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

NEWSLETTER | 22 OCTOBER 2012

FCCC ACTIVITIES

Conference: “How and how *not* to do business in China” – Tuesday, 30 October 2012, 3.00 p.m. – Gent

The Flanders-China Chamber of Commerce (FCCC) is organizing a conference on “How and how *not* to do business in China”. Highly experienced experts and business leaders will share their knowledge and expertise based on their achievements in China.

The conference will take place at 3 p.m. on 30 October 2012 at the House of the Province of East Flanders, Seminariestraat 2, 9000 Gent.

Programme:

3.00 p.m.	Registration
3.30 p.m.	Introduction by Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce
3.35 p.m.	Successful sales and marketing strategies in China by Mrs Kristina Koehler, Director Klako Group Shanghai
4.00 p.m.	Entering the China market. 13 years of experience in 5 stories by Mr Dirk Laeremans, General Manager, Orientas Consulting
4.30 p.m.	Experience of the start-up of a wholly foreign owned enterprise by Mr Stefaan Depecker, Commercial Director, Proviron
4.50 p.m.	Question and answer session
5.30 p.m.	Networking drink

If you wish to attend this interesting conference, please register online before 23 October 2012.

The participation fee for members of the FCCC is €65. The fee for non-members is €95.

OTHER ACTIVITIES

ICC IP Commission Conference – 26 October 2012 – Beijing

The International Chamber of Commerce’s Intellectual Property Commission is organizing, jointly with the China Council for the Promotion of International Trade (CCPIT) / China Chamber of International Commerce (CCOIC), a conference on 26 October in Beijing. This conference will address the theme of “Increasing economic and business competitiveness using intellectual assets”.

The programme is available in English and Chinese at http://www.iccwbo.org/Training-and-Events/All-events/Events/Intellectual-Property-Conference-in-Beijing/
and will include both Chinese and international speakers on topics including:

- the importance of IP in the economic and trade strategies of countries
- the strategic importance of IP for businesses
- the challenges of protecting different types of technologies through patents and trade secrets
- key licensing issues, including in standard setting
- brand protection on the internet

The conference will be held at the Intercontinental Hotel Financial Street in Beijing at 11 Financial Street, Xicheng district and attendance is without charge. (http://www.ichotelsgroup.com/intercontinental/en/gb/locations/beijing-financialstreet)

Seminar “IP Protection Tools and Technology in China” – 28 November 2012 – Brussels

The China IP Desk of De Wolf & Partners is organizing a seminar on “IP Protection Tools and Technology Transfer in China” on Wednesday 28 November 2012 from 15:00 h. to 17:30 h. at De Wolf & Partners’ Brussels office, Place du Champ de Mars/Marsveldplein, 2, 1050 Brussels. The seminar will be followed by an informal networking drink.

Programme:

14:45-15:00	Registration
15:00-15:10	Welcome speech and speakers introduction by De Wolf & Partners Brussels Office
15:10-15:40	IP protection tools in China: How to use the Chinese IP system to protect your intellectual assets in China by Raphael Bailly and Valentin de le Court (De Wolf & Partners Brussels and Shanghai Office)
15:40-16:10	An introduction to technology transfer to China: What European SMEs need to know when transferring their technology to China by Simon Cheetham, China IPR SME Helpdesk Expert
16:10-16:20	Coffee and Tea break
16:20-16:50	Foreign Direct Investment and technology transfer to China in the context of a Sino-foreign Joint-venture: How to mitigate the risks of losing your technology to your Chinese partner by Ava Tu and Valentin de le Court (De Wolf & Partners Shanghai Office)
16:50-17:00	Pic-W – Platform for Innovation China-Wallonia (UCL – AWEX) by Silvano D'Agostino (Pic-W)
17:00-17:30	Recent trends in Chinese IP law with a focus on trademark law and technology transfer issues by Pr. Min He (Vice Dean of the IP Institute of the Eastern China University of Political Science and Law – ECUPL)
17:30-17:40	Q&A session with De Wolf & Partners Brussels and Shanghai Office, Pr. Min He of ECUPL and China IPR SME Helpdesk Expert
17:40 -17:50	Concluding remarks: key takeaways by De Wolf & Partners Shanghai Office

Register for this event by sending an email to events@dewolf-law.be or by fax +32-2-5136068 (no subscription fee)

The seminar is organized with the support of the Flanders-China Chamber of Commerce (FCCC), the China IPR SME Helpdesk, AWEX, the Belgian-Chinese Chamber of Commerce (BCECC) and the IP Institute of Eastern China University (Shanghai) and in collaboration with law firms in the Netherlands Ploum Lodder Princen and in France Stehlin & Associés.

PAST EVENTS

Meeting with Ningbo (Yuyao city) delegation – 11 October 2012 – Brussels

To mark the visit of the Vice Mayor of Yuyao City (Ningbo) and his delegation, the Flanders-China Chamber of Commerce (FCCC), Flanders Investment & Trade, and Agoria organized an information meeting on 11 October 2012 at the Sheraton Hotel in Brussels.

The Vice Mayor of Yuyao, Mr Lu Jianguo, and representatives of the Yuyao Investment Bureau presented an outline of the investment environment in Yuyao (Zhejiang Province). The Party Secretary was accompanied by leading entrepreneurs from Yuyao, who wished to get acquainted with our business environment and to find potential partners. The composition of the delegation and a description of their activities is available at: info@flanders-china.be. Yuyao city is under the jurisdiction of Ningbo city and is situated in Zhejiang province. It has attracted a vast amount of foreign investment to focus on developing the industries of automobiles and parts, electronics and information, fire fighting equipment, electromechanical equipment and tools, plastics, mould industry and agriculture.

Speakers included Mr Cen Jie, Director of the Yuyao Investment Promotion Bureau; Mrs Claire Tillekaerts, CEO, Flanders Investment & Trade; Mr Lu Jianguo, Vice Mayor of Yuyao; Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce; Mr Marc Van Gastel, Head of Inward Investment, Flanders Investment & Trade; and Mrs Fang Zhen, Vice Director of the Yuyao Investment Promotion Bureau.

The event was concluded with a cocktail reception and B2B meetings.

An investment guide of Yuyao city can be obtained at: info@flanders-china.be.

FCCC Meeting with high-level Weihai delegation (Shandong Province) – 24 September 2012 – Ghent

To mark the visit of the Party Secretary of Weihai and his delegation, the Flanders-China Chamber of Commerce (FCCC) organized an information meeting on 24 September in Ghent.

The Party Secretary of Weihai, Mr Sun Shutao, and representatives of the Weihai Investment Bureau gave an outline of the investment environment in Weihai, Shandong province, where several Flemish companies such as Bekaert, Beaulieu and Weihai Golden Solar Thermal Industrials have a major investment. The Party Secretary was accompanied by leading entrepreneurs from Weihai, who wished to get acquainted with our business environment and to find potential partners. In May 2012, the FCCC organized a successful visit with Flemish companies to this dynamic city.

The Vice Governor of the Province of East-Flanders, Mr Marc De Buck, welcomed the Weihai delegation. Mrs Gwenn Sonck, Executive Director FCCC, introduced the assets of Flanders to the delegation.

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

The meeting was organized with the support of Flanders Investment and Trade. The investment guide can be obtained at the FCCC. Letters of intent for further cooperation between members of the delegation and member companies have also been signed.

The Weihai investment guide can be obtained by sending an e-mail to the FCCC.

EU-China Business Summit – 20 September 2012 – Brussels

The 8th EU-China Business Summit on 20th September 2012 in Brussels brought together the highest level of CEOs from Europe and China. European and Chinese political leaders, including Chinese Premier Wen Jiabao, European Commission President José Manuel Durão Barroso, European Council President Herman Van Rompuy and Belgium's Deputy Prime Minister Didier Reynders also attended and addressed the participants.
Organized by BUSINESSEUROPE and the China Council for the Promotion of International Trade – in cooperation with the European Union Chamber of Commerce in China, EU-China Business Association and EUROCHAMBRES – the event, held in parallel to the EU-China Political Summit, served as an important forum for an open discussion about the current and future challenges and opportunities shaping the business environment in China and the European Union. The event was supported by the Flanders-China Chamber of Commerce (FCCC)

Participants of the business summit expressed their concern about the ongoing global economic crisis and the slowdown in the Chinese economy. The business leaders discussed the challenges in innovation to remain competitive and to be able to adapt to local and global market demands. They looked at the ways of strengthening investment opportunities to boost growth by encouraging companies to invest and agreed that the EU and China should pursue an ambitious bilateral strategy to further open their markets by launching investment treaty negotiations.

BUSINESSEUROPE President Jürgen R. Thumann said: "China is already the EU's 2nd largest trading partner and its fastest growing export market. European companies are very keen on doing more business with and in China. The EU and China need to rely on partnerships for growth. But partnerships can only work well if they are beneficial to all parties involved. Therefore the strong economic dialogue that removes trade and investment impediments is central to the EU-China relationship."

Arnaldo Abruzzini, Secretary General of EUROCHAMBRES said: “Amidst the uncertainties we, Europeans, are facing in our home region, we wish to send a strong signal that EU-China relations remain crucial to overcome the current crisis. Despite dissensions, we need to pursue an open dialogue, to avoid protectionist temptations and to create the conditions for a harmonious and balanced business relationship for businesses from both sides, especially smaller ones.”

Davide Cucino, President of the European Union Chamber of Commerce said: “More than ever before in modern history, the global economy depends on cooperation between Europe and China. Europe’s open investment environment not only offers Chinese companies opportunities to enter a large mature marketplace, it also brings direct benefits that can help lift Europe out of its economic malaise. Likewise, European companies can be a catalyst to assist China shift its economy towards quality-driven sustainable growth, which is probably the primary challenge facing the global economy today. So, while today’s Business Summit’s theme of cooperation was apt, it also taught us that such necessary cooperation can only stem from an acknowledgement that fostering investment and healthy competition in an open marketplace is the most important goal.”

Sir David Brewer CMG, President of the EU China Business Association said: “Today’s Business Summit has yet again given European and Chinese businesses a tremendous opportunity to meet and discuss issues of common interest. Significant scope exists for even broader and deeper trade and investment links between the EU and China that will benefit our peoples. Now, as much as at any time in recent history, we need businesses to lead the way in driving economic recovery.”

Lunch seminar: EU Business in China: Position Paper 2012/2013 – 18 September 2012 – Brussels

The Flanders-China Chamber of Commerce (FCCC) invited its members to the annual lunch seminar “EU Business in China: Position Paper 2012/2013”, on 18 September 2012 at the Résidence Palace in Brussels. The seminar was organized by the European Union Chamber of Commerce in China (European Chamber) in collaboration with Business Europe and the EU-China Business Association (EUCBA), of which the FCCC is in charge of the secretariat-general. At this occasion, the European Chamber presented its European Business in China Position Paper 2012/2013. Speakers were Karel De Gucht, Commissioner for Trade, European Commission, and Davide Cucino, President, European Union Chamber of Commerce in China.

The Position Paper can be obtained at http://www.europeanchamber.com.cn/en/chamber-publications.

Information session: Financial incentives and investment funds for doing business with China – 12 September 2012 – Brussels

On 12 September, the Flanders-China Chamber of Commerce and Flanders Investment & Trade organized an information session focused on financial incentives and investment funds for doing business with China. The session presented a view on investment funds available and which financial incentives are being offered. This seminar focused both on Flemish companies wishing to expand in China and Chinese companies investing in Belgium.

Mrs Claire Tillekaerts, CEO, Flanders Investment & Trade, welcomed the participants and also shared information on trade between Flanders and China. Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce, introduced the guest speakers. The first speaker, Mr Rik Daems, Senator, Chairman China-Belgium Investment Fund, gave a better understanding on the different investment vehicles related to China and the “Mirror” fund which addresses Chinese companies interested to invest in Belgium or in Europe. The second presentation delivered by Roald Borré, Business Manager, Investment Fund TINA, PMV, was focused on the TINA-fund, at which both Flemish and Chinese companies can apply for. After that, a presentation on “Financial Support to companies” was delivered by Yves Roekens, Head of financial incentives, Flanders Investment & Trade.

The presentations were followed by a question and answer session and a networking cocktail. 95 participants attended this interesting activity.

More information and a copy of the presentations can be obtained at: info@flanders-china.be.

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

FINANCE

China's Big Four banks interested in acquisitions

As the euro-zone debt crisis deepens, market speculation is growing quickly about whether China's capital-rich Big Four banks will take the rare chance to acquire some European rivals, even though the country's major lenders have so far remained hesitant and cautious. Some financial industry analysts say Industrial and Commercial Bank of China (ICBC) and Bank of China (BOC) are the most likely of China's major banks to make acquisition forays overseas. But the China Construction Bank (CCB) denied it was interested in British government-controlled Royal Bank of Scotland (RBS) or Germany's Commerzbank, as reported by the Financial Times. This indicated the banks don't want to make their ambitions too obvious, a move that could push the bidding price higher. Banking analysts at Barclays said in a recent research note that the Big Four banks "have sufficient liquidity to make acquisitions". However, the report also warned that the lenders could face regulatory hurdles, in particular in seeking to buy multinational European banks. Part of the reason why China's banks are keen to expand outside the country is that the Chinese economy is showing signs of a slowdown and the lenders want to diversify their profit streams and grab a bigger market share. Among the Big Four, BOC, China's top foreign exchange bank, is considered the front runner to make an overseas acquisition, the South China Morning Post reports.

PBOC to use more price-based tools, less direct control

China's central bank is putting more emphasis on price-based tools to manage monetary policy and strengthening macro prudential rules to shield the country's financial sector from systemic risk, Wang Huaqing, Secretary of the Discipline Department at the People's Bank of China (PBOC), said. He added that the bank was stepping back from "direct control" of liquidity to rely more on market forces. The central bank also keeps using window guidance and a dynamic mechanism of differentiated reserve requirements to direct banks to issue loans at a reasonable pace. Chinese banks made a lower-than-expected amount of new loans at CNY623.2 billion last month, compared with CNY703.9 billion in August. The PBOC cut interest rates in June and July and has lowered required reserve ratios (RRR) three times since late 2011 to free an estimated CNY1.2 trillion for lending. But it has since held off on more aggressive easing measures, despite further signs of cooling demand at home and abroad.

Chinese government readies trial VAT for services

The Chinese government is in the early stage of a trial to put a value-added tax (VAT) on services as part of an overhaul of its tax laws. VAT previously applied to goods but not services, said Sarah Chin, Tax Managing Partner of Deloitte Touche Tohmatsu. Under the new tax regime, most services would have a VAT of 6%, but transport firms would have a VAT of 11% applied. The central government aimed to eventually replace the business tax with VAT. "The shift from business tax towards VAT is a major reform that will push the restructuring of the economy and the change of direction in the nation's development," the State Administration of Taxation (SAT) said. The switch to VAT would also expand the scale of services and raise their quality. Chin said VAT reform created a criterion for deduction of tax, unlike business tax, which could not be deducted. Shanghai was the first city to implement the new VAT regime on January 1, followed by Beijing on September 1 and Jiangsu and Anhui provinces on October 1. The scheme will start in Fujian and Guangdong provinces on November 1, and in Tianjin and Zhejiang and Hubei provinces on December 1, according to a central government document. It will be rolled out to the rest of the country next year. Deloitte Tax Director Karen Chow said that under the new rules, a company could pass its VAT on to its customers. She added that if a company had, for example, a CNY200 profit, it would have an after-tax profit of CNY140 under the new regime, compared to CNY121.50 under the old one.

"If you can pass VAT to your customers, you can increase your profit," she said. By the end of May in Shanghai, 135,000 companies had taken part in the new VAT program, lowering their combined tax bill by CNY3.7 billion. The SAT also said that export tax rebates would be expanded from trade in goods to trade in services, which would boost the international competitiveness of the country's services trade. The new VAT regime also applied to design and research and development (R&D), which would drive scientific innovation, the South China Morning Post reports.

- The yuan briefly rose to 6.2583 against the greenback in spot trading last week, 1% stronger than its central parity rate of 6.3112, as it hit the ceiling at which the currency is allowed to be traded, according to the China Foreign Exchange Trading System. China's foreign-exchange reserves, the world's largest, climbed to USD3.29 trillion at the end of September from USD3.24 trillion on June 30, reversing a USD60 billion decline recorded between March and June.
- China staged a return to capital inflows last month, reversing the net outflows in the previous two months, as a pick-up in export growth raised hopes the economy is stabilizing. Chinese banks bought a net CNY130.7 billion in foreign exchange, compared with a net sale of CNY17.4 billion in August.
- Moody's Investors Services said an increasingly liberalized interest rate environment in China will reduce profitability and lead to an increase in risky loans at banks. "While they can still boast reasonably strong financial metrics, their ability to adapt to a fully market-driven pricing environment remains untested, and may be subject to additional uncertainties. Listed Chinese banks are scheduled to release third-quarter earnings by the end of this month. The People's Bank of China (PBOC) gave lenders more flexibility on interest rates in June. Moody's estimated net interest margins at Chinese commercial banks will be reduced by up to 6 basis points this year, which will result in total net profit dropping around CNY28.5 billion, or 3% of the system's net profit for 2011.
- Bank of America Merrill Lynch (BAML) has appointed Margaret Ren, a well-known banker and daughter-in-law of former Premier and Party General Secretary Zhao Ziyang, as China Chairman.
- China Life Insurance Co said profit for the first nine months of this year may fall 55% on lower investment yields and bigger impairment losses. Profit for the same period in 2011 was CNY16.7 billion. China Life in August reported a 26% profit decline for the first six months after an almost 20% slump in the Shanghai Composite Index in the year to June 30 crimped investment returns, while premiums income dropped.
- The level of non-performing loans is expected to keep rising at Chinese banks, but analysts say the relatively slow pace is unlikely to weigh on their profits this year. The average non-performing loan ratio of the nine banks listed in Hong Kong was expected to edge up in the third quarter to 0.98% from the second quarter, Macquarie said, while the overdue loan ratio would remain stable at 1.32% of total loans. Macquarie expects average profit growth of 15% for the first three quarters of this year from the year-earlier period, bolstered by growth in loans and assets. Asian Bankers said in its annual survey that the Big Four banks were likely to be "highly profitable" for the rest of the year.
- Bank of China (BOC) has signed a Memorandum of Understanding with NYSE Euronext to jointly develop yuan-denominated products. Dominique Cerutti, President and Deputy CEO at NYSE Euronext, said its partnership with BOC will help its clients and investors explore the Asian market.

FOREIGN INVESTMENT

FDI dropped again in September, 10th time in 11 months

Foreign direct investment (FDI) in China dropped in September for the 10th time in the past 11 months – there was a slight increase in May. "Despite the decline in FDI in China in September, China's use of foreign investment is generally developing positively and healthily because China is improving its structure of using foreign direct investment," Ministry of Commerce Spokesman Shen Danyang said. FDI in China reached USD8.43 billion in September, down 6.8% year-on-year. The first nine months saw China's FDI decline 3.8% year-on-year to USD83.42 billion. "A decline is the general picture for FDI in China as rising costs reduced its attraction to foreign investors and investment opportunities shrank after FDI increased rapidly in recent decades," said Li Xunlei, Deputy General Manager and Chief Economist at Haitong Securities Co. Foreign investment in the manufacturing sector fell 7.5% annually to USD36.9 billion in the first nine months, while funds flowing into the service sector were also down 1.8% to USD39.4 billion, largely because of a 5.6% cut in foreign investments in the property market. Excluding real estate, investment in the service sector expanded 1.6%. Investment from the European Union declined 6.3% year-on-year from January to September to USD4.83 billion, but separately, investment from Germany, the Netherlands and Switzerland swelled 29.1%, 38.9% and 142.3%, respectively. Spending from the U.S. dropped 0.63% to USD2.37 billion, compared with a 2.9% drop in the first eight months. China's non-financial outbound investment in the first nine months rose 28.9% to USD52.52 billion, down from 39% growth in the first eight months, but up from last year's growth of 1.8%. China's direct investment in the United States hit a record high of USD6.3 billion in the first nine months of 2012. Major acquisitions are pending in the aviation, auto parts and energy sectors, according to Rhodium Group Research Director Thilo Hanemann. During the third quarter, Chinese enterprises spent USD2.7 billion on 10 direct investments in the U.S.

- European Council President Herman van Rompuy said Brussels has attached great importance to China's leadership transition next month when the 18th Party Congress is held in Beijing. Van Rompuy said Brussels expects to hold a summit with China's new leaders in the autumn of 2013. European Commission President Manuel Barroso added that Brussels and Beijing are working closely on an investment agreement.
- China and Belgium have agreed to organize annual dialogues to promote investments, trade and industrial zones, following a meeting of officials from both countries. Chinese Ambassador to Belgium Liao Liqiang said the use of annual dialogues to promote trade and economic development is a specific and timely way to act on the consensus that has been reached among Chinese and Belgian leaders. "China and Belgium have both realized the greater strategic importance of developing relations in each sector," Liao said.
- Shanghai's Pudong New Area has attracted 45 projects worth a combined investment of CNY30 billion, including Shanghai General Motors Co's design and engineer technology center in Jinqiao and ProPower Renewable Energy Co's second-phase development project. Pudong aims to account for 50% of the gross domestic product (GDP) of Shanghai's strategic emerging industry by 2016. Pudong will grant special policies to the coastal Lingang area to help it attract CNY100 billion investment in three years. Lingang will develop into an equipment research and development center and a location for strategic emerging companies.

FOREIGN TRADE

Foreign trade in first 9 months lower than target

China's total trade in the first nine months of 2012 was up 6.2% on a year ago, well short of the official 10% target, as the debt crisis in Europe – China's biggest export market – persists. Although September exports were better than expected, officials say the trade outlook remains grim. A central bank adviser said two weeks ago that China had badly underestimated the scale of the global economic slowdown. The uncertainty for exports has created a vicious cycle of de-stocking at companies, revealed in falling inventory levels according to surveys of purchasing managers. That in turn drags industrial output down, dampens factory gate prices, squeezes margins, dents profits, makes banks wary about lending and destroys investor confidence. Some analysts cite steel output – up a tiny 2.3% in the first eight months of this year compared with the same period a year ago – and electricity usage growth running at roughly half the average rate of the last five years, as manifest signs of economic malaise. "People have been prepared to write off China for the last 30 years. They've not been so good at explaining why it hasn't happened," Stephen King, Global Chief Economist at HSBC said. "For a whole host of reasons, China could afford to make some poor choices about capital allocation and still do incredibly well," he added. "There's a long-standing tradition in China that says 8% is the growth number below which there will be unimaginable social consequences. We're below 8% now and Chinese society is not collapsing, so I'm pretty sure it's not true," said Andrew Batson at research firm GK Dragonomics. China's five-year plan that runs to 2015 officially targets GDP growth of just 7% over the period, the South China Morning Post reports.

Mexico files WTO complaint against China over textiles

Mexico has accused China of breaking World Trade Organization (WTO) rules by giving tax breaks and other favorable deals to its own clothing and textile businesses. The complaint included exempting them from income taxes, value-added taxes and municipal taxes, and giving cash payments and discounts on loans, land rights and electricity prices. The WTO did not give details about the size of the alleged Chinese support or its impact on Mexico's trade. Mexico's textile (CANAINTEX) and clothing industry (CANAIVE) associations, in a joint statement, called Mexico's official complaint "a highly important move". "The existence of subsidies in China, which violate WTO regulations, gives producers from that country an unfair advantage, distorts international markets and seriously damages Mexican industry," they said. Under WTO rules, China now has 60 days to resolve the dispute by explaining its actions or changing its behavior. If no deal is reached, Mexico could ask the WTO to rule on the case. In January 2009, Mexico challenged grants, loans and incentives that Beijing offered Chinese companies. The United States and Guatemala filed identical cases against China at the time, but none progressed to the litigation stage. In January this year, Mexico, together with the European Union and the United States, won a WTO case against China's restrictions on exports of raw materials. Last month the United States launched a WTO complaint against Chinese car exports. China hit back with its own suit, saying U.S. duties targeting export-promoting subsidies themselves broke WTO rules, the South China Morning Post reports.

Economic woes dampen Canton Fair opening

Many traders felt the chill from the global economy on the opening day of the Canton Fair on October 15. Some domestic exporters are worried that a possible drop in the number of buyers this year will add to the difficulties in an already hard year, particularly as demand from Europe refuses to pick up. The Canton Fair has been seen as the unofficial barometer of the health of foreign trade throughout its 56-year history. The gloomy economic environment prompted organizers to send out 17% more invitations to overseas buyers this year, taking the total invited to 1.3 million, but that still hasn't helped. At least 17 Japanese companies have joined this year's fair despite a lingering territorial dispute between China and Japan over the Diaoyu islands. About the same number of Japanese companies attended the fair last year, according to Atsuhiko Naoe, an official with the Japan External Trade Organization (JETRO). He refused to comment on the fair organizers' fears of fewer Japanese buyers coming to the event. The trade fair clusters manufacturers into groups according to their products to help buyers locate them easily. The electronic and consumer goods sections looked distinctly quieter on the first days than the small-machinery, building and decoration areas.

The Canton Fair attracted 24,840 exhibitors from home and abroad, up by 196 from the spring session, according to the event's Spokesman Liu Jianjun. Demand for exhibition booths, which have all been filled, was double what was being offered, said Liu. "It is an indication that numerous Chinese export-oriented manufacturers are eager to expand into the overseas market under the current global economic uncertainty," Liu said. China's trade rebounded in September. Exports surged 9.9% from a year ago to a record monthly high of USD186.35 billion, compared to just 2.7% in August. In the first three quarters of the year, China's foreign trade expanded 6.2% to USD2.84 trillion, widening the country's trade surplus to USD148.31 billion. This autumn's Canton Fair, the 112th since its establishment in 1957, is expected to attract almost the same number of visitors from home and abroad as the spring session, organizers said. However, they are pessimistic about the event's turnover. The spring session registered a record number of more than 210,000 deals, with turnover slightly shrinking to USD36.03 billion compared with previous events.

- The World Trade Organization (WTO) has upheld its ruling in June that China violated global trade rules by imposing anti-subsidy and anti-dumping penalties on more than USD200 million of flat-rolled electrical steel products from the United States.
- China, the world's second-largest corn producer, may import less corn after the domestic crop increased this year, the State Administration of Grain said. Imports for the year started October 1 may be a little less, said Zhang Guifeng, Deputy Director of the Administration in charge of managing the grain market. China may cut purchases to less than half of last year's level because of higher global prices and slowing demand, the China National Grain & Oils Information Center said. Imports surged more than five-fold last year after the government bought supplies to boost stockpiles. Corn output may jump 4.3% from a year ago to 20 million metric tons.

MACRO-ECONOMY

Consumer price index' growth slows in September

China's consumer price index (CPI) climbed 1.9% in September from a year earlier, slower than the 2% gain in August, the National Bureau of Statistics (NBS) announced. Food inflation climbed 2.5% last month from a year earlier, but rose only 0.2% from August. Non-food prices rose 1.7% on the year and 0.4% on the month, which research institutions said was driven by the government's increases in retail fuel prices as global crude oil prices climbed. The producer price index (PPI) dropped 3.6% last month from a year earlier, after falling 3.5% in August. Citigroup Economists Ding Shuang and Shen Minggao predicted the central bank will keep the money supply growth around 14% through reserve ratio cuts or reverse repurchases. M_2, the broadest gauge of money supply in China, expanded 14.8% after rising 13.5% in August. However, Ding and Shen said, "the window for interest rate cuts appears closed due to an uptrend of inflation… and the rebound in home prices". The central bank has relied on reverse repurchases since June as a major tool to boost liquidity. Since late last year, it has lowered banks' reserve requirement ratios three times and cut interest rates twice in June and July. Curbing inflation is the central bank's top priority, People's Bank of China Deputy Governor Yi Gang told an International Monetary Fund (IMF) meeting in Tokyo. Yi predicted the full-year CPI probably will stay at about 2.7%, below the government's annual inflation target of 4%. Another PBOC Deputy Governor, Liu Shiyu, said he was concerned about a rise in banks' bad loan ratios amid continued economic slowing. A rebound in new home prices may be another, if not a bigger, concern, as new home prices rose for the fourth consecutive month last month, the South China Morning Post reports. In the first three quarters, China's inflation rose 2.8% from a year earlier.

China's economic expansion slowed to a 14-quarter low in the third quarter, but economists say the worst may be over and another round of aggressive stimulus is unlikely with the improvements seen in recent months. Gross domestic product grew 7.4% in the July-September period from a year ago, the National Bureau of Statistics (NBS) said. It was in line with what many economists had anticipated and slower than the second-quarter figure of 7.6%. The country has targeted a growth of 7.5% for the full year. In the first three quarters, the economy expanded 7.7% year-on-year. In September, industrial output gained 9.2% year-on-year, compared with the growth of 8.9% in August. Electricity production was up 1.5% from a year ago. Fixed-asset investment growth recovered to 20.5% in the first nine months, up from 20.2% in the first eight. Growth in infrastructure investment accelerated to 12.6% in the nine months to September. Retail sales value rose 14.2% last month, compared with 13.2% in August. Car sales grew 1.7% year-on-year while that of furniture surged 31.4% and construction materials soared 26.9%. Sales of household electronics rose 13.7%.

- Huaneng Power International said its power output during the January-September period fell 5.4% compared with a year earlier. The company said in a filing with the Shanghai Stock Exchange that the drop in output was partly due to slowing demand caused by the economic slowdown. Electricity consumption is considered to be a reliable indicator of a country's economic condition.
- Combined profits of Chinese state-owned firms fell 11.4% in the first nine months from a year earlier, easing from an annual fall of 12.8% in the January-August period, the Ministry of Finance said. It said total profits last month rose 2.8% from August.
- The State Administration of Grain (SAG) called on its staff members in local branches across China to voluntarily fast to mark World Food Day on October 16. Shu Gang, Director of the Chengdu Grain Administration in Sichuan province, said he hoped the activity could correct many citizens' misconceptions that China is not short on grains. The SAG also said the fasting experience was aimed at reminding citizens not to forget about grain conservation during years of good harvests. China's grain output grew 4.5% last year to 5.7 billion tons, marking the eighth straight year of growth. Analysts estimate that about 85 million tons of grain are wasted in China during consumption and storage.
- Last month, Shanghai's exports rose 0.7% from a year earlier to USD17.9 billion and imports grew 1.6% to USD20.3 billion, reversing a drop of more than 5% in exports and imports in August. The rise in trade last month was due to shipments to the United States and emerging markets. Exports to the European Union shed 16.9% on an annual basis while imports from Japan fell 7.7%. Foreign direct investment in Shanghai surged 35.9% to USD1.63 billion in September, compared with the 20.9% jump in August.

- China moved a step closer to ending its ban on new nuclear projects imposed in the wake of Japan's Fukushima nuclear disaster last year. The government unveiled a plan to spend nearly CNY80 billion by 2015 to upgrade security standards at nuclear facilities. A five-year nuclear safety plan was released by the Ministry of Environmental Protection (MEP) last week. The safety plan lays out a road map for China's nuclear safety to reach international standards by 2020.
- Profits at China's state-owned enterprises fell 11.4% annually to CNY1.55 trillion in the first three quarters of 2012, the Ministry of Finance said. On a monthly basis, the SOEs' combined profits rose 2.8% in September. The profits of centrally-administered SOEs slid 7% from a year earlier to CNY 1.09 trillion in the first nine months, while SOEs under local governments saw profits drop 20.4% to CNY455.54 billion. During the first nine months, the electricity, tobacco, auto, and post and telecommunications industries saw big profit gains, while transport, chemicals, construction materials, non-ferrous metals and machinery firms suffered steep declines. Chinese SOEs saw revenues grow 9.5% annually to CNY30.3 trillion in the first nine months.
- A total of CNY825.8 billion in fiscal revenue was collected in September, up 11.9% annually. The pace was faster than August's 4.2%. The local governments saw revenue surge an annual 26.8% to CNY459.4 billion as an increase in property transactions in past months lifted their tax revenue, the Ministry of Finance said. On the other hand, the central government's income fell 2.4% to CNY366.4 billion, a second straight monthly drop, due to weaker corporate profit and slower rise in imports and consumer prices. Corporate income tax fell 11.1% to CNY46.6 billion due to a decline in industrial profits, while individual income tax dropped 5.7% to CNY42.5 billion. In the first eight months, China's fiscal revenues rose 10.9% annually to CNY9.06 trillion.
- China's business climate index continued to fall in the third quarter to 122.8, down 4.1 points from the second quarter. This is a steeper decline compared with the 0.4-point dip in the previous quarter, the National Bureau of Statistics (NBS) said. The third quarter index was still above the boom-bust line of 100 and 13.2 points higher than the fourth quarter of 2008 during the financial crisis.
- The Chinese government approved the marine functional zoning of seven provinces and one municipality, including Hebei, Liaoning, Fujian and Tianjin. The approval means that marine economic development has been elevated from a regional to a national priority. The value of the national marine gross product was CNY4.557 trillion in 2011, up 10.4% year-on-year, according to statistics from the State Oceanic Administration.

MERGERS & ACQUISITIONS

Consortium bid for China Gas Holdings fails

The USD2.2 billion hostile takeover bid for China Gas Holdings by a consortium that included China Petroleum & Chemical Corp (Sinopec), fell through. Ending 10 months of uncertainty over the takeover bid for the gas supplier, Sinopec and its ally ENN Energy Holdings said pre-conditions of the bid could not be met by the deadline and they chose not to go ahead with it. Instead, Sinopec formed a partnership with China Gas that will allow to operate downstream gas supply businesses and allow Sinopec to raise its holding in China Gas. Sinopec has for years held a stake of 4.8% in China Gas. Many analysts were taken aback by Sinopec's change of heart. Sinopec teamed up with ENN, a smaller rival of China Gas, and made the unsolicited offer for China Gas in December last year. China Gas strongly opposed the offer. Christfund Securities Research Director Simon Lam said the new venture was "a rational alternative for Sinopec, which could not accomplish its ambition to take over the company". Two joint ventures will be set up by China Gas and Sinopec. They will distribute the liquefied petroleum gas (LPG) produced by Sinopec's refineries and convert Sinopec's more than 30,000 petrol stations into petrol/compressed natural gas refilling stations. Eric Leung, Deputy Managing Director of China Gas, said details of the investment in the joint ventures still required further discussions. China Gas operates in more than 150 cities. It is involved in the construction and operation of gas pipelines and the transmission of natural gas, and sales to residential, industrial and commercial users. Despite Sinopec dropping a bid for China Gas, the two firms plan to form a joint venture using China Gas' assets to distribute liquefied petroleum gas (LPG) for Sinopec and another one to develop natural-gas refilling stations, using Sinopec's upstream gas source and retail petrol stations, and China Gas' city pipelines. The two may also jointly bid for new projects. Sinopec also proposed to give China Gas priority access to its gas resources, and allow China Gas to invest in pipeline construction. Sinopec might also raise its stake in China Gas subject to discussions. Analysts said the size and depth of any cooperation in the months ahead will tell whether this is just a face-saving exercise or not.

- Chinese appliance maker Haier said it will be taking a majority stake in New Zealand's Fisher and Paykel Appliances after some institutional investors accepted a sweetened offer. Haier, which already owns 20% of the laundry and kitchen appliance maker, raised its offer by 6.7%. Keith Turner, Chairman of Fisher and Paykel, said the independent directors have carefully considered a full range of expert advice, including the independent adviser’s report, and regarded the increased offer as representing fair value for the company shares. Qingdao-based Haier still needs regulatory approval before the takeover is finalized.
- Well Advantage, a private company controlled by Chinese billionaire Zhang Zhirong, agreed to pay USD14 million to settle insider trading allegations with the U.S. Securities and Exchange Commission (SEC). The SEC sued the company for buying USD14.3 million worth of shares of Canadian oil group Nexen days before it agreed to be acquired by China’s CNOOC and promptly sold them after the announcement, netting the firm USD7.2 million in profits. The settlement, which is twice the profits made on the trades, is subject to court approval.
- CNOOC, working to complete the biggest overseas takeover by a Chinese company, is slicing borrowing costs by 80% as it attracts international lenders seeking exposure to government-backed businesses. In July CNOOC agreed to pay USD15.1 billion to buy Canada's Nexen and is seeking USD6 billion in bank debt to finance the transaction. It is offering 80 basis points over the London interbank offered rate for the 12-month loan. CNOOC has a Aa3 rating from Moody's Investors Service.
- The appeal of pursuing outbound mergers and acquisitions for Chinese executives dropped to a two-year low, due to a grim outlook over the lingering euro-zone debt crisis and a large valuation discrepancy between listed and non-listed assets.The likelihood of a Chinese company investing in overseas M&As over the next 12 months dropped to only 11% this month, from 51% two years earlier, according to a survey conducted by Ernst & Young and the Economist Intelligence Unit (EIU). The valuation of potential acquisition targets posted the biggest hurdles to Chinese companies, which also pointed to problems with stringent regulatory environments.

PETROCHEMICALS

China's fuel production growth set to outpace demand by 2017

China's oil refiners are expanding so fast that the International Energy Agency (IEA) says they might boost exports amid the slowest growth in domestic demand since the peak of the financial crisis. China will probably add more than 2.9 million barrels a day to its crude-processing capacity by 2017, against a predicted increase of 2.1 million barrels a day in consumption of refined fuels, according to the Paris-based agency. Demand will rise by 190,000 barrels a day this year, the smallest gain since at least 2009. After developing its oil industry to fuel an economy that has tripled in five years, China faces the weakest growth since 1999. The IEA and C1 Energy, a Shanghai-based energy consultant, say the nation may become a powerhouse in fuel exports as domestic supplies exceed demand. That contrasts with analysts at JBC Energy and CLSA, who say refineries will idle output until consumption recovers. "China will become a big oil-product exporter around 2014 to 2015 as a result of its refining-capacity expansion," C1 Analyst Liao Kaishun said. Sinopec completed a catalytic-cracking unit last month at its Jinling plant in Jiangsu province with an annual capacity of 3.5 million tons of crude, while PetroChina increased the capacity of the nation's oldest refinery at Fushun in Liaoning province to 11.5 million tons a year. The company also started a 6 million ton-a-year crude-distillation unit at its Daqing refinery in Heilongjiang this month. China's apparent oil demand, or domestic production plus net imports, slid 0.4% in August from a year earlier to 9 million barrels a day, the lowest level since September last year, according to the National Bureau of Statistics (NBS). China's major refineries had a utilization rate of 83.5% of capacity as of last week, according to industry website Oilchem.net. “The chances China will overbuild are still pretty high,” the IEA said in its Medium-Term Oil Market Report, which forecast the nation might have a surplus of 1.2 million barrels of refined products a day in 2017 if utilization rates do not drop, the South China Morning Post reports.

- China National Petroleum Corp started construction of a third cross-country gas pipeline. The project is estimated to cost CNY125 billion and is aimed at boosting gas imports from central Asia. The west-east pipeline and 8 ancillary pipelines will span 7,378 km from Xinjiang to Fujian.
- PetroChina started drilling an oil sands field in Canada on September 30, a big step in the company's overseas oil sands exploration development. PetroChina International Investment, a subsidiary of PetroChina, bought a 40% stake in the MacKay River oil sands project of Canada's Athabasca Oil Sands Corp in February for CAD680 million. China's natural gas consumption in 2012 will reach 150 billion cubic meters, accounting for more than 5% of the primary energy mix. In 2011, the dependency on foreign supply was 24%. China imported 12.78 million tons of natural gas in the first half of this year, up 31% year-on-year.

REAL ESTATE

Rich Chinese women doing well in real estate

Real estate tycoon Wu Yajun tops the list of seven Chinese self-made women billionaires with personal assets of CNY38 billion, Hurun Report said. Wu, 48, founder and Chairman of Longfor Properties, holds her position as the world's richest woman despite a 10% shrinking of assets from a year earlier amid China's tight controls over the property market. The number of self-made women billionaires, with personal assets over USD1 billion, declined to 22 from 28 last year. Chen Lihua, Chairperson of Fu Wah International Group, was second on the list with CNY34 billion in assets. She was followed by Spain's Rosalia Mera, founder of Inditex and known for its Zara brand, with USD4.4 billion in assets. In terms of nationality, Chinese women entrepreneurs made up for half of the 22 self-made billionaires, followed by five from the United States and three from Britain. The real estate market remained the most important incubator with about 30% on the list being founders of property companies. 13% of the 2012 Hurun China Rich List are women. The proportion of rich women from the property sector fell to 22% from 24% last year.

Kerry Properties buys sites in Hangzhou

Kerry Properties snapped up five commercial and residential sites in Hangzhou's West Lake district's Zhijiang Resort Area for CNY2.5 billion. It paid between CNY7,917 and CNY8,554 per square meter for the commercial sites and between CNY10,623 and CNY11,326 per sq m for the residential sites. All the five plots are close to the famous Qiangtang river and are contiguous, lending themselves to a large commercial-residential project. Property prices in the area hover around CNY20,000 per sq m. The prices Kerry Properties paid are less than what China Resources Land paid to buy a nearby site, at CNY13,563 per sq m in October 2009. The sites cover a total 142,579 sq m and could yield 216,053 sq m of residential floor space and 23,249 sq m of commercial area. Meanwhile, Shanghai-listed Poly Real Estate Group acquired five residential sites, totaling 442,000 sq m, for CNY1.24 billion in Guangdong's Jiangmen city. According to the China Index Academy, the 20 major cities have released 129 sites for sales between September 17 and 23, compared with 108 sites the week before. Second- and third-tier cities Kunming, Hefei and Chongqing have been the most active in selling sites. Land supply in first-tier cities has decreased.

Office rents in Beijing to go up by 20% this year

The cost of renting Grade A office space in Beijing is expected to increase by 20% this year despite the slowdown in China's economic growth, Jones Lang LaSalle (JLL) said in a report. "Although the rate of increase has slowed below last year's 41%, some resistance from price-sensitive tenants to the high rents in Beijing is now being felt," said Qin Xiaomei, Chief Researcher at Jones Lang LaSalle Beijing. A number of tenants, struggling in the current economy, handed back space to the market this quarter and this may be a recurring theme over the coming quarters as companies' expansion plans are affected by the slowing economy. Monthly rents increased to CNY341 per square meter, based on gross floor area, by the end of the third quarter, up 4.7% from the previous quarter, according to JLL's research. Despite the slowdown in demand in the first three quarters of the year, the vacancy rate in Beijing's Grade A office market continued trending downward, reaching 5.7%, a 12-year low, by the end of the third quarter of this year. Demand is expected to be largely stable in the fourth quarter as some multinational companies continue to expand, although the net take-up for the whole year is expected to be only around a third of the 2011 figure. The increase in rents in Beijing has been stronger compared to some other large Chinese cities. In the year to date, rents in Beijing's CBD increased by 20.4%. During the same period in Shanghai, they increased by only 2.8%, while Hong Kong saw a decrease, according to JLL. Domestic buyers have dominated the en bloc transaction market in 2012. Ping An Trust purchased Tower B of China Electronic Plaza in the third quarter for CNY1.6 billion. Qihoo 360 Technology agreed to purchase 69,205 sq m of new office premises in Chaoyang district for CNY1.38 billion.

- Global real estate adviser Savills has entered China's fast-growing serviced flat sector and is looking to manage 20 properties across the nation by 2016. Neil Harvey, Savills' Residence Director, said that an increasing number of foreign clients were the key driving force behind the market as multinational companies continued to invest in China. Savills expects to soon officially launch Savills Residence Century Park in Pudong and expand its portfolio in southern China, including two in Shenzhen. In Shanghai, rents for serviced flats rose 1.6% in the third quarter from the previous quarter, with the occupancy rate at 92%, according to Savills.
- The common housing practice of selling homes before construction is completed, known as pre-sales, is causing problems for both buyers and developers. Customers cannot be sure of the quality after they have paid, while property developers get criticized by early buyers if they later lower prices. Experts estimate that pre-sale transactions account for around 70% of new housing sales in China.
- The Hangzhou local government has imposed new measures in an attempt to keep the lid on record-high prices paid for land sites. The government would previously award sites to the developer with the highest offer in a tender or land auction. However, the Hangzhou authorities will implement a new measure under which the winning bid will be based on the price and the amount of subsidized housing planned on the site. According to a report by House China, an online property news agency, the local government will stop the bidding when the bid for a site reaches a level that is 49% higher than the opening bid. Then the bidders will have to bid with the floor area they are willing to provide for building subsidized housing on the site. The developer that allocates the most floor area for subsidized housing would win the site.
- MGM China Holdings, the Chinese arm of U.S. casino company MGM Resorts International, signed a 7.2-hectare land deal for a new USD2.5 billion casino resort in Macao. MGM China said it is paying USD161.4 million for the land, including a USD56.2 million down payment. The casino resort will include a five-star 1,600-room hotel, 500 gambling tables and 2,500 slot machines. Analysts estimate the company's share of the market is among the lowest of the six casino operators in Macao, but is now trying to catch up with its rivals.
- Excluding government-subsidized housing, home prices fell in 24 of 70 cities in September, compared with 20 in August. Prices were flat in 15 cities, one more than in August. "In general, home prices in China have begun to stabilize with minor growth still being registered in some parts of the country," said Lu Qilin, Researcher at Shanghai Deovolente Realty Co. "We could possibly see price drops over the next few months because some developers will offer discounts to trigger sales as the year-end is approaching," he added. Prices in Beijing and Shenzhen edged up 0.1% monthly in September. In September, CNY540.4 billion worth of new houses were sold nationwide, up from CNY450.8 billion in August.
- After rising for four consecutive weeks, the main barometer of house prices in Hong Kong, the Centa-City Leading Index, reached a new high of 111.19 for the week ended October 14 – tracking an 18% increase in average prices on the secondary home market so far this year. The market's focus last week was the imminent launch of the latest project, the 2,580-unit Reach, jointly developed by Henderson Land Development and New World Development.

RETAIL

Li Ning sells stake in his sportswear company

Li Ning, the founder and Chairman of Li Ning Co and his brother, plan to sell a 25% stake in the sportswear retailer to Viva China Holdings, a sports talent management firm which is listed on the Growth Enterprise Market (GEM) and is 56% controlled by the family. The plan triggers concern Li may give up control of the sportswear business, while the private equity firm TPG is likely to increase its control. The Li brothers own about 35% of Li Ning Co. United States private equity fund TPG Capital owns about 13% and Singapore sovereign wealth fund GIC about 8%. Li, who set up the company in 1990, has long aimed to build a bigger sports business than one based solely on his eponymous brand of apparel and shoes. He uses Viva China as a platform to develop businesses in sports talent management, event production and sports community development. The company paid CNY1 billion for a piece of land for a residential and commercial complex in Shenyang, Liaoning province, in May last year. In August 2010, the brothers signed an agreement to swap their combined 30.9% stake in Li Ning Co for Viva China. But the deal was blocked by GEM's listing committee, which ruled that the acquisition constituted a reverse takeover. Analysts said the deal this time was smaller and should be able to obtain approval from the regulators. Li Ning Co's market share has shrunk and its profit dropped dramatically in recent years because of intense competition from Nike, Adidas and domestic rivals, and weaker consumer demand, the South China Morning Post reports.

- Bright Dairy came under fire again after two customers complained they found floating blue particles in the company’s fresh milk. The company explained the blue particles were part of the plastic bottle cap generated when a mechanical hand tightened the cap on the assembly line. Bright Dairy has been entangled in four recent scandals.
- Tesco is shutting Chinese outlets and opening new ones more slowly two years after announcing plans to double stores and build more malls. The British retailer's China same-store sales fell 1% in the second quarter. The world's largest retailer, Walmart Stores, is also adding outlets more gradually than it had planned in China's CNY3.5 trillion grocery industry. Same-store sales at Carrefour, the world's second-largest retailer, fell 6.1% in China in the third quarter.
- Growth of retail sales of consumer goods swelled to a six-month high of 14.2% in September, against 13.2% in August.
- Nestlé expects sales in China to double this year to USD54 billion from 2011 and plans to open two research centers in Dongguan and Xiamen next year. The sales, which will include contributions by Hsu Fu Chi, a Dongguan-based sweet confectionery producer, and Yinlu, a Xiamen-based beverage maker, that Nestlé acquired this year, may push China to replace Germany as the fourth largest market for the Swiss firm. Nestlé global CEO Paul Bulcke said organic sales in China grew by double digits in the first three quarters, while the company’s global sales rose 6.1%.
- Decathlon, the French sports goods chain, is to triple its Chinese store numbers and make the country its third-largest global market. Bertrand Tison, Vice President of Decathlon China, said the firm is targeting 150 stores on the Chinese mainland by the end of 2015, with most being planned in second- or third-tier cities. Founded in 1976 in France, Decathlon opened its first store on the Chinese mainland in 2003 and now has 46 outlets. Decathlon has developed slowly in China mainly because it has found it hard to find suitably cheap sites for its large-store format. Tison said China is now its fourth-largest market after France, Spain and Italy, but hopes it will become its third in the next five years.
- China has become the top market for high-end cognacs, worth around USD3 billion last year. Cognac shipments to China rose by 21.7% in volume last year but their retail value jumped 34%. Asia accounts for 60% of sales at Rémy Martin and its top market is China, where it commands the No 3 spot in volume terms behind Hennessy, owned by LVMH and Diageo, and Martell, owned by Pernod Ricard.To try and stay on top of the growing thirst for prestige products Rémy has launched a China-exclusive XO product called Centaure aimed at young, cosmopolitan consumers. It has also introduced Club de Rémy Martin, priced 30% above its VSOP, and 1898 Creation Fine Champagne, priced at three times more than its XO, already around €120-160.
- Media Markt, the German chain of stores selling consumer electronics with numerous branches throughout Europe and Asia, launched its online shopping business in Shanghai on October 12. Consumers can browse its website and purchase from all categories of products available in any Media Markt store in Shanghai. According to Frank Bussalb, CEO of Media Markt China, these services include product reservation, pick up, home delivery, extended warranty and online photo printing. According to Bussalb, the retailer is initially offering about 40% of its products to online shoppers.

SCIENCE & TECHNOLOGY

First Sino-U.S. JV university to start admissions

Shanghai New York University, the first Sino-U.S. joint venture university, will soon begin admissions for the inaugural undergraduate freshman class for the 2013 fall semester. Graduates of NYU Shanghai will get a double bachelor's degree from both the local branch and the New York-based main campus. "The establishment of the university is significant to the opening of Shanghai's higher education to the outside world," said Shen Xiaoming, Vice Mayor of Shanghai, at the ceremony for launching the university. The university is expected to develop a new model for China-foreign cooperation in higher education, he said. About half of the students will be Chinese applying through the national college entrance exam, and the rest will come from around the world. The tuition for Chinese mainland undergraduates will be about CNY100,000 a year – making it the most expensive university in China, but still much cheaper than the tuition of New York University, which is about three times that amount. Overseas students will pay according to the tuition of New York University. Different from other Chinese universities, there will be no compulsory courses on ideology, but there will be specially designed Chinese-element curriculum modules, such as "China's social evolution and Chinese culture in global perspective," Yu Lizhong, President of NYU Shanghai said. Though courses are taught in English, all the students must learn Mandarin, Yu said. Admissions details will be published on the website of NYU Shanghai this month, the Shanghai Daily reports. NYU Shanghai is expected to welcome its first 300 students next year from across the world. There will be 151 places for Chinese students. About 40% of the faculty will be recruited globally, while the student-to-faculty ratio will be 8-1, half the average in Chinese universities.

According to a report in September by the Social Sciences Academy Press, about 340,000 Chinese students went abroad for further study in 2011. Among them were a growing number of students from renowned high schools who skipped China's college entrance exam, or gaokao. Last year, 76,800 high school students began studies overseas. "This is a considerable number, and includes many excellent students," said Chen Qun, President of East China Normal University. "Chinese universities should accelerate reforms of education models and ensure the nation keeps the country's best students," Chen said.

STOCK MARKETS

Chinese banks move into IPO underwriting

Chinese banks are increasing their share of underwriting initial public offerings (IPO), and particularly new share floats by cross-border companies seeking listings on the Hong Kong market. The IPO business in Hong Kong has been dominated by United States and European investment banks, such as JP Morgan and Citigroup, but in recent years the names of several Chinese firms, including China International Capital Corp (CICC) and BOC International (BOCI), have begun appearing more often on the lists of joint book-runners for big IPOs. Beijing-based CICC is widely considered a market leader in China's investment banking business, which has a short history in comparison with the U.S. CICC is run by Levin Zhu, son of former Chinese Premier Zhu Rongji. BOCI, based in Hong Kong, is the investment-banking arm of Bank of China (BOC), one of the Big Four state lenders. BOCI is run by Li Tong, daughter of Politburo Standing Committee Member Li Changchun. "The landscape of [investment banking industry] competition in Hong Kong has obviously changed since the 2008 global financial crisis, as some Western banks are leaving the business and some mainland firms are increasing their efforts to do more business," said a veteran investment banker. More than a dozen investment banks have been engaged in tough competition in the past month for the IPO deal to be launched by Huishan Dairy early next year. Huishan aims to raise about USD500 million from the IPO and the company is keen to assemble a team of banks with a more diversified background in the hope they can help it reach a wider group of potential investors. Industry sources say BOCI and Citic Securities International, the Hong Kong unit of Citic Securities, China's top brokerage, are likely to underwrite the deal, along with Western names such as Goldman Sachs and Deutsche Bank, the South China Morning Post reports.

- The China Securities Regulatory Commission (CSRC) granted investment licenses to seven overseas institutional investors last month, allowing them to buy Chinese stocks and bonds. Some of the qualified foreign institutional investor licenses went to Duke University, Macquarie Bank, Qatar Holding and KDG Capital Management (HK).

- Shanghai Fosun Pharmaceutical started taking orders from institutional investors in a bid to raise up to USD593 million through a much-delayed initial public offering (IPO) in Hong Kong. The company has secured additional subscriptions from cornerstone investors. Underwriters are pitching the deal as an “inexpensive” play to ride on China's rising disposable income and aging population. To prevent a failed launch, Prudential Financial of the U.S. and the International Financial Corp (IFC) were asked to raise their purchases to a combined USD75 million, up from USD50 million in the initial proposal. Pricing and allocation of shares are scheduled for October 24, and trading is due to begin on October 30.

TRAVEL

Chinese tourists could help crisis-hit EU countries

“Last year, of all the Swiss watches sold in Switzerland, 50% were to the Chinese market,” said Xu Jing, Director of the UN World Tourism Organization (UNWTO) Asia-Pacific program. Xu said he believed mainland Chinese would become the biggest force in global tourism within three years. Luxury shops in London, Frankfurt and Paris are all hiring Chinese shop attendants. The Chinese outbound market is the most energetic driving force of international tourism, Xu added. The financial crises that hit Greece and Portugal were, in part, owing to their failure to target Chinese tourists aggressively as tourism in these two countries was one of the few sectors of the economy that still held up. “The Germans, the French and the British; these three, and to a lesser extent the Italians, have maintained an aggressive strategy in penetrating the Chinese market, which effectively saved them during the euro crisis, financially and economically,” Xu said. Asian tourists, more than others, like to shop, he added. They always love to bring back gifts because a message has to be conveyed that I have travelled and travelled abroad. The average total spending of an outbound Chinese tourist was also higher compared with their European or American counterparts, Xu said. UNWTO figures last month show that year-on-year, Chinese tourists spent 30% more when traveling abroad than last year. It was the biggest increase in spending, with Russians second with 15%. Two years ago, the Chinese were sixth for outbound expenditure. "Now they are number three or four," Xu said. The biggest sources of Chinese tourists were the three tier-one cities: Beijing, Shanghai (and Jiangsu and Zhejiang provinces) and Guangdong.

- The Ministry of Railways (MOR) has recently started a trial membership program on 12306.cn, the Ministry’s official ticketing and customer service website, that allows certain passengers to use credits to redeem tickets. VIP train station lounges, luggage porters, and free hotel accommodation are other perks that could be offered to frequent travelers on China's railways. Up to now, only passengers who took part in customer-satisfaction surveys were awarded credits they could redeem for free tickets.
- Citing public opposition, the Shanghai-based Spring Airlines has canceled a promotion offering free tickets on its flight from Shanghai to Japan's Saga prefecture. The private airline was trying to boost interest in the flight, which had fallen off amid the territorial row between Beijing and Tokyo, but some people opposed any effort to increase travel to Japan.
- The new 132-kilometer-long Hefei to Bengbu high-speed railway was put into service in Anhui province, cutting the trip between the two cities by at least one hour to 38 minutes. It greatly shortens trips from the Anhui cities of Hefei, Bengbu and Huainan to the Yangtze Delta.
- Hainan Airlines will launch a new subsidiary, Fuzhou Airlines, in cooperation with the Fujian provincial government. The new airline will have a total investment of CNY2 billion and will be based at Fuzhou Changle International Airport. The airport is currently one of the main operating bases of Xiamen Airlines, which counts China Southern Airlines as a major shareholder. The establishment of Fuzhou Airlines still needs approval from the Civil Aviation Administration of China (CAAC).
- The site where China’s first atomic bomb exploded is set to open to the public. The mystery surrounding the site and its dated equipment and buildings is expected to draw tourists to the area. CNY6 million will be spent turning the former nuclear weapon site – Malan Base in Xinjiang – into a tourism attraction. China’s first nuclear bomb exploded in the desert near Malan on October 16, 1964.

ONE-LINE NEWS

- A draft regulation on China's permanent residency permits, which lowers requirements for applicants, is to be issued soon, the Ministry of Public Security has said. China started to issue permanent residency permits to foreigners in 2004. With Chinese "green cards", foreigners can enter or leave China without a visa and stay in the country freely. By the end of last year, more than 4,700 foreigners had received the permits. In Beijing, a total of 852 foreigners have applied for the permits so far, and 783 applications have been approved. The Republic of Korea has issued about 1 million green cards and Japan has issued 1.5 million, compared with China's 5,000.
- The National People's Congress Standing Committee will convene a session from October 23 to 26 in Beijing to amend seven laws, including the Prison Law and the Postal Law. Lawmakers will also discuss appointments and dismissals. Former Politburo Member Bo Xilai is expected to be deprived of NPC membership, paving the way for his criminal trial to take place.
- Fuping county near Xian is expected to see growing development after Xi Jinping becomes the new General Secretary of the Chinese Communist Party next month. Xi, who is Vice President and has been anointed to succeed Hu Jintao as President, was born in the rural county in Shaanxi province in 1953. His father, Xi Zhongxun, a former Vice Premier, was born and is buried in Fuping. A metro rail line linking Fuping with the provincial capital Xian is expected to be built. Many new high-rise residential buildings are also under construction.

QUOTES OF THE WEEK

"I am quite confident that China's huge domestic market and the further development of its western regions can sustain an annual growth rate of between 7% and 8% in the coming 20 years. I think advanced economies should come up with more ways to cooperate with China. A change in attitude can help the United States and the European Union walk out of economic stagnation earlier. We have seen a trend of developed economies tending to resort to protectionism amid economic difficulties."

Wang Jinzhen, Vice Chairman of the China Council for the Promotion of International Trade (CCPIT), quoted in the China Daily, October 20, 2012.

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Canton Fair--Encouraging Growth at a Difficult Time

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A first-time visitor to the Fair, Kristrian Holmqvist from Finland, said the Canton Fair "does provide better ideas on doing trade business and make us to be more competitive".

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