information.

FCCC NOTICE

Flanders-China Chamber of Commerce change of address

As from March 1, 2012, the Flanders-China Chamber of Commerce temporarily moved its

offices to Voldersstraat 5, 9000 Gent. Our new telephone numbers are:
T : +32 9 264 84 86/82
F : +32 9 264 69 93

This change takes place In the framework of the China-platform, which is a cooperation between Ghent University, the Province of East Flanders and the Flanders-China Chamber of Commerce. Both are also structural partners of the FCCC.

PAST EVENTS

China Information Session: Assignments from China to Belgium and vice versa: Update on immigration and social security aspects, Tuesday 21 February 2012, Antwerp

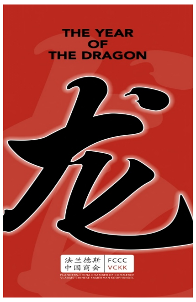
The Flanders-China Chamber of Commerce organized, in cooperation with Deloitte and the Port of Antwerp, an information session on the aspects of immigration and social legislation. The focus was on the posting of Chinese nationals to Belgium and vice versa.

Mr Erwin Vandervelde, and Mr Matthias Lommers, who are Partner and Senior Manager at Deloitte, gave us an update on the important international mobility issues for Chinese and European nationals.

The meeting was concluded with a question and answer session and a networking reception in the Museum aan de Stroom (MAS). More than 50 participants attended this interesting event.

Pictures of the event are online at the FCCC website.

FCCC Chinese New Year reception, 16 February 2012, KBC Bank, Brussels



The Flanders-China Chamber of Commerce organized a successful New Year’s reception on 16 February 2012 at KBC Bank in Brussels, attended by 300 participants.

Speeches were made by:

Mr Bert de Graeve, Chairman of the Flanders-China Chamber of Commerce (FCCC)

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

Mr Didier Reynders, Vice Prime Minister and Minister of Foreign Affairs, Foreign Trade and European Affairs

Pictures of the reception can be viewed at the FCCC website (Activities - Pictures).

Meeting with Chinese delegation: “Leadership in Low-carbon Growth”, 16 February 2012, Antwerp

The Flanders-China Chamber of Commerce and the Flanders Cleantech Association organized a meeting with a delegation led by a group of Chinese mayors of second and third-tier cities in China. The Chinese mayors were from the following cities: Lanzhou (Gansu province), Guiyang (Guizhou province), Zhuhai (Guangdong province), Inner Mongolia Autonomous Region.

The visit was organized in the framework of an exchange programme of The Climate Group, which is an organization based in the UK with offices worldwide, including Beijing and focusing on climate change and low carbon area. The aim of their visit was to facilitate the dialogue, trade and investment between Chinese cities and Europe on cleantech and environmental technologies.

The participants were welcomed Mrs Gwenn Sonck, Executive Director of the Flanders-China Chamber of Commerce. This welcome was followed by an introduction by Mr Dirk Fransaer, Managing Director of VITO. Mrs An Vandeputte, Project Manager of OVAM/Public Waste Agency of Flanders gave an interesting presentation on the policy instruments and results in waste management in Flanders. Mr Daniel Dirickx, Director of the Hooge Maey explained the meaning of sustainable landfilling. Mr Bert Lemmens, Project Manager Renewable Chemicals of VITO showed how to obtain renewable chemicals from algae. To end the presentations, Mr Karl Vrancken, Research Coordinator of VITO gave his view on Enhanced Landfill Mining as a new concept for sustainable materials management.

After the presentations the delegation visited the site of the Hooge Maey. After the site visit the delegation and the Belgian companies had a lunch with a presentation by Mr Luc Bas, European Programme Director of The Climate Group. During the lunch, the Belgian companies were able to present themselves and their activities to the delegation.
This meeting was organized with the support of Flanders Investment & Trade. Pictures of this meeting can be viewed at the FCCC website (Activities-Pictures).

FCCC Annual meeting with the Belgian Ambassador to China and the Belgian Consuls-General in Shanghai, Guangzhou and Hong Kong, 2 February 2012, Brussels

The Flanders-China Chamber of Commerce (FCCC) organized its annual meeting with the Belgian Ambassador to China and the Consuls-General of Belgium in Shanghai, Guangzhou and Hong Kong.

Mr Stefaan Vanhooren, Vice Chairman of the Flanders-China Chamber of Commerce, welcomed the participants. His Excellency Mr Patrick Nijs, Ambassador of Belgium in the People's Republic of China, delivered a speech on the prospects of the Chinese economy. Mr Bruno Georges, Consul General of Belgium in Shanghai gave us his insight of the current economic situation in Shanghai. Mr Johan D'Halleweyn, Consul General of Belgium in Guangzhou, pointed out the opportunities in Guangzhou. This speech was followed by an outlook on today's economy in Hong Kong by Mr Evert Maréchal, Consul General of Belgium in Hong Kong.

During a networking reception, the participants were able to meet the Ambassador and the Consuls-General and to inform them about their company's activities in China. This event was organized with the support of Flanders Investment and Trade. Pictures can be viewed at the FCCC website (Activities-Pictures).

PUBLICATIONS

"Voices on China" (more information on the FCCC website)

For more information on the book "Voices on China", please go to the FCCC website at www.flanders-china.be

MEMBERS' NEWS

Hainan Airlines to improve North American network

Hainan Airlines has recently released a plan to improve its international airline network in North America. Currently, it operates a nonstop route between Beijing and Seattle as well as one from the capital to Toronto. Under its new plan, the airline will roll out more flight options and more diversified services. The airline will add more flights to the Beijing-Seattle route in 2012. From May 14 to June 9, there will be five daily round-trip flights each week, and the number will increase to seven from June 10 to October 27. Hainan Airlines will reschedule flights along the Beijing-Guangzhou and Beijing-Shanghai routes from February 1 to October 27, 2012. This will allow more daily connections between any two of the cities along the route, with Beijing as the central hub. Hainan Airlines and American Airlines recently signed an agreement that allows the two companies to share codes and provide better frequent-flier services. "By working with a powerful partner like Hainan Airlines, American Airlines will enlarge its airline network in China and enhance its market status," according to a statement from American Airlines. "It will also make it convenient for American travelers to go to more of China's cities within (Hainan Airlines') wide network." Hainan Airlines offers more than 400 domestic and international routes, covering almost 100 cities in Asia as well as cities in Europe, North America, Africa and Oceania, the China Daily reports.

Primus acquires Deli in China

On 29 February 2012, Primus, a leading manufacturer of industrial laundry equipment based in Gullegem, West Flanders, concluded the acquisition of Guangzhou Deli Washing Machine Co. A Chinese manufacturer of high-quality industrial washing machines, dryers and chest heated ironers, Deli is located in Guangzhou, the capital of Guangdong province. The company employs about 70 people and is active primarily on the Chinese market. The acquisition of Deli anticipates the strong growth that is projected for the hotel sector in China – including both business and holiday segments – over the next few years. In addition, significant growth is also expected in the construction of hospitals and rest homes. This strategic acquisition positions Primus to respond to China's rapidly growing demand for industrial laundry equipment and to become a major niche player within the Chinese market. The Deli product range is complementary to the Primus range, yet it is the commercial aspect of the Chinese market that is of prime importance to Primus. With the group's complete product range on offer, Primus aims to quickly develop its Chinese distribution network and its share of the wider Asia Pacific market.

NEWS FROM OUR PARTNERS IN CHINA

2014 Qingdao International Horticultural Exposition

Entrusted by the Municipal Government of Qingdao, CCPIT Qingdao is in charge of organizing participants for the 2014 Qingdao International Horticultural Exposition to be held from April to October 2014. If one country or a certain association can organize an united pavilion (one unit for 1000 sq m), favorable policies are available. The best policy at present is that the exhibitor may only provide the design drawing, and the Qingdao Municipal Government will be in charge of the construction, saving money to exhibitors. The time is very limited as participation must be confirmed before the end of April and the design drawing shall be provided before the end of June. Approved by the International Association of Horticultural Producers (AIPH) and known as the highest level of specialized international expo, the 2014 Qingdao International Horticultural Exposition is one of the most famous non-trade global exhibitions, which is aimed at showing global gardening and horticultural works and scientific achievements. Therefore, the International Horticultural Exhibition is celebrated as the "Olympics" for the gardening and horticulture circles across the world. It is expected to attract more than 12 million visitors and is also a good opportunity to publicize cities, tourism and enterprises.

More information about the Expo is available at the Flanders-China Chamber of Commerce (FCCC).

NPC & CPPCC SESSIONS

Chief judge promises more transparency

The number of commercial cases handled by courts in China in 2011 remained about the same as the previous year at 1.67 million. The number of cases involving intellectual property rights (IPR) rose by 37.7% to 66,000. More reforms are needed to China's judicial system to overcome problems over transparency and corrupt judges, Wang Shengjun, Chief Justice of the Supreme People's Court (SPC) said in his annual report to the National People's Congress (NPC). This year, efforts will be made to speed up civil cases involving small sums of money and to improve rules allowing citizens to observe trials, he said. The SPC will also seek to enhance enforcement of judgments, and improve judicial transparency, he added. Chief Prosecutor Cao Jianming said that economic crimes, social stability and corruption were the top priorities of the Supreme People's Procuratorate last year and this year. Prosecutors nationwide charged 54,891 people last year for smuggling, fraud, illegal fund-raising, stock market manipulation, and ponzi schemes – an increase of 8.1% from 2010. They also probed 44,506 cases of work-related crimes, involving 2,524 officials above county level, 198 at prefecture level, and seven at provincial or ministerial level. Cases included those of former Railway Minister Liu Zhijun, former Executive Vice Governor of Jilin Province Tian Xueren, former Secretary General of Jiangxi province Wu Zhiming, and Deputy Governor of Shandong province Huang Sheng. Prosecutors last year investigated 4,217 bribery suspects, up 6.2% from 2010. 1,562 people were prosecuted for producing and selling fake and substandard medicine and food products. Also prosecuted were 6,870 people in intellectual property rights cases, and 17,725 for serious pollution and failing to protect energy and resources.

- China expects relevant neighboring countries to peacefully handle and resolve differences and disagreements with China through dialogue and consultation, Foreign Minister Yang Jiechi said at a press conference on the sidelines of the annual session of the National People's Congress (NPC). Yang said China hopes the countries will respect China's legitimate rights and interests in the Asia Pacific region and avoid remarks or moves that may complicate the situation. He also repeated that China is opposed to Iran possessing nuclear weapons, but defended Tehran's right to peaceful nuclear power.
- CPPCC Delegate Zong Licheng, Vice President of the Shandong Provincial Federation of Industry and Commerce, has called for the introduction of CNY500 or CNY1,000 banknotes to meet the demands of the developing economy and reduce costs. He said the largest note in circulation – CNY100 – was now too small. Larger denominations would be more portable, reduce circulation time and save paper, he argued.
- China's relations with neighboring countries may become more important for its diplomacy, as Premier Wen Jiabao put such relations ahead of ties with main powers for the first time in his work report, said Yan Xuetong, Expert on international studies at Tsinghua University. It showed that China's sound relations with its neighbors were getting worse and the ties weren't developing in a good direction, he added.
- "Cities and towns will see 25 million more people join the workforce this year, over half of whom will be university and college graduates, while another 9 to 10 million will be surplus rural laborers," Yin Weimin, Minister of Human Resources and Social Security, said. Graduates are finding it difficult to get jobs and many enterprises are facing problems in recruiting workers and technicians, revealing structural problems in the work market, he said. China aims to create more than 9 million jobs this year and keep the registered unemployment rate below 4.6%. The employment outlook for graduates is tougher as 200,000 more will leave college this year than last.
- China will soon resume the approval and construction of nuclear power plants. Wang Yuqing, former Director of the National Nuclear Safety Administration, said about 10 approved new nuclear plants, whose construction was put on hold last year after Japan's Fukushima nuclear accident, will soon be given permission to start construction. A comprehensive plan on nuclear safety control has been submitted to the State Council, said Wang, who is Deputy Director of the Committee of Population, Resources and Environment of the CPPCC National Committee. The 14 nuclear reactors in service in China now provide less than 2% of the country's electricity, much lower than the world's average level of 15%.

FINANCE

Goldman Sachs prepares for ICBC share sale

Goldman Sachs is considering selling a big chunk of the Industrial and Commercial Bank of China (ICBC) shares it owns, to help the U.S. bank raise more than USD1 billion. The investment bank has informally contacted several major institutions, including JP Morgan Asset Management and BlackRock, to seek their thoughts on the possible sale of ICBC shares. "I think the intention [of Goldman Sachs] to sell is clear and now the question is when to sell and at what price," said one source, adding there was a price gap between the seller and potential buyers. Goldman Sachs declined to comment. The investment bank raised more than USD5.2 billion via its three sell-downs since 2009. Its last sale of ICBC shares took place in November 2011 when it sold 1.75 billion ICBC H-shares at about HKD4.88 per share, official data show. Goldman Sachs still owns about 10.11% of Beijing-based ICBC. Some industry watchers expect Goldman Sachs to launch a big sale of ICBC H-shares once or twice a year for the next few years to gradually cash out, because it can't find buyers for so many shares at one time. Other foreign banks have sold large numbers of Chinese bank shares in recent years.

Local governments ordered to set up funds to repay loans

The central government has ordered heavily indebted local governments to set up special funds to help repay loans, in a bid to avoid a sovereign debt crisis. Finance Minister Xie Xuren said the government would also focus on improving its tax system and on lowering structural taxes as part of its fiscal policy this year. "Local governments need to set up debt-repayment funds and try to coordinate all of their available fiscal resources in order to actually make repayments on their debts," Xie said on the sidelines of the annual National People's Congress session. Local governments had racked up CNY10.72 trillion of debts, mostly loans from state-owned banks, by the end of 2010, according to data from the National Audit Office, about equal to 17% of gross domestic product (GDP) that year. In June, the government said 70% of the borrowings were due for repayment by 2015. Some economists have warned that local government debts could threaten the banking system if cash-strapped administrations default. Minister Xie vowed to continue overhauling and better regulating local government financing vehicles (LGFVs) mainly by improving oversight of the financial sector. The government was also considering incorporating local governments' debts into the national budget and expanding experimental property tax programs in Chongqing and Shanghai to other areas.

China offers other BRICS yuan loans

China intends to extend yuan loans to other BRICS nations in another step towards the internationalization of its currency. The China Development Bank (CDB) will sign a memorandum of understanding in New Delhi with its Brazilian, Russian, Indian and South African counterparts on March 29. Under the agreement, CDB, which lends mainly in dollars overseas, will make renminbi loans available, while the other BRICS nations' development banks will also extend loans denominated in their respective currencies. The initiative aims to boost trade between the five nations and promote use of the yuan, rather than U.S. dollar, for international trade and cross-border lending. Under 13% of China's Asia trade is transacted in yuan, according to Helen Qiao, Chief Asia Economist at Morgan Stanley. HSBC estimates that the currency's share of regional trade could swell to up to 50% by 2015. While the U.S. dollar has recently strengthened, many governments believe it will weaken over the longer term and want alternatives, other than the euro, to use for trade and investment. CDB recently extended a USD30 billion loan to state-owned Petróleos de Venezuela, half of which will be repaid in oil.

Rabobank opens Beijing branch

After about 17 years in China, Dutch lender Rabobank opened a branch in Beijing to serve customers seeking to expand overseas or those needing its expertise in financial services in the agriculture sector. Sipko Schat, Chairman of Rabobank's International Wholesale Division, said the bank planned to double the size of its 70-strong workforce in China in two years. Its Beijing operation will focus on relations with state-owned enterprises while its Shanghai operation will deal with products and services such as commodities hedging, mergers and acquisitions, trade finance and research. While it recently lost its status as the world's only privately-owned bank with a top AAA rating from Standard & Poor's, Schat said the downgrade reflected the impact of the euro-zone sovereign debt crisis. Schat said that in his more than 25 years with the bank, he had seen its transformation from a domestically focused operation with only two offices abroad to a global bank with more than 600 offices in 36 countries. While Asia accounts for only about 10% of total revenue, with a big chunk coming from Hong Kong, the bank expects this to grow, and had been shifting its Asian operations to Hong Kong from Singapore. Its Hong Kong operations now employ 238 people. Revenue generators include providing Chinese clients with trade-finance services, merger and acquisition advice, and commodities and financial derivatives hedging services. Schat said the bank saw huge potential in advising how to build rural cooperatives in China. Rabobank owns about 9% of the United Rural Cooperative Bank of Hangzhou (URCB) and also has a strategic partnership with the Agriculture Bank of China (ABC). Rabobank established its first representative office in Beijing in 1995 and a second in Shanghai in 1998. The Shanghai office was converted to a licensed branch in 2003. Its Hong Kong branch opened in 1990, the South China Morning Post reports.

- The yuan will be allowed to float in a wider range, People's Bank of China (PBOC) Governor Zhou Xiaochuan said, adding that the yuan rate was "relatively close to its balanced level". A wider range would better reflect market demand and supply, Zhou said. The yuan has a 0.5% daily trading band for the U.S. dollar and a 3% band for other currencies.
- HSBC has agreed to sell its general insurance businesses to French insurer AXA Group and Australia's QBE Insurance Group for USD914 million in cash. The deal includes 10-year bancassurance agreements with AXA and QBE.
- The International Monetary Fund (IMF) named Lin Jianhai, 57, as its Secretary,

making him the second Chinese national to hold an important position in the body. The Secretary's Department has operational responsibility for the 24-member Executive Board of the IMF, and also serves as a contact point with the IMF's 187 member countries on institutional matters. Lin's appointment will take effect on March 22. He joined the IMF in 1989 after working in finance and academia.

- Standard Chartered, UBS and Citic Capital are in discussions to invest in China Cinda Asset Management. Bringing these three institutions on board as investors would help pave the way for a stock market listing by Cinda, highlighting its transformation over the past decade from a "bad bank" to a financial group that includes brokerages, trusts and leasing companies, the Financial Times reports.
- China's bank lending in February fell below expectations. Commercial banks extended a combined CNY710.7 billion in new local currency loans in February, compared with CNY738.1 billion a month earlier and CNY535.6 billion a year earlier. M2 rose 13% from a year earlier, below the central bank's official target of 14%.
- Some delegates to Chinese People's Political Consultative Conference (CPPCC) have called for underground banks that operate in the grey area of informal lending and fund-raising to be legalized. At least a dozen delegates to the National People's Congress (NPC) have aired concerns publicly in the past week over the death sentence handed down to Zhejiang businesswoman Wu Ying, 30, who started her own beauty salon at 15 and became the country's sixth-richest woman after she founded Bense Holding in Zhejiang. She was arrested in 2007 and sentenced to death in 2009 for illegally raising up to CNY770 million through deception.

FOREIGN INVESTMENT

FDI trend moves from coastal to central areas

The Vale Columbia Center on Sustainable International Investment used the FDI Performance Index adopted by the United Nations Conference on Trade and Development (UNCTAD) to discover if areas have received FDI inflows appropriate to their economic power. The report reveals three provincial clusters. The first one is led by the municipalities of Shanghai and Tianjin, and includes provinces such as Liaoning, Jiangsu and Hainan. It is performing better than average. Provinces in the middle cluster, mostly provinces in the western and central areas, are rated as underperforming. Meanwhile, provinces in the bottom cluster, which mainly comprises those wholly in the western regions, are underperforming significantly. Even though the coastal region has been the best performer, its share of China's total FDI inflow declined to about 75% between 2007 and 2010 from 89% between 1987 and 1990. Over the same period, FDI in the central region rose to roughly 17% from below 4% and that in the western region fluctuated, but was mainly lower than 10%. Karl Sauvant, Senior Fellow at the Center, said the report should be of interest to provincial authorities as it provides a provincial performance comparison. According to Sauvant, there is a clear, if not strong, trend for FDI to move away from the coastal regions and toward the center. Yet the fact that the figures for the western region have not changed very much would suggest that more policy action is required. Sauvant believes China will continue to be an attractive destination for FDI. "It may be less attractive for labor-intensive industries. But at the same time, given the improvement in infrastructure, skills and education, it will remain attractive for more advanced technology," he said. Statistics show that the FDI inflow to China reached USD116 billion in 2011, a rise of 9.7% over the previous year, although growth was slower than the 17.4% registered in 2010, the China Daily reports.

The unbalanced dragon: China's uneven provincial and regional FDI performance by Karl P. Sauvant, Zhao Chen and Huo Xiaoying, is available by clicking on the title.

- The ABB Group doubled its investment in China in 2011 and plans to keep investing at a similar rate. The Swedish-Swiss company's revenue in the country was USD5.1 billion for the year, a record increase of 21% from 2010. ABB also set a record in annual investment of USD230 million in the country, more than double the amount of the previous six years.
- More than 18,000 Chinese companies had operations overseas, employing 1.2 million Chinese and holding assets worth a combined USD1.5 trillion, by the end of last year, according to the Ministry of Commerce (MOFCOM).

FOREIGN TRADE

U.S. Senate approves tariffs law

The U.S. Senate unanimously passed a law that would allow the Commerce Department to continue to levy nearly USD5 billion in tariffs on imports it believes to be subsidized from China and Vietnam, although the U.S. Court of Appeals for the Federal Circuit said the U.S. countervailing-duty law should not be applied to non-market economies, which is what many countries consider China to be. The Court also said that government payments made in a non-market economy should not be regarded as subsidies. The ruling came after the Chinese tire maker Hebei Starbright Tire Co filed an appeal with the U.S. Court of International Trade in response to the Department of Commerce's announcement in August 2008 that a 14% countervailing duty would be levied on products imported by Hebei Starbright Tire. "The U.S. move is pure trade protectionism," said Zhang Zhigang, a former Vice Minister of Commerce. "China should strongly oppose it and retaliate if such a law were eventually passed. It's unfair that the U.S. did not recognize China's market economy status when China entered the WTO in 2001." U.S. President Barack Obama also signed an executive order establishing the Interagency Trade Enforcement Center to investigate whether China and other U.S. trade partners "play by the rules". Since November 2006, the U.S. has undertaken 30 countervailing duty probes against Chinese products. The Club for Growth, an anti-tax advocacy group based in Washington, expressed opposition to the bill, saying "these duties restrict economic liberty and are anti-growth", the China Daily reports. Defending against accusations that China has subsidized exports, Commerce Minister Chen Deming said such practices were "actionable subsidies" allowed under WTO rules, and he pointed out that Washington had also subsidized U.S. carmakers in the form of bailouts.

China reports large trade deficit in February

China reported a trade deficit of USD31.5 billion last month, the first since February 2011 and the biggest in at least a decade. Mainly due to a lower comparative base distorted by the Spring Festival holiday, which was in January this year but February the year before, both exports and imports staged a strong comeback last month from the drop one month earlier. Exports expanded 18.4% year on year to USD114.4 billion in February, recovering from the retreat of 0.5% in January. Imports surged 39.6% to USD145.9 billion, rebounding from a slump of 15% in January. The General Administration of Customs said taking seasonal factors into consideration, export and import growth in February should be 4% and 9.4%, respectively. Li Maoyu, Analyst at Changjiang Securities, said such a big trade deficit may slow the appreciation of the yuan. In the first two months, China's trade expanded 7.3% from a year earlier to USD533 billion with a deficit of USD4.2 billion. Trade with the European Union improved by an annualized growth of 4.7% in January and February, and deals with the United States also increased 9.2%. Shipments with Russia surged 31.9% in the first two months.

- China should be able to accomplish its 10% growth target for trade this year but it won't be easy, Commerce Minister Chen Deming said. "Arduous efforts will be needed to meet the goal of increasing China's trade by 10% this year," Chen said. During the first two months of 2011, China's foreign trade totaled USD495.8 billion, representing a 28.3% year-on-year growth. Since August last year, China's exports have slowed from a year-on-year growth of 27.8% in August to 12% in December.
- Import taxes on a large number of consumer and luxury goods will be lowered this year to help promote domestic consumption, Wei Jianguo, former Vice Minister of Commerce said. China is expected to become the third-largest consumer market for luxury goods by 2015. High import tax has driven many domestic consumers to shop in other regions and countries.

IPR PROTECTION

Jiangsu No 1 in China in patents

Jiangsu topped other Chinese provinces and municipalities with nearly 200,000 patents granted and more than 348,000 patent applications filed in 2011. Its investment from overseas has ranked at the top of the nation for eight consecutive years. More than 15,800 companies in the province filed patent applications last year, an increase of 57.3% over 2010. The number of companies with at least 100 patent filings grew to 405 from 20 in 2006. Some 1,800 companies in the province now have databases to analyze technologies and search for patent information before starting R&D, a process that helps avert both infringement and duplicate research. “Intellectual property is a key factor in enhancing proprietary innovation and an effective means of competing for the pinnacle of future development,” said Xu Nanping, Assistant to the Jiangsu Governor. Provincial authorities formulated local intellectual property management regulations on companies in 2008 to encourage innovation, the first in the nation, and held a series of invention awards. Eight intellectual property centers in the province have trained about 15,000 people over the past five years. Jiangsu is also among leading provinces in other aspects of intellectual property including trademarks, copyrights, software and new varieties of plants, according to local officials.

MACRO-ECONOMY

Zong Qinghou 78th on Global Rich List

67-year-old Wahaha founder Zong Qinghou was named as the richest person on the Chinese mainland in the Hurun Global Rich List 2012, with a net worth of USD10.5 billion. Zong replaces heavy machinery mogul Liang Wengen, 55, founder of the Sany Group, as China’s wealthiest person. Zong ranks 78th on a list topped by Carlos Slim, Bill Gates and Warren Buffet, and is the only mainland Chinese citizen to have amassed a fortune of more than USD10 billion. Besides Zong, the five other Chinese worth more than USD10 billion are all from Hong Kong, led by Li Ka-shing, 84, who ranks 13th globally with USD24 billion. Other Hong Kong billionaires are Cheng Yutung, 87, founder of jewelry brand Chow Tai Fook, ranking 49th; and property tycoons Thomas, 61, and Raymond Kwok, 60, ranking 25th and Lee Shau Kee, 85, ranking 32nd. Real estate is the main source of wealth for China’s billionaires, according to Hurun, but the sector ranks just seventh globally and contributes a mere 7% of the total wealth of the whole list. The United States still holds the lion’s share of the wealthy with 27 people worth more than USD10 billion living there. Russia has 10 and Germany 7. China (including Hong Kong) and India tie for fifth place. “It won’t be long before entrepreneurs from countries like China and India become more dominant,” Rupert Hoogewerf, Hurun’s Chairman, said.

According to Forbes Magazine, China's mainland billionaire club has fewer members this year after the bearish stock market led to a slump in their net worth. Forty Chinese people fell off Forbes’ global U.S. dollar billionaire list this year, with 36 of them from the Chinese mainland. Forbes said 15 new mainland billionaires were added to make the current total 95. The property sector took the brunt of the wealth decline on the mainland following government moves to cool the market. Robin Li, 43, founder and CEO of search engine giant Baidu, replaced Liang Wengen, 55, founder of the Sany Group, as the richest mainlander this year on the Forbes list. Li rose nine positions to rank 86th with USD10.2 billion while Liang, second on the mainland, was 113th with USD8.1 billion. Drinks tycoon Zong Qinghou, 67, richest on the mainland on the Hurun list, ranks third according to Forbes and 146th globally with USD6.5 billion. Hong Kong's Li Ka-shing, 83, ranking 9th with USD25.5 billion, reclaims the title of Asia’s richest man for the first time since 2004.

- In his book “The Dollar Crisis” – published in 2003 – fund manager Richard Duncan argued that the economic boom in the United States was in reality a credit-fueled bubble that would burst when the property market ran out of steam. The result, he warned, would be a slump in the U.S. dollar and global recession. In his new book “The New Depression”, he predicts that in 10 years, the U.S. will resemble Greece, and there is no way China can hope to consume all that it produces. “The whole China model is over,” says Duncan. “With no one to buy the stuff it's making, China has got to stop growing. If they are lucky, they will get 3% growth for the next 10 years.”
- The Chinese government and the U.S. Department of Agriculture may have overstated China's corn crop by as much as 14%. Higher imports from the world's second-largest consumer of the grain could squeeze already tightening global supplies. The National Bureau of Statistics said farms produced a record corn crop last year of 191.8 million tons, but a Reuters investigation found this could be overstated by between 6.8 million and 24 million tons, the equivalent of between 12 days and 44 days of consumption.
- Chongqing Mayor Huang Qifan said the Gini coefficient for Chongqing fell from 0.438 in 2010 to 0.42 last year. The lowering of the coefficient meant that as long as proper measures were taken, it would be possible to narrow the wealth gap amid a rapidly growing economy, Huang said.
- China's Gini coefficient has been distorted and does not paint a true picture of

equality, Ma Jiantang, Director of the National Bureau of Statistics (NSB), said. He said the coefficient for rural areas was 0.3897 last year and 0.33 for urban areas. He added that the reluctance of high-income urban households to record their incomes made conducting surveys very difficult. He added the Bureau will only publish a unified Gini coefficient for the country after it can use the same survey method to collect data from urban and rural households.

- China's inflation eased to a 20-month low of 3.2% in February. The pace was the slowest since June 2010, and ended negative de facto interest rates in the past two years. Lower food prices contributed the most to the slowdown in growth. Food costs rose 6.2% year on year in February. The Producer Price Index edged up 0.7% on an annual basis. Industrial production rose 11.4% in the first two months from a year earlier.
- The Ministry of Agriculture expects grain output to decline this year and rural incomes to grow more slowly. Agriculture Minister Han Changfu said that it would strive to keep grain output above 525 million tons and growth in rural incomes above 7.5%. China produced 570 million tons of grain last year and rural incomes grew by an average of 11.4%. He said ensuring sufficient grain output was key to keeping inflation low.

MERGERS & ACQUISITIONS

Value Partners takes a stake in KBC Goldstate Fund

The first Hong Kong-mainland joint-venture asset management company has been set up, with the local fund house Value Partners taking a 49% stake in the Shanghai-based asset manager KBC Goldstate Fund Management. Value Partners would pay CNY40.5 million for the stake in KBC Goldstate, which had CNY970 million of assets under management in seven open-ended funds at the end of last year. The stake was previously owned by Belgian financial group KBC. The fund manager will remain under the 51% control of Shenzhen-based brokerage Goldstate Securities but will be renamed Value Partners Goldstate Fund Management. Cheah Cheng Hye, Chairman of Value Partners, said KBC Goldstate was the smallest fund manager in the industry, and he admitted there was no guarantee that it would generate any profit in the next few years. He said the acquisition was nonetheless an important strategic move to prepare for the gradual deregulation of the fund industry in China, which would open doors to a wider variety of mutual fund products. “China has one of the highest saving rates in the world and its pension fund business is just beginning,” he said. “There is a lot of room for growth.” At the end of last year, there were 69 fund management firms in China managing assets worth CNY2.19 trillion, according to the China Securities Regulatory Commission (CSRC). KBC Goldstate is one of 39 foreign joint-venture asset companies in China, the South China Morning Post reports.

- Citic Resources Holdings is seeking to acquire coal and oil resources in China and other countries. “I would like to do a multibillion dollar deal in the next 12 months. We like to grow this company. Now we have HKD10 billion in cash,” said Zeng Chen, Vice Chairman and CEO. “Our focus will be coal and oil. If there is a good coal opportunity, we won't pass it by. We will focus on Kazakhstan, Australia, China, Indonesia and Africa,” Zeng said. Citic will also expand production at its Yuedong oilfield in Liaoning province and Karazhanbas oilfield in Kazakhstan.
- China Investment Corp (CIC) has received an injection of USD30 billion late last year from the government that will help it buy assets in Europe, Wang Jianxi, Deputy General Manager and Chief Risk Officer of CIC, said.

PETROCHEMICALS

Refiners promised reform of fuel prices

The central government is determined to reform the domestic fuel price-setting mechanism this year after years of concerns that such a move would stoke inflation. The timing of the reform will be key to determining profitability of China's oil refining industry, which is dominated by state-controlled PetroChina and China Petroleum & Chemical (Sinopec). “Efforts on the reform are on and we are striving to push ahead with it,” Liu Tienan, Director of the National Energy Administration (NEA), said on the sidelines of this year's National People's Congress (NPC). His comments come two weeks after Zhou Wangjun, Deputy Director of the Pricing

Department at the National Development and Reform Commission (NDRC), told Xinhua that reform on energy pricing would be launched this year “at the right time, according to economic conditions”. Premier Wen Jiabao said in his annual government work report that Beijing would reform the pricing mechanism of refined oil products and natural gas. It is thought it will include a greater frequency of price adjustments and give oil companies the right to set their own fuel retail prices in keeping with international crude oil price movements. Currently the government restricts price rises, squeezing the refineries' margins. A Sanford Bernstein research report said Sinopec needed a gross refining profit margin of at least USD4 a barrel to break even on its refining operation. It relies heavily on profits from upstream oil and gas production to offset the losses. It made a margin of USD1.50 a barrel in last year's first half, the report said. The brokerage expects the reform to give refiners gross margins of USD4 to USD5 a barrel when crude prices range from USD100 to USD120 a barrel, the South China Morning Post reports.

Chinese oil companies to further expand abroad

The expansion blueprints of Chinese oil companies overseas are currently facing “unprecedented challenges”, which means they should prepare for the unexpected, according to Chen Geng, a Deputy to the National People’s Congress (NPC) and the former General Manager of CNPC. “It is now a good time to launch mergers and acquisitions overseas,” he said. In 2011, the total mergers and acquisition value of China’s three biggest oil companies – CNPC, Sinopec and CNOOC – reached about USD20 billion. Wu Mouyuan, Researcher with the CNPC Economics and Technology Research Institute, predicted that China’s total overseas equity-based oil and gas production volume may increase by 5% to 10% this year. Last year, the offshore equity-based oil output of Chinese companies was 90 million tons, 20 million tons more than in 2010, said Wu. “Globally, 11% of oil production came from Chinese producers in 2011.” Currently, some oil construction and production projects have ceased in Sudan, CNPC’s biggest overseas oil exploration base, and there is no sign of them restarting because of political issues. China National Offshore Oil Corp (CNOOC) intends to maintain its output of overseas gas and oil at 10 million to 13 million metric tons in 2012. CNOOC recently said its goal for the year is to produce from 330 million to 340 million barrels of oil equivalent (BOE). The Penglai 19-3 oilfield in Bohai Bay, which was forced to close in September following an oil spill, is ready to begin operating again, if approval from the government is granted, the company said. Authorities blamed the leaks mainly on the negligence of ConocoPhillips China, which operated the oilfield.

- Trial production will start in December at a new 200,000 barrels per day (BPD) refinery being built by PetroChina in Sichuan. The province's first major refinery, in Pengzhou, is expected to process crude oil delivered from northwest China and Kazakhstan once it is completed. In April last year, PetroChina began laying an 878 km pipeline linking the facility with the Lanzhou oil production hub in Gansu. PetroChina also won environmental approval to build an 800,000-ton ethylene production complex in Nanchong.
- China National Offshore Oil Corp (CNOOC) plans to begin drilling for natural gas in the 43/11 deepwater block in the South China Sea in the second half of the year. CNOOC plans to be the operator of the deepwater block, marking the first time it would perform such a task. The company will have a 55.5% interest in the project when it moves into its development and production phase, while BP is to hold 20% and Anadarko Petroleum Corp is to hold 24.5%. CNOOC has set a target of extracting 50 million metric tons of oil equivalent from the block by 2020.

REAL ESTATE

Hong Kong performs worst, world cities index says

Hong Kong's residential market was the world's worst performer in the second half of last year, as measured by the Savills World Cities Index. The index, which analyses accommodation costs in 10 key locations, showed that Hong Kong home values fell by 3.4% over the six-month period. Only two other locations, Tokyo and Sydney, suffered price falls, while prices rose in London, Paris, New York, Moscow and Singapore; remained level in Mumbai; and edged up by just 0.1% in Shanghai. Falls in prices and transaction volumes in Hong Kong during the second half of 2011 were the biggest since the credit crunch in 2008, Savills said. The report, which also measures how much it costs to house a typical “executive unit” of Chief Executive, two Directors and four administrative staff in each city surveyed, showed that Hong

Kong remained the most expensive location, despite the price falls. Scoring 220 on the Savills Executive Unit Property Value Index in the second half of 2011, Hong Kong was nearly twice as expensive as the second most costly location, London, which scored 125. In addition to having the most expensive homes, Hong Kong has the highest purchase charges and property occupation taxes, the report said. Occupation costs for an “executive unit” averaged GBP29,600 and purchase costs more than GBP800,000. Hong Kong had the highest selling costs for properties sold within six months of purchase. It remains less expensive to buy than rent in Hong Kong, the report said. The city was the third most expensive place to rent after Paris and London and high rents reflected an underlying demand for property. The Knight Frank Prime Global Cities Index for October to December showed Hong Kong luxury property prices fell 4.4% in the last six months of 2011. The agency expects prices to remain stable this year because supply constraints will underpin the market, the South China Morning Post reports.

Guangzhou bans foreigners from buying retail properties

Guangzhou has unveiled a new policy banning foreigners, and people from Hong Kong and Macao, from investing in retail properties in the city, the latest move to tighten controls in the property market. The policy, which took effect on March 1, came as sales of shops in Guangzhou surged in the fourth quarter, with investors shifting their focus to commercial property after they were banned from speculating on the residential market. In the third quarter, the sales volume of shops in Guangzhou jumped 53.6% to 110,700 square meters from 71,600 sq m in the second quarter and rose another 44% to 159,500 sq m in the fourth quarter. In the first 11 months of last year the city's total retail sales rose by 17.3% year on year to CNY474.7 billion, according to property firm DTZ. Foreign investors, mainly from Hong Kong, accounted for 15% to 20% of shop acquisitions in the city.

Home sales fell 16% in first two months

Sales of new homes fell 16% year on year to 61.18 million square meters in January and February, the National Bureau of Statistics (NBS) said. By value, they fell 24.7% year on year to CNY336.6 billion. More than 90% of 54 cities tracked by Soufun recorded month-on-month increases in volume in February, though only 61% were able to secure year-on-year growth. Investment in residential development, meanwhile, rose 23.2% year on year to CNY371.3 billion, decelerating from a growth of more than 30% in the first two months of 2011. Builders broke ground on 148.32 million sq m of homes in the first two months of this year, almost the same as the equivalent period a year ago. Premier Wen Jiabao reiterated at the annual meeting of the National People’s Congress (NPC) that China would proceed with efforts to impose property curbs and ensure strict enforcement until home prices dropped to affordable levels on a sustainable basis. Home prices in China fell for the sixth straight month in February. Prices fell an average of 0.3% from January in 100 major cities across the country, the largest monthly drop since last September, according to a survey by the China Index Academy.

- The Beijing municipal government spent CNY74.61 billion building homes for low-income families last year, almost twice the amount spent in 2010. Construction began last year on 17.29 million sq m of such housing – a 59.7% increase from 2010.
- Secondary-market home sales are expected to rise in Hong Kong as the initial impact of the government's special stamp duty wears off, allowing the market to conclude deals faster and also releasing pent-up demand from genuine buyers. With the introduction of the duty in November 2010 to try to curb sky-high property prices, the government imposed an additional 15% tariff on homes resold within six months of purchase, 10% extra for those resold within a year and 5% for those resold within two years.
- Chinese developer China Resources Land has raised its 2012 sales target 11% to CNY40 billion. The company would develop projects in second- and third-tier cities, including at least one-third that are unaffected by the home-purchase restrictions. It would also develop more non-residential properties, such as commercial investment properties, to generate more rental income. CR Land reported a 34.4% year-on-year rise in net profit to HKD8.07 billion. Total revenue surged nearly 40% to HKD35.80 billion. The developer's underlying profit grew 32% to HKD56.27 billion last year.

RETAIL

Kraft celebrates Oreo's 100th birthday in Shanghai

Kraft celebrated the 100th birthday of its Oreo biscuit in Shanghai by turning the waterfront into a vast Oreo advertisement, painting the landmark Oriental Pearl Tower Oreo blue, plastering skyscrapers with multi-story neon Oreo adverts and staging fireworks over the Huangpu river. Oreo is China's best-selling biscuit. The way Kraft has transformed this most quintessentially American cookie is a model for how successful multinational brands are approaching the China market, retail analysts say. What passes for an Oreo in China these days often bears only a glancing resemblance to the black and white sandwich biscuit first sold in Hoboken, New Jersey in 1912. In a bid to please Chinese taste buds, Kraft has made an Oreo with Chinese characteristics. The original Oreo is less sweet in China than in the U.S. Some Oreos in China are shaped like a straw, or like a wafer, and even the traditional round ones come in flavors such as green tea ice cream, grape-peach, mango-orange and raspberry-strawberry. Kraft says some of these flavors, developed first in China, have since become hits globally. Kraft calls it "reverse innovation". Oreo, introduced into China in 1996, largely languished until Kraft made changes in distribution and advertising to boost sales – and created new flavors and tastes suited to the local market. "Any foreign company that comes to China and says, 'there's 1.5 billion people here, goody goody, and I only need 1% of that … (is) going to get into trouble. You have to understand how the consumer operates at a really detailed level," says Lorna Davis, former General Manager of Kraft Foods in China, as reported in the Financial Times.

China big market for watches

According to the World Watch report — a study produced by the Digital Luxury Group — China has surpassed the U.S. as the country with the greatest demand for watches, with 23% of all watch-related internet searches. "We don't say these numbers perfectly align with sales of the watchmakers, but experience has shown that they do reflect to some extent commercial reality," said Florent Bondoux, from the World Watch Report. The figures tend to confirm where the interest in luxury watches is strongest, and therefore where a majority of sales take place. Omega (with 20.2% of all searches) followed by Longines (18.9%) are the most popular of the luxury watch brands sought out in China.

Suning to add more stores and sell online

Suning Appliance Co is aiming to add more than 400 outlets this year, including in Hong Kong and Japan. At present, the company has more than 1,700 stores at home and abroad. "The volume of China's home appliance market will grow to CNY3.1 trillion by 2020. Suning intends to occupy around 20% of the market by then," said Chairman, Zhang Jindong. The company also has plans for online sales. "Our 2012 target for online sales is CNY30 billion yuan. The site will sell daily necessities, clocks, musical instruments and other goods besides electrical appliances," said Zhang. Last year, the company's sales revenue was CNY93.89 billion, an increase of 24.35% on the previous year. Online sales contributed CNY5.9 billion of the total, one-fifth of this year's target. The company said it aims to expand online sales by 50% annually in the next 10 years. Last month, Dangdang, a major Chinese online retailer, joined hands with Gome Electrical Appliances Holding, Suning's major domestic rival and the country's second-largest electronics retailer.

Chinese spent more than ever abroad last year

The Chinese may have spent more than ever on purchases abroad in 2011, said Su Ning, Chairman of the bankcard association China UnionPay. The value of overseas purchases made through its network increased by 66.7% to reach CNY300 billion last year, up from CNY180 billion in 2010. If cash payments are included, "the total overseas spending figures would be astonishing", he said. Su added that the government should charge lower import tariffs on goods, especially on luxury products, to help move consumption from the overseas market to China. The country will strive to boost domestic consumption, Premier Wen Jiabao said in his work report to the opening session of the National People's Congress (NPC) on March 5. In 2011, domestic consumption contributed 51.6% of the country's GDP growth. The value of retail sales last year stood at CNY18.1 trillion, an increase of 11.6% from the year before if the effect of inflation is excluded from the results. The actual rise in consumption was likely much smaller, since the final figure was buoyed by government spending, said Xu

Shanda, former Director of the State Administration of Taxation.

- Sales of cigars soared 24% in China last year. Some 376 million packets of cigars were sold, with small cigars being the bestselling product, rising 31%, according to Euromonitor International. Nicole Teng, Analyst for China at Euromonitor, expects cigar sales growth to slow to a compound annual rate of 14% over the next five years, due to the awareness of health risks and smoking bans. Domestic cigar brands such as Great Wall and Guang Yuan dominate the market, although China is also the world's third-largest market for Cuban cigars, after Spain and France.
- McKinsey said brand loyalty among Chinese consumers was increasing. Max Magni of McKinsey Hong Kong said companies should de-centralize their decision-making structures to make the best of an increasingly disparate group of consumers as well as the country's distinctive regional markets. McKinsey's studies showed the percentage of respondents in China who stick to their preferred brands rose from 21% in 2009 to 23% last year. It is estimated that by 2020 the figure will be between 30% and 40%. McKinsey found regional differences are so great that no universal "China strategy" can ever work.
- China's retail sales rose less than expected in the first two months of this year, expanding 14.7% from a year earlier to CNY3.36 trillion, weakening notably from the pace of 18.1% in December and 17.3% in November. "Even in the months of the Spring Festival holiday, a common peak for consumption, people seemed to be reluctant to spend," said Li Maoyu, Analyst at Changjiang Securities Co. "It is a bad harbinger for the year ahead when policymakers have pinned much hope on more domestic demand to drive the economy."

SCIENCE & TECHNOLOGY

China to launch third lunar probe next year

China will launch its third lunar probe, the Chang'e-3, next year to land on the moon and release the country's first moon rover to patrol the lunar surface. "The probe will take more scientific equipments than its predecessors mainly to detect, collect and analyze samples on the moon," Ye Peijian, Chief Commander of the Chang'e-2 and Chang'e-3 missions, said. The moon's Sinus Iridum, or Bay of Rainbows, is the first choice as landing area for the Chang'e-3, but another four sites have been earmarked as backups. The rover will patrol the surface for at least three months. Scientists have finished preliminary research into a heavy-thrust carrier rocket that could help China send men to the moon and fly to deep space in the future, said Liang Xiaohong, Vice President of the China Academy of Launch Vehicle Technology. The rocket will be able to send a payload of 100 metric tons into low-Earth orbit. It will be much more powerful than China's current largest launcher, the Long March 5, which can send a maximum payload of 25 metric tons into low-Earth orbit and a payload of 10 tons to the higher geo-stationary orbit.

- A Ministry of Education panel has finished its assessment of the Shenzhen-based South University of Science and Technology of China and will soon decide whether to issue a license. The university was established in 2009, but the President said he had faced tremendous difficulties getting recognition for the institution.
- The latest U.S. official report showed that by the end of the 2009-2010 academic year, about 14,000 Americans students were studying in China. The figure is expected to show a substantial increase in the coming years due to the 100,000 Strong Initiative, a scholarship program announced by U.S. President Obama. There are nearly 160,000 Chinese students in the U.S.
- The central government has decided in its budget that government spending on education will account for 4% of the country's GDP this year, said Premier Wen Jiabao. Local budgets should also prepare to meet the target, he said. Central authorities already in 1993 set a target of 4% education spending by 2000, but it was never reached. With a targeted GDP growth rate of 7.5% this year, education spending could surpass CNY2 trillion. It accounted for 3.66% of the country's GDP in 2010.
- An international team led by Chinese scientists announced that it had discovered a

new form of elementary particle behavior at Guangdong's Daya Bay nuclear power plant. The breakthrough has Nobel Prize-winning potential, according to some commentators. Professor Wang Yifang, Spokesman for the Daya Bay Reactor Neutrino Experiment, said they discovered a new type of neutrino transformation and the crucial scientific constant behind the behavior.

STOCK MARKETS

Plans made to delist persistent loss makers

The China Securities Regulatory Commission (CSRC) plans to expel perennial loss makers from the stock market. Guo Shuqing, appointed Chairman of the CSRC in October, intends to set up a delisting mechanism in the first half of this year. He told reporters on the sidelines of the National People's Congress (NPC) in Beijing that a delisting mechanism on the main board could help curb over-speculation while safeguarding investors' interests. Other plans include overhauling the controversial mechanism for initial public offerings (IPOs), encouraging local government pension funds to invest in equities and creating a market for high-yield corporate bonds. Talk of setting up a delisting mechanism began a decade ago but has gone nowhere. Since the Chinese stock market was established in 1990, most companies that have gone public have been controlled by local governments, and their IPOs have been aimed more at raising funds than sharing the business with investors. Habitual loss-makers would usually be rescued by the local governments, which would inject profitable assets into the listing vehicles. China-listed firms that post losses three years in a row are demoted to the Securities Trading Automated Quotations network, an over-the-counter market. But most of these underachievers have been bailed out after they have reported losses for two years. Thousands of investors have flocked to these embattled firms, betting that the governments concerned would rescue them through asset restructurings. “Most of the small investors lost money on this type of speculation,” said West China Securities trader Wei Wei. “Without a real delisting mechanism, speculation on loss-making firms will continue.” The creation of a delisting system would pit the CSRC against the local governments, because their officials would try to prevent their companies from being thrown off the exchange, the South China Morning Post reports. Individual investors should be warned about potential risks through improved disclosure by listed companies, Guo said. By December 31, individual holdings accounted for 26.5% of the value of all A shares, compared with 57.9% for corporate shareholders and 15.6% for professional investment institutions, according to the CSRC.

China's securities watchdog needs to reform its listing rules, allowing market forces to have more clout in approving initial public offerings (IPOs), said Fang Fang, Vice Chairman of JP Morgan Asia Investment Banking. As a result, Beijing can also transform its domestic stock market into a more attractive place for global investors and, ultimately, establish Shanghai as an international financial center, said Fang, the only member of the Chinese People's Political Consultative Conference (CPPCC) whose career background is from a Western financial institution. About half the 200-plus IPOs in 2011 were trading below their offer prices by the end of last year. Analysts said companies that want to list in China but do not meet the requirements often bribe their way through the regulatory bureaucracy, or call on private equity companies or someone with political connections to influence approvals. Fang said: “China's stock market does not necessarily need to rely on a government regulator to make every judgment on which companies deserve or can be listed.” He said that the country should instead let market forces play a larger role during the listing process. He added that the regulator needs to find a balance between exercising its vetting power and relying on market efficiencies to determine which companies can go public and at what price. Fang said the Hong Kong stock exchange set a good example in striking this balance. It relied on market efficiency most of the time, but also had a listing committee to block companies it deemed unfit, such as ones that failed to meet certain revenue requirements.

- Hong Kong Exchanges and Clearing and the Shanghai Futures Exchange have signed a memorandum of understanding on cooperation and exchange of information. This is part of HKEx's efforts to promote commodities trading as it wants to shift away from its reliance on stock market trading.
- The highly-anticipated launch of an international board, where foreign companies can sell yuan-denominated stocks, is not yet on the agenda, Shanghai Mayor Han Zheng said, adding that it was “not yet a best time for launching” due to “very, very complicated factors.” Legal and technical preparations for the board were under way, and the board would be launched only after gaining approval from the China

Securities Regulatory Commission (CSRC).

- China Everbright Bank has received regulatory approval for a Hong Kong listing and is deciding on its timing, Chairman Tang Shuangning said. Everbright Bank delayed its USD6 billion Hong Kong listing in June after markets weakened. It revived its listing plans late last year and submitted an application to the stock exchange with a scaled-down offering of HKD15 billion.
- The China Securities Regulatory Commission (CSRC) intends to study the U.S. system for letting companies go public, but the market should not expect big changes any time soon, said Ouyang Zehua, Deputy Director of the Commission's Listing Division. Currently, companies that want to make IPOs in China must apply to the CSRC for approval. In the U.S., however, they are required to release detailed information about their finances and governance and then the market decides whether they are worthy. “The registration system requires a lot more detail than an approval-based system,” Ouyang said.
- The Hong Kong bourse had attracted more than 645 Chinese listings raising a total of USD412 billion since 1993. International listings represented 52% of total IPO funds raised last year, followed by Chinese companies, with 36%. Hong Kong companies accounted for the rest. Big name IPOs included L'Occitane from France, Prada from Italy, Vale from Brazil, and Russia's Rusal.
- Five China-based firms have made public offering filings with the U.S Securities and Exchange Commission (SEC) in the past six weeks, aiming for the first listings since Tudou Holdings, a Chinese online video company, made its debut last August. Lawyers said several more were waiting to see if investor sentiment had recovered after a spate of accounting scandals hit Chinese companies last year.
- The Shanghai Stock Exchange tightened trading curbs on stocks making their debut as it tries to rein in speculative manipulation of newly-listed shares following similar measures taken by the Shenzhen Stock Exchange. Trading of newly listed companies will be halted until five minutes before the market close if their prices rise or fall by 20% from their opening prices, or if their turnover rates exceed 80%, the Shanghai bourse said in a statement. Companies that fluctuate more than 10% on each side of the opening price will be suspended from trading for 30 minutes.
- The Bank of Shanghai has shelved its plan to list in Shanghai and is looking at selling shares in Hong Kong instead. China Investment Corp (CIC) bought a 7% stake in the bank from International Finance Corp (IFC) before Fan Yifei – who is also Executive Vice President of CIC – was appointed Chairman of the bank. HSBC has an 8% stake in the Shanghai bank.

TRAVEL

EADS accuses China of blocking Airbus deals

China has blocked purchases of Airbus planes by Chinese companies in reaction to a disputed European carbon tax, Chief Executive Louis Gallois of EADS, the parent company of Airbus, said, although the Civil Aviation Administration of China (CAAC) denied such a ban existed. The European Union imposed the carbon tax on airlines with effect from January 1, but carriers will begin receiving bills only in 2013 after this year's carbon emissions have been assessed. The EU says the tax will help it achieve a goal of cutting carbon emissions by 20% by 2020 and that it will not back down on the plan. More than two dozen countries, including China, Russia and the United States, have opposed the EU move, saying it violates international law. Gallois said that opposition by Beijing could affect the sales of at least 24 long-haul A330 planes this year and next. “We ask the European Union to take into account the global position of almost every country outside of Europe against this scheme,” he said. Gallois made the comments after EADS had posted a 2011 profit leap beyond expectations and given an ambitious outlook for this year. Its net profit jumped 87% to €1.03 billion. The aerospace group said that sales gained 7% to €49.1 billion and that its operating profit reached €1.8 billion, a gain of 34%. The group expected to raise that figure to €2.5 billion this year, which would represent a further increase of 40%, and forecast a 6% increase in sales. New orders were 58% higher last year.

China Southern Airlines recently welcomed a new A380 to its existing fleet of more than 450 airliners, its third delivery of the largest civil aircraft in the world. The latest A380 was delivered to the airline on February 29 in Toulouse. China Southern has ordered five A380s from Airbus.

The A380 used on the Beijing-Hong Kong route has 506 seats — eight in first class, 70 in business class and 428 in the tourist cabin. The standard number of seats is 560. China Southern is the world's seventh and China's only airline to use the A380. China's Ambassador to the European Union Wu Hailong said it "makes sense" for Chinese airlines to shun Europe's Airbus planes in favor of competing American models from Boeing in response to the EU's new levies on aviation greenhouse emissions. A Spokesman for EU Climate Commissioner Connie Hedegaard said that Environment Ministers from all 27 members had met on March 9 in Brussels and "repeated their full support to the EU line on aviation."

China to continue building bullet train lines

China will launch nine new bullet train lines by the end of this year, said Huang Qiang, Chief Researcher of the China Academy of Railway Sciences, adding that the country would welcome overseas and private investment to overcome a lack of funding. Some high-speed train projects were stalled last year because of a budget shortfall of CNY500 billion for the whole industry. "According to China's plans, by the end of this year the total track length will stretch 80,000 kilometers, and will be 120,000 km by the end of 2015," Huang said. Following a high-speed train crash last year, the government reduced the speed of bullet trains to 300 km per hour from 350 km/h. However, Huang said the reduction wasn't implemented because of the accident, but because China's current railway situation doesn't call for such a high speed. "When we add more trains, the speed may rise again," he said. He also admitted that exports of high-speed trains will be affected by the crash in the short term, but he is optimistic about exporting trains and technology over the long term. In 2011, a total of 440 million passengers used the country's 18 high-speed lines, almost double the number in 2010. The average occupancy rate of high-speed trains was 60%, rising to 80% during peak holiday times.

- Tight flight schedules are to be blamed for many delays of domestic flights, not the air-traffic control or the weather, said Li Jiaxiang, Director of the Civil Aviation Administration of China (CAAC). Airlines would be responsible for 40% of the delays. The regulator will take measures this year to increase the punctuality rate by two percentage points to 78.5% for domestic flights, he said. Guangzhou and Shanghai experience the most frequent flight delays. China plans to invest about CNY20 billion per year to build 72 new airports and expand 101 others by 2015.
- China Eastern Airlines expects a big drop in travel-demand growth this year. Demand for international passenger and cargo flights was "clearly falling", predominately because European consumers were cutting spending, Chairman Liu Shaoyong said.
- Shenzhen plans to begin charging motorists congestion fees after the third phase of its subway network is completed in 2016. The city announced that there were two million registered vehicles on its streets, the second highest in any Chinese city, trailing only Beijing. The city ranked first in terms of vehicle density, with 300 vehicles for every kilometer of road. Phase three of the Shenzhen Metro would add five new lines and more than 100 stations.
- Cathay Pacific Airways will hire 400 ground staff in its largest-ever recruitment at Hong Kong International Airport as it moves to modernize its check-in system and cope with a fleet expansion. The increase in check-in and boarding staff comes as the airline prepares to take delivery of 94 new aircraft over the next seven years, including 15 this year. Visa checking will be passed on to ground staff at the boarding gates under the new system. To streamline the check-in process, Cathay introduced mobile boarding passes earlier this year, allowing passengers to download their passes to their cell phones in the form of a two-dimensional barcode.
- China's domestically-produced C919 commercial airliner will be ready for export to overseas markets starting in 2016, after two years of test flights, said Chief designer Wu Guanghui. COMAC already received orders from the United States and Singapore, and the total number of domestic and overseas orders reached 235. The first plane will roll off the assembly line as early as next year. The narrow-body airplane can carry 168 passengers and has a maximum flight distance of 4,400 kilometers.

ONE-LINE NEWS

- China is in talks with other governments over a new law requiring working foreigners to pay social security taxes, Deputy Minister of Human Resources and Social Security Hu Xiaoyi said. He added that progress on implementing the tax was going smoothly, even as uncertainty continues about what benefits foreign workers might receive. At least a dozen countries have held talks with China about signing bilateral social security agreements so employees who pay contributions in their home countries do not have to do so again in China.
- China will help build two nuclear power plants in Turkey. Prime Minister Recep Tayyip Erdogan of Turkey will travel to Beijing next month to sign an agreement on the peaceful use of nuclear energy. Industry sources said China would be particularly involved in the Igneada project, which is located near the Bulgarian border on the Black Sea coast.
- According to a report by UFI, the Global Association for the Exhibition Industry, China accounted for 46% of the increase in global exhibition space from 2006 to 2011, and 70% of the Chinese space was created in new venues.

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Contact:
Flanders-China Chamber of Commerce
Voldersstraat 5, B-9000 Gent
Tel.: +32 9 264 84 86/82 – Fax: +32 9 264 69 93
E-mail: info@flanders-china.be
Website: www.flanders-china.be

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The FCCC Newsletters are edited by Michel Lens, who is based in Beijing and can be contacted by e-mail michel.jc.lens@gmail.com or mobile phone +86-13901323431. Disclaimer: the views expressed in this newsletter are not necessarily those of the FCCC or its Board of Directors.