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

# NEWSLETTER | 19 NOVEMBER 2012

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## FCCC ACTIVITIES

### Conference: "How to protect your trade secrets in China?" – Thursday, 22 November 2012, 16h – Hotel Messeyne, Kortrijk

The Flanders-China Chamber of Commerce (FCCC), POM West Flanders, the Province of West Flanders, VOKA and Jones Day are organizing a conference on "How to protect your trade secrets in China?". Highly experienced attorneys from Jones Day's China offices will provide concrete guidance and share their insights. The conference will take place at 4 p.m. on Thursday, 22 November 2012 at Hotel Messeyne, Groeningestraat 17, 8500 Kortrijk (parking available).

The programme is as follows:

|           |  |
|-----------|--|
| 3.45 p.m. | Registration   |
| 4.00 p.m. | Welcome and Introduction by Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce and Serge Clerckx, Partner, Jones Day Brussels |
| 4.10 p.m. | "How to protect your trade secrets in China?" Horace Lam and Sebastien Evrard, Partners, Jones Day Beijing   |
| 5.30 p.m. | Questions and answers  |
| 6.00 p.m. | Cocktail and networking  |

Registration before 16 November 2012. The participation fee for members of the FCCC is €45. The fee for non-members is €65.

## OTHER ACTIVITIES

### China Lecture Café "Concrete for tall structures: the Shanghai case" – 20 November 2012 – Ghent

The next China Lecture Café "Concrete for tall structures: the Shanghai case" by Prof. Dr. Ir. Luc Taerwe and Prof. Dr. Ir. Geert De Schutter will take place on November 20<sup>th</sup> from 12h to 14h, in Het Pand, room "Rector Blancquaert" (Onderbergen 1, Gent). Sandwich lunch will be provided. Subscribing is free, but mandatory, by email to [isabelle.decoen@ugent.be](mailto:isabelle.decoen@ugent.be).

The city of Shanghai, China, is expanding at an amazing rate. Major structures are being constructed or have recently been completed, including tunnels, bridges, and record-breaking tall structures such as the 'World Financial Center' and 'Shanghai Tower'. For this expansion, concrete as a building material is of the utmost importance. In addition to high volumes of traditional concrete, new types of specialty concrete are being used, such as high-strength concrete and self-compacting concrete. For many years, the Department of Geotechnical Engineering, School of Engineering, Tongji University, Shanghai, and the Magnel Laboratory for Concrete Research, Faculty of Engineering, Ghent University, Belgium, have been coordinating research efforts concerning concrete structures. Several aspects, of high importance for superstructures such as the tall buildings in downtown Shanghai, have been studied, e.g. creep of high-performance concrete, fire resistance of high-performance and self-compacting concrete, ... In this session, a general view on the importance of concrete for tall structures will be presented, including innovative types of concrete. Some practical information will be given, linked to some towers constructed in Shanghai.

The program for the coming months is to be found via <http://www.ugent.be/china>.

### 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:

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|-------------|--|
| 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](mailto: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

### Seminar: “Which road ahead for China's economy?” – 19 November 2012 – Barco, Kuurne

The Flanders-China Chamber of Commerce (FCCC) organized an interesting seminar on China's macro-economic perspectives on 19 November at the offices of Barco in Kuurne.

Mr Bert De Graeve, Chairman of the Flanders-China Chamber of Commerce (FCCC) started with the introduction of the conference. Mr Alexander van Kemenade, Senior Economist at the Economist Intelligence Unit, presented the EIU's long-term macroeconomic forecasts for China and discussed these in light of the new leadership's challenges and reform prospects. He also touched upon the current downturn in China and recovery prospects.

Mr van Kemenade also turned to regional growth trends within China. Over the past decade, the changing nature of China's economy has been underscored by a profound geographical shift in growth dynamics. The centers of economic change are no longer found on the coast in Shanghai or Shenzhen, but further inland as historically-sluggish regions begin to benefit from a recent wave of investment.

Mr Alexander van Kemenade's area of expertise is China's macroeconomic and political outlook, with a focus on regional dynamics at the sub-national level. He regularly contributes to the Economist Intelligence Unit's custom research and has co-authored numerous in-house publications. He manages a number of data products, including Access China's province- and city-level demographic forecasting model, as well as the Economist Intelligence Unit's Chinese city competitiveness rankings. He is fluent in Mandarin and has lived in China for over 20 years.

## 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](http://www.flanders-china.be)

## MEMBERS' NEWS

### Interview with G. Van Kerckhove in China Daily

An interview with FCCC Member Gilbert Van Kerckhove, Founder of Beijing Global Strategy Consulting, was published in the European edition of the China Daily. His book "Toxic Capitalism" was recently published in English and is being translated in Chinese. "The West is putting China in a no-win situation: not only is the Middle Kingdom a victim of Western over-consumption, but it is also the target of abuse, blame and scrutiny by the West." 64-year-old Gilbert Van Kerckhove says one of the main arguments in his book "Toxic Capitalism" is that the West blames China for global levels of pollution and for failing to fairly treat its labor force. His book is about the impact of over-consumption in the world, though, a large part is devoted to China. "People see that China goes out to the world, buying up companies, mining operations and other resources, putting strains on world markets and increasingly competing with the West. But the reason behind the trend is that the more the West consumes, the more it buys from China, the more China needs," says Van Kerckhove. Holder of a Chinese green card, he is not a typical China fan. "I'm not that kind of foreigner who always says, 'Oh I love China and I love Chinese food'. The decades of experience as the go-between in facilitating communication between international business communities and national and local Chinese governments show that being neutral is very important," he says. "The most important thing I mentioned in my book is that Chinese companies need to go for more value-added products. Firstly, the West needs to pay more so Chinese factories can have a much more comfortable margin. Secondly they need to buy high-quality goods which are more durable, consuming less and wasting less," he adds.

The full version of the article is available at:

[http://europe.chinadaily.com.cn/epaper/2012-11/16/content\\_15935955.htm](http://europe.chinadaily.com.cn/epaper/2012-11/16/content_15935955.htm)

Gilbert Van Kerckhove has also pointed out some minor corrections on his blog at:

<http://blog.strategy4china.com/?p=3957>

## 18<sup>th</sup> CPC CONGRESS

### Communist Party elects new leadership

On the closing day of the 18<sup>th</sup> Chinese Communist Party Congress on November 14, 2,307 delegates elected 205 full members to the Central Committee and 171 alternate members. Ninety-one of the previous Committee's full members were re-elected and 55 existing alternate members made full members. On November 15, the newly-elected Central Committee held its first meeting to elect the Politburo and its Standing Committee. The members of the Standing Committee (SC) were presented to the domestic and international press in the Great Hall of the People shortly before noon on November 15. The SC was reduced from nine to five members: Xi Jinping, Li Keqiang, Zhang Dejiang, Liu Yunshan, Yu Zhengsheng, Wang Qishan and Zhang Gaoli. New Party General Secretary Xi Jinping is expected to succeed his predecessor Hu Jintao as China's President in March next year, while Li Keqiang would succeed Wen Jiabao as Premier. Zhang Dejiang is expected to become the new Chairman of the National People's Congress (NPC). Current Vice Premier Wang Qishan has been elected to the post of Chairman of the Communist Party's Central Commission for Discipline Inspection (CCDI), the main anti-corruption body. Xi Jinping also succeeded Hu Jintao as Chairman of the Party's Central Military Commission (CMC), but Hu will remain Chairman of the State's Central Military Commission until the next plenary session of the National People's Congress in March 2013.

In the newly amended Party Charter endorsed by the 18<sup>th</sup> National Congress, reform and opening up are highlighted as "the path to a stronger China" and the "salient feature" of the new period in China. A Congress resolution said that the inclusion of this statement would help the Party acquire a deeper understanding of the importance of continuing reform and opening up, and help it to pursue this endeavor more consciously and with greater determination. The "Scientific Outlook on Development", first put forward in October 2003 by Hu Jintao to facilitate overall, coordinated and sustainable development, has also received a prominent place in the Party's Charter, on a par with the theories of Mao Zedong, Deng Xiaoping and Jiang Zemin. The concept of scientific development was first incorporated into the preface of the Party Charter at the 17<sup>th</sup> Congress in 2007. Another noteworthy amendment is the detailed explanation on the strategic position of ecological progress in China's overall development plans. "Ensuring ecological progress and building a beautiful China are new concepts in our Party's Constitution," said Xia Xueluan, a renowned Sociologist at Peking University.

## Sun Zhengcai and Hu Chunhua front runners of 6<sup>th</sup> generation

Two newly-appointed Politburo members are widely seen as candidates for top posts when Xi Jinping's generation leaves office a decade from now: Inner Mongolia Party Secretary Hu Chunhua and Jilin Party Secretary Sun Zhengcai. Both 49 years old, they are poised to take up two important posts soon. Hu is expected to become Guangdong Party Secretary, while Sun is set to lead Chongqing. Analysts say the tasks would put their capabilities to the test and provide them with valuable experience. Five of the new Politburo Standing Committee's seven members will retire in five years, paving the way for a new generation. Only Xi Jinping and Li Keqiang will still be on the Standing Committee after the 19<sup>th</sup> Party Congress in 2017.

Sun Zhengcai, one of the youngest provincial Party Secretaries to join the Politburo, is expected to become Party Secretary of the municipality of Chongqing rocked by the downfall of former Party Secretary Bo Xilai. Born in Rongcheng, Shandong province, in 1963, Sun built up his knowledge base in agriculture. In 1997, he was transferred to Beijing's Shunyi district as Deputy Director, marking the start of his political career. He was elected in 2002 as a Standing Committee Member of Beijing's Party Committee, then led by Jia Qinglin, and became Minister of Agriculture in 2006. The posting made him one of the youngest Ministers yet. Sun's ascension to the post of Jilin Party Secretary in 2009 was followed two years later by the province's rise to "the trillion GDP club", when its economic output hit CNY1.04 trillion.

The 49-year-old Hu Chunhua is tipped to take over the leadership of Guangdong. Born in 1963 in the city of Wufeng in Hubei province, Hu graduated from Peking University with a Chinese language major and has worked for a period of time in Tibet. He returned to Beijing in 1997 to serve as a Vice Chairman of the All-China Youth Federation. In 2001, Hu left again for Tibet for five years, taking up the post of Deputy Party Secretary and Executive Vice Chairman of the Tibet Autonomous Region. In 2006, Hu became Chairman of the Communist Youth League. Two years later, he was made Governor of Hebei, the youngest provincial Governor in the country. Hu Chunhua was transferred to Inner Mongolia in January 2010.

## Analysts watch candidates for economic top posts

Economic analysts are watching a handful of experienced bankers whose ascent through the party ranks last week makes them likely candidates for top jobs managing China's economy for the next five years. At least four cadres who headed one of the Big Four state-owned banks – Shang Fulin, Guo Shuqing, Xiang Junbo and Xiao Gang – are widely seen as favorites for top economic posts after their promotion to the Communist Party's Central Committee. The four, along with the Chairman of the China Investment Corporation (CIC), Lou Jiwei, are seen as leading contenders for top positions at the People's Bank of China (PBOC) and the Finance Ministry. The Governor of the Central Bank, Zhou Xiaochuan, and Finance Minister Xie Xuren are expected to retire in March next year. All four candidates are considered advocates of more market freedom and less control over banks' business operations. But some analysts were disappointed that Wang Qishan, who secured a spot on the seven-member Politburo Standing Committee, was appointed Chairman of the Central Commission for Discipline Inspection, China's top anti-corruption body, instead of to an economic top post.

- To date, about 983,000 private companies, including 47,000 foreign-owned companies, have established Communist Party organizations, said Wang Jingqing, Vice Director of the Organization Department of the Communist Party of China Central Committee. Party units have helped companies learn about the latest national policies and have improved relations between employers and employees, he said.
- China's state-owned enterprises (SOEs) should learn from private and foreign companies to be more "market-oriented", which is also the direction of the reform of SOEs, said Wang Yong, Chairman of the State-owned Assets Supervision and Administration Commission (SASAC). "It is clear that being more market-oriented is what the SOE reforms should lead to," he said. By the end of 2011, China had 117 centrally-administered SOEs which held assets worth CNY28 trillion. Wang added that China's SOEs "need to seek business opportunities in various sectors worldwide".
- The central government is confident of achieving its 7.5% economic growth target this year despite the recent slowdown. "Signs of stabilization in the economy were getting more obvious in October," said Zhang Ping, Chairman of the National Development and Reform Commission (NDRC). He also warned that "the foundation of the

economic rebound is not solid enough, and we must be prepared for dealing with difficulties and challenges over the long term.” Gross domestic product (GDP) growth slowed to 7.4% year-on-year in the third quarter, its slowest rate in 14 quarters.

- Former U.S. Secretary of State Henry Kissinger said that one of the major transformations in China over the next 10 years will be the urbanization of more than 400 million farmers, which will test the country’s infrastructure, economy and even traditional value systems. He added that China’s future generation will be unique in that it will be the first generation in hundreds of years that has never experienced upheaval. He also said that the U.S. should not expect China to follow its path.
- Minister of Commerce Chen Deming, who was an alternate member of the 17<sup>th</sup> Central Committee, did not receive enough votes to become a member of the 18<sup>th</sup> Central Committee. There were 8% more candidates than seats in preliminary voting before the formal elections. It is almost certain Chen will have to step down as Minister in March next year. Some analysts expected him to become a member of the Politburo or a Vice Premier. Chen was “young” enough at 63 to have served another five-year term as a Minister if he would have been elected a member of the Central Committee.

## FINANCE

### Total Social Finance indicator gaining acceptance

Chinese authorities are using a homemade measure of money supply as their main credit policy guide, and their confidence in it has led to an increasing public prominence for the indicator. The Total Social Financing (TSF) indicator has shown China’s alternative fundraising channels were sufficient to sustain economic growth even as bank lending weakened, and helps explain why the central bank was not as aggressive in easing policy this year as many analysts had expected. The People’s Bank of China (PBOC) first published the TSF in 2011, and switched from quarterly to monthly releases this year. The TSF gives a much better indication of how much credit is available in the economy, particularly important as the relative importance of state bank loans declines as a source of funding. For example, new yuan loans in October were CNY505.2 billion, down 19.3% from a year earlier, which might suggest ebbing confidence and a need for policy action. But TSF – which covers yuan loans from banks, foreign currency loans, trust loans, bank acceptance bills, corporate bonds and non-financial institutions’ equity sales – shot up an annual 64% to CNY1.29 trillion. Accumulated TSF in the first 10 months of the year is CNY13.02 trillion, up an annual 23%. “The latest (TSF) data support the PBOC’s view, and also ours, that overall monetary and financing conditions are not restrictive and can support 7.5% to 8.0% growth,” Barclays economists wrote in a research note. Bank loans in October comprised 39.16% of total social financing, the second straight month in which yuan loans made up less than half of China’s monthly TSF. Bank loans fell from 92% of TSF in 2002 to less than 60% by 2010.

- China’s sovereign wealth fund China Investment Corporation (CIC) would focus more of its USD482 billion on Asia in a bid to beat a rise in protectionism in the West and boost exposure to rapid regional growth, Chairman and Chief Executive Lou Jiwei said. “We would avoid investing in countries that do not welcome us. There are other places to invest,” Lou added. For now, liquidity makes Europe and the United States CIC’s markets of choice for investments in publicly traded securities, while the UK is the fund’s top infrastructure pick. “We dare not touch the banking sector there [the euro zone] because we do not know how many more problems are there,” he said.
- The People’s Bank of China (PBOC) reiterated the yuan was close to what officials described as an “equilibrium” level. The yuan has strengthened about 2.4% since July 25 after a 1.6% decline since the start of the year.
- “The banking system’s risk is under control and the non-performing loan ratio, 0.97%, is low,” Shang Fulin, Chairman of the China Banking Regulatory Commission (CBRC) said. Bank lending is not concentrated on any high-risk investment projects, and most of the loans have mortgage guarantees, he said. Total debts will rise from 191% of GDP at the end of 2011 to 206% by the end of this year, according to a report by Standard Chartered Bank. The report also said that the country will have public debt at 58% of GDP by the end of 2012.
- Industrial and Commercial Bank of China (ICBC) plans to increase the number of

international branches as it focuses on mergers and acquisitions to become a multinational group, Chairman Jiang Jianqing said. The bank earned USD864 million from its overseas operations in the first half of this year.

- The number of countries and regions processing yuan payments grew to 91 in June from 65 a year earlier, while institutions processing such payments increased to 983 from 617 during the same period, according to the Society for Worldwide Interbank Financial Telecommunication (SWIFT). Hong Kong contributed around 80% of yuan payments in the first eight months of 2012. An HSBC survey showed that 77% of Chinese companies expected one-third of all Chinese trade to be conducted in yuan by 2015, and 30% plan to use the currency for investment-related purposes in the next 12 months.
- Chinese banks extended fewer loans last month but analysts said the country's central bank is unlikely to further ease monetary policy as new lending is expected to stabilize. New yuan-denominated lending fell CNY81.6 billion, or 13.9%, to CNY505.2 billion from a year ago, the People's Bank of China (PBOC) said. The new lending was the lowest in 13 months. The figure did not include off-balance-sheet loans such as trust loans and government acceptance bills, said Wang Tao, Economist with UBS Securities. Foreign-currency loans and corporate bond financing, which were also excluded from new lending, saw significant growth in the month, she added.
- China's central bank has not set a timeframe on issuing more gold import licenses to banks, Xie Duo, General Director of the People's Bank of China (PBOC), said. He declined to comment on the central bank's own gold buying activity. China holds the world's sixth-largest official gold reserves, at 1,054.1 tons, which account for under 2% of its total reserves, according to the World Gold Council (WGC). China has strict regulations on gold imports and exports, and has so far only issued licenses to nine commercial banks to engage in foreign trade of gold.
- Chinese banks will not delay implementation of tougher capital rules, known as Basel III, even though the U.S. Federal Reserve said that the implementation of the rules will be delayed in the United States. A foreign bank source said the first reporting date is January 18, and the results will be submitted to the People's Bank of China (PBOC) and the China Banking Regulatory Commission (CBRC) on a quarterly basis. All large Chinese banks already meet the requirements, while smaller banks enjoy a grace period of six years.
- Non-performing loans rose by CNY22.4 billion in the three months ended on September 30 to CNY478.8 billion, the China Banking Regulatory Commission (CBRC) said on its website. Chinese bankers said the current bad loan ratio is still relatively safe although banks have been grappling with rising defaults and weaker loan demand after economic growth slowed for a seventh quarter.
- A new index, which tracks offshore yuan business worldwide, shows that the currency's international use has grown more than seven-fold over the past two years. The Renminbi Globalization Index was introduced in Hong Kong by Standard Chartered Bank, along with the results of a survey conducted among top managers of companies across Asia and Europe, which showed that 76% of the respondents polled were either conducting yuan business already, or considering doing so within the next six months.
- Industrial and Commercial Bank of China (ICBC) got approval from local regulators to set up branches in Saudi Arabia and Kuwait.

## FOREIGN INVESTMENT

### U.S. to attract record high Chinese investment

The U.S. will attract a record high volume of direct investment from China this year, according to Brenda Foster, President of the American Chamber of Commerce in Shanghai. In the first three quarters of this year, Chinese firms sealed USD6.3 billion worth of investments, setting the stage for a new record year for Chinese investment in the U.S. The previous record was USD5.8 billion in 2010. Chinese direct investment in the U.S. typically stood under USD1 billion before 2008. A report, entitled "Chinese Direct Investment in California", said the U.S. would look for a cumulative USD100 billion to USD400 billion of Chinese investments in the years till 2020 if the U.S. can keep the average pace of 17% growth for input of global FDI flows during the decade. The report predicted California, which has attracted more

investment projects from China than any other U.S. state, can absorb USD60 billion new Chinese FDI by 2020.

- Pepsico opened its largest research center outside the United States in Shanghai. The USD45 million facility will help the company to develop new products for China and Asia, and tailor to the region's tastes, the company said in a statement. The Shanghai research center is part of PepsiCo's 2010 plan to invest USD2.5 billion in China over a three-year period.

## FOREIGN TRADE

### China expected to import less corn

Chinese farmers are using higher-yielding seeds and embracing modern technology to boost the corn harvest. Some farms in the country's northeastern grain belt are already matching corn yields in the United States midwest, about double the average Chinese production of 5 tons per hectare. China's corn crop is forecast at a record 200 million tons this year, according to the U.S. Department of Agriculture, and imports are expected to tumble. A sizable reduction in China's imports could leave big exporters such as the U.S. and Argentina with no ready alternative outlets as there was little or no growth in demand elsewhere. "Over the next 15 years, China needs 80 million to 100 million tons of corn a year," said Hardeep Grewal, Syngenta's head of corn marketing for the Asia-Pacific. "It means yields have to go up 50% to 60%." Hybrids have modernized planting as some seed firms guarantee 95% germination, meaning farmers no longer have to place two to three seeds per hole, hoping at least one germinates. New varieties also mean reduced fertilizer use, and improved water efficiency – a critical factor in the increasingly water-stressed northeast of China. By 2025, much of the region is expected to become either severely or extremely water-stressed.

- The European Union should impose fewer restrictions on imports of traditional Chinese medicine (TCM), Wang Guoqiang, Vice Minister of Health, said. An EU directive, issued in March 2004 and implemented in May 2011, mandates that herbal medicines be barred from the EU market unless they are licensed by an EU member state. To gain authorization in the EU, herbal medicine makers must pay large sums for registration and collect documentation proving the product has a 30-year history of safe use, including 15 years in the EU. Only one TCM herbal medicine is allowed on the EU market.
- The European Union has been dumping toluene diisocyanate (TDI) into the Chinese market, the Ministry of Commerce (MOFCOM) said. An eight-month investigation found that TDI imported from the EU was selling at as much as 37.7% below normal prices and that such dumping was hurting domestic producers, the Ministry said in a preliminary ruling.
- The European Commission imposed provisional duties ranging from 17.6% to 58.8% on ceramic tableware and kitchenware imported from China despite opposition from most EU member states. Fourteen of the European Union's 27 members voted against the planned measures at a meeting of trade specialists in October. Ceramic tableware and kitchenware imports from China totaled €728 million in 2011. The Commission is investigating 44 dumping and subsidy cases, 21 of them involving China. The Commission also set provisional duties of 15.9% to 67.8% on iron tubes and pipe fittings from China and Thailand. Both sets of anti-dumping duties took effect on November 16 for six months and may be prolonged for five years.
- China said it would change its restrictive policy on specialist high-value magnetic U.S. rolled steel imports after the World Trade Organization (WTO) declared that China was in breach of international trade rules. China said that although it "may not agree" with all the WTO's findings, it would respect them and "work hard to implement" them. The WTO had ruled on June 15 that China breached trade rules by not providing sufficient evidence for imposing duties, but that decision was appealed by Beijing five days later.

## IPR PROTECTION

### Patent applications show fastest growth in the world

The number of invention patents applied for in China increased by more than 20% this year, exhibiting the fastest growth rate anywhere in the world, Tian Lipu, Commissioner of the State Intellectual Property Office (SIPO) said. In 2011, China received 526,000 patent applications, a fourth of the total submitted in the world. A decade earlier, the number was around 40,000, making up only 5% of the world's total, Tian said. In 2011 Chinese people held 350,000 patents, and foreign companies and individuals in the country had a similar number. "After the Party Congress, China will continue to more strictly enforce laws concerning intellectual property rights," Tian said. In his report delivered at the opening ceremony of the 18<sup>th</sup> Party Congress, President Hu Jintao said China will adopt a strategy to develop intellectual property rights and further strengthen the protection of those rights. It was the first time the importance of protecting intellectual property rights was mentioned in a report to the Party Congress.

### Thousands of fake luxury bags confiscated

Thousands of fake luxury products have been confiscated and 73 suspects detained in southern China in a crackdown on what police say was a major source of counterfeit goods. More than 20,000 bags and suitcases purporting to be famous brands such as Louis Vuitton, Hermes and Coach were confiscated. More than 960,000 fake bags of various brands had been manufactured by the counterfeiting ring and many of them had been exported to the United States and the Middle East. Police estimated the value of the infringement of intellectual property rights case to be CNY5 billion. The gang made huge profits from the business. They had even managed to buy more than 33,000 square meters of land in Anhui province where they were planning to build a factory, police said.

## MACRO-ECONOMY

### 20% of Chinese to be affluent by 2020

Twenty percent of the Chinese population will be wealthy enough to be considered "affluent" by 2020, according to research by the Boston Consulting Group. By then, 280 million people are expected to form the country's affluent class, wielding USD3.1 trillion a year of purchasing power, an amount equal to 5% of global consumption, the company said. Boston Consulting defined people who have an annual household disposable income of USD20,000 to USD1 million as being affluent. By 2020, their consumption will be nearly equal to Japan's total consumption for the same year, 128% of Germany's and three times South Korea's, the report said. Adjusted to take differences in purchasing power into account, the USD20,000 starting point for the affluent class is equivalent to an annual household disposable income of USD38,000 in the most-developed markets and is near to the medium household income of many developed countries. The report said affluent consumers in China tend to replace their old belongings quickly as they pursue emotional gratification, status and recognition. The report said three quarters of those who make up the affluent class in 2020 will hail from relatively small cities, the China Daily reports.

- China's fiscal revenues rose 13.7% year-on-year to CNY1.04 trillion in October, the Ministry of Finance said. The country's central fiscal revenues rose 8.9% year-on-year to CNY511.9 billion last month. During the first 10 months, the country's fiscal revenues grew by 11.2% from a year earlier to CNY10.1 trillion. From January to October, tax revenues nationwide rose 9% on an annual basis to CNY8.7 trillion.
- Profits at China's state-owned enterprises (SOEs) fell 8.3% annually to CNY1.75 trillion in the first 10 months of the year, the Ministry of Finance said. The profits of centrally-administered SOEs slid 3% from a year earlier to CNY1.25 trillion from January to October, while SOEs under local governments saw profits fall by 19.3% to CNY501.2 billion. Revenue at Chinese SOEs grew 10% annually to CNY33.79 trillion in the period.
- The number of China's high net worth individuals (HNWI) – those with investable finance in excess of CNY6.5 million – will grow by 20% annually to nearly 2 million by 2015, according to a joint report by McKinsey & Co and Minsheng Banking. The number grew 15% annually from 2010 to this year. The number of the so-called ultra HNWI, whose investable finance exceeds CNY100 million, would double to nearly

130,000 by 2015, twice the number of this year. More than 30% of the assets of rich Chinese are in real estate. Risk diversification was the major reason for 86% of respondents to invest abroad.

## MERGERS & ACQUISITIONS

### China's outbound M&As reach record high

The value of outbound mergers and acquisitions (M&As) by Chinese enterprises surged 16.2% to a record high in the first three quarters of this year, and the trend may continue over the next 12 months, Deloitte Touche Tohmatsu said. A total of 133 companies from the Chinese mainland, Hong Kong, Macao and Taiwan, sealed outbound M&A deals valued at USD52.2 billion in the January-September period, the highest since Deloitte started to compile the data in 2005. "Chinese outbound M&A activities continued to be vibrant over the first nine months of 2012 and have not been impacted by China's confusing macro-economic picture," said Lawrence Chia, head of Deloitte China M&A Services. China's outbound M&As were focused on the energy and resources sector during the period, Deloitte said in the report. Deloitte added that 90% of 69 M&A practitioners it surveyed are optimistic that Chinese outbound M&A deals will increase over the next 12 months.

- Zhuhai Hanxing General Aviation Co became the first privately-owned Chinese company to buy a U.S. aircraft manufacturer after completing a 100% takeover of Washington-based Glasair Aviation. The two sides declined to reveal the transaction amount. Hanxing plans to introduce some of Glasair's technology into its aircraft manufacturing operations in China.

## PETROCHEMICALS

### GE Oil & Gas looking for partners to explore shale gas

GE Oil & Gas, a subsidiary of General Electric Co, said it is holding discussions with China's top three oil and gas companies about possible cooperation on the development of the country's shale gas industry. Liu Bo, General Manager of GE Oil & Gas Greater China, said it was too early to project anything more at present. The three Chinese companies involved are China National Petroleum Corporation (CNPC), China Petrochemical Corporation (Sinopec Group), and China National Offshore Oil Corporation (CNOOC). China plans to be pumping 6.5 billion cubic meters of shale gas by 2015, reaching an annual output of 60 billion to 100 billion cu m by the end of 2020. Considered a carbon-friendly alternative to natural gas, shale gas has become an increasingly important source of energy in the United States. However, experts say that in China, the industry still needs to develop its production expertise, dealing especially with two controversial areas. The recovery of shale gas requires large quantities of water, and its extraction can pollute local water supplies. GE Oil & Gas also said it had signed a Memorandum of Understanding with CECEP Industrial Energy Conservation Co – a subsidiary of the China Energy Conservation and Environmental Protection Group – to accelerate their cooperation on industrial waste heat recycling and power generation.

### China to import 60% of its oil next year

China will import about 60% of the 500 million metric tons of oil it uses next year, according to Gao Shixian, Assistant Director General of the Energy Research Institute of the National Development and Reform Commission (NDRC). This year, China is expected to import about 280 million tons of crude oil, or 57% of its total consumption. Since China became a net importer of crude oil in 1993, it has gone from importing 6% of the oil it consumes to more than 50% in 2009. "The relationship between China and the world in the oil industry will become even deeper," said Zhong Shan, Vice Minister of Commerce, during the first China International Oil and Gas Trade Conference in Shanghai. In 2011, China consumed 11.4% of the world's oil. "We have been shifting our business from Japan to China because China is consuming more crude in Asia, and we want to sell as much as we can to this market," said Yousef M. Al-Sulaiti, Managing Director of the crude oil business of the Qatar International Petroleum Marketing Co.

- Huntsman Corp and Sinopec have formed a joint venture to build and operate a

USD750 million propylene oxide and methyl tertiary butyl ether (MTBE) facility in Nanjing, Jiangsu province. Huntsman will own 49% of the project, the Woodlands, Texas-based company said in a statement. The facility is expected to be completed by the end of 2014 and will use Huntsman's technology for creating the compounds. Propylene oxide is used to make home insulation, building materials and foams for cars and furniture. MTBE is a fuel additive.

- China will become the main customer for Iraqi oil by the 2030s, and will also continue to invest substantially in Iraqi oil production infrastructure, the International Energy Agency (IEA) said in its annual World Energy Outlook report. Iraq only accounted for 5% of China's oil imports last year, or about 275,000 barrels per day. The IEA also predicted that China's consumption of natural gas would rise from around 130 billion cubic meters (BCM) in 2011 to 545 BCM in 2035, and China would become the leader in the world in the use of renewable energy.
- PetroChina and Sinopec's refineries plan to process some 31 million metric tons of crude oil this month, according to ICIS C1 Energy, a Shanghai-based energy information consultancy. PetroChina plans to process about 12 million tons with a daily output of 405,000 tons this month, a 1.98% increase compared with the previous month. Sinopec plans to process about 18.90 million tons of crude oil with a daily output of 631,000 tons this month, 5.7% up on the figure for October.
- Fuel prices have been cut by more than 3% last week, the first cut since July, in response to lower international crude oil prices. Gasoline prices dropped by CNY310 a ton and diesel's by CNY300 a ton. That represents average cuts of 3.2% and 3.4% respectively.
- The Saudi Arabian Oil Co announced the official opening in Beijing of Aramco Asia, a wholly-owned affiliate of Saudi Aramco, "to facilitate joint activities in general and investment opportunities arising from the capital projects in Saudi Arabia and Asia," said Abdulrahman F. Al-Wuhaib, Senior Vice President of the company's downstream business.

## REAL ESTATE

### Swire Properties sells most expensive apartment in Hong Kong

Swire Properties said it sold a 620 sq m apartment on the ninth floor of its Opus development in Hong Kong for HKD455 million but did not say who the buyer was. Local property agents said it was the highest price paid for an apartment in Hong Kong. Swire has already sold one other unit for HKD430 million and leased out another that comes with its own pool for HKD850,000 a month. The sale comes amid growing concern over surging property prices driven by low interest rates and an influx of wealthy buyers from China's mainland. Prices have doubled since the end of the global financial crisis in 2009.

- The Chinese government is "actively studying" an expansion of its experimental property tax program, Minister of Housing and Urban-Rural Development Jiang Weixin said, adding that there would be no relaxation of current restrictions on home purchases in the short term. Housing sales rose 5.6% year-on-year to CNY4.63 trillion in the first 10 months. Minister Jiang said the construction of around 6 million affordable housing units would start next year.
- Office rents in most of China's first-tier cities will likely see moderate growth in 2013, with increasing leasing activity in emerging markets rather than in central locations, consulting firm Cushman & Wakefield said in a report.
- The number of Chinese cities seeing monthly gains in new home prices rose in October, according to the National Bureau of Statistics (NBS). Prices increased in half of the 70 cities tracked by the bureau, compared with 31 in September. Prices were flat in 18 cities while the remainder registered a decline. Despite the central government's continued controls, some local authorities have "fine-tuned" their property policies by allowing home buyers to borrow more from public housing funds, causing a rebound in home prices, Zhang Dawei, Analyst at Beijing-based Zhongyuan Real Estate said. In the existing home market, meanwhile, 32 cities registered price increases in October, compared to 35 in September and 38 in both July and August.

## STOCK MARKETS

### China to increase RQFII and QFII quota

China is planning a nearly threefold jump in quotas for the Renminbi Qualified Foreign Institutional Investor scheme (RQFII) by CNY200 billion from the current CNY70 billion. The RQFII program was set up to allow foreign investors to use offshore yuan to buy mainland securities. Quota for the Qualified Foreign Institutional Investor (QFII) scheme – the original, dollar-denominated program that allows institutional investors to buy stakes in Chinese-listed stocks or bonds – could also be lifted if its current USD80 billion limit is reached, Guo Shuqing, Chairman of the China Securities Regulatory Commission (CSRC) said. By the end of September, 157 foreign funds had invested USD30.8 billion in QFII and 21 financial institutions had a total RQFII investment of CNY39 billion, according to the State Administration of Foreign Exchange (SAFE). China granted USD2.75 billion in quotas – a single-month record – to foreign investors in October and another CNY9 billion quota to offshore yuan investors. Seven overseas financial institutions received new or additional quotas last month to invest in the Chinese mainland's stock and bond markets under the QFII program. Nearly half of the October quota was given to the Government of Singapore Investment Corp and Temasek Fullerton Alpha Investments, highlighting China's recent push to boost investment from sovereign wealth funds.

- People's Insurance Co (Group) of China is meeting investors to gauge demand for an initial public offering (IPO) that may raise over USD3 billion in Hong Kong. The insurer is seeking a price that values the whole company at or above CNY125 billion. The IPO may account for about 16% of PICC Group's enlarged share capital, but the size of the stake has not been finalized yet. The Social Security Fund (SSF) acquired 11.3% of PICC Group for CNY10 billion in June last year, valuing the insurer at about CNY90 billion. The sale would be Hong Kong's largest IPO this year.
- A New York court has approved a deal between Well Advantage, a company indirectly owned by China Rongsheng Heavy Industries' Non-executive Director Zhang Zhirong, and the U.S. Securities and Exchange Commission, over alleged insider dealing involving shares of Canadian energy company Nexen. Well Advantage, which will pay USD14.24 million, did not admit or deny the share trading allegations.
- China's stocks fell to their lowest level in seven weeks after Xinhua News Agency reported the government may expand a property-tax trial and Haitong Securities Co said retailers may post weak sales this month.
- China will introduce differentiated dividend tax rates on January 1. Individual investors will be taxed on their dividends from listed companies according to the shareholding period. Investors holding shares for more than a year will pay only 5%. Those holding shares for less than a year but more than a month will pay 10% while investors holding shares for less than a month will pay 20%, the Ministry of Finance said. The new policies aim to promote long-term stability and the healthy development of China's capital market, the Ministry said.
- Future Land Development, a property developer based in Jiangsu province, plans to raise up to HKD2.54 billion from an initial public offering (IPO) in Hong Kong. Final pricing is expected on November 28, with trading due to begin the next day. The IPO will help to realize the sustainable development of the company, Executive Director Huang Maoli said. At least five companies are poised to launch IPOs to raise more than a combined USD3.6 billion in Hong Kong this month, including Future Land.

## TRAVEL

### British Airways and Ryanair order C919 planes

China's home-grown aircraft, the C919, received 50 new preliminary orders from three airlines, bringing total orders for the 150-seat airliner to 380. British Airways and Ryanair have agreed to purchase the aircraft without specifying the size of the orders, while Hebei Aviation Group, which is controlled by China Energy Group, and Joy Airlines, a joint venture between China Eastern Airlines and Aviation Industry Corp of China, have ordered 20 aircraft each. Existing customer GE Capital meanwhile doubled its order to 20. The new orders signed at the 9<sup>th</sup> China International Aviation & Aerospace Exhibition in Zhuhai bring the total number of customers of the C919 to 15. The market for single-aisle aircraft, with 150 to 180 seats, is dominated by Airbus and Boeing. Separately, Xinhua reported China will need 4,960

commercial planes over the next 20 years, representing a value of USD563 billion. The Commercial Aircraft Corporation of China (COMAC) forecast 4,273 large passenger planes would be needed by 2031. Defunct U.S. airline Eastern Airlines also placed orders as it wants to become the first operator to fly COMAC jets in the United States after it relaunches flights next year. The C919 is due to make its first flight in 2014 and enter service within two years after that, according to COMAC. Its assembly plant in Shanghai is expected to be able to produce 150 jumbo jets a year by 2020. The assembly lines for the jumbo jet, which are still under construction, are due to be completed by the end of this year. COMAC also said the air passenger volume in China would grow more than 7% a year over the next two decades. Chinese airlines carried 292 million domestic passengers last year, an increase of 9.2% from 2010, according to official figures.

## Civil aviation developing fast in China

As of June, there were nearly 3,100 aircraft operating in the Chinese civil aviation market, nearly triple the total in 2002. Of those, more than 1,850 are transportation aircraft and more than 1,200 are general aviation planes, according to the Civil Aviation Administration of China (CAAC). Currently, there are 46 airlines, 12 more than in 2002, and 134 general aviation companies are operating in the market. The country's civil aviation industry generated more than CNY500 billion worth of revenue in 2011 and made CNY36.3 billion in profit. China had signed bilateral civil aviation agreements with 114 countries and regions by the end of 2011, and the International Civil Aviation Organization (ICAO) has decided to locate one of its regional offices in Beijing, indicating that the organization is determined to enhance its cooperation with China. At the end of 2011, China had 2,290 regular air routes, more than 1,800 domestic and more than 400 overseas.

In 2009, mainland China and Taiwan opened regularly scheduled flights. The mainland has opened 41 destinations for airlines from Taiwan, and Taiwan allows mainland flights to land at nine of its airports. The 12<sup>th</sup> Five Year Plan period (2011-15) will continue to be a time of fast expansion for China's civil aviation industry, said CAAC Director Li Jiaxiang. Total investment in the industry will surpass CNY1.5 trillion from 2011 to 2015, and investment in civil aviation infrastructure will exceed CNY420 billion during the five years. By 2015, China will have more than 230 civil airports and a fleet of more than 4,500 civil aircraft. In 2002, there were only four airports in China that could handle more than 10 million passengers annually, and by the end of last year, the country had 21 such airports. The annual total number of passengers handled by China's airports grew from 171 million in 2002 to 620 million in 2011. Total cargo throughput of the airports in 2011 was 11.5 million tons, nearly three times that of 2002. Beijing Capital International Airport is now the second busiest airport in the world in terms of passenger throughput, second only to Hartsfield-Jackson Atlanta International Airport in the United States. The capital's airport handled almost 79 million passengers last year. Shanghai Pudong International Airport ranked third in terms of cargo throughput last year, trailing close behind airports in Hong Kong and Memphis in the U.S. Among the 46 airlines in China, 10 are privately owned, and private companies have invested CNY72.4 billion in the civil aviation sector to date. In general aviation, 103 out of the 140 companies in China are private, and in civil aircraft repair, nearly 25% enterprises are private. In July, the State Council issued a set of guidelines for promoting the development of China's civil aviation industry, the China Daily reports.

- The central government plans to spend CNY600 billion on railway infrastructure next year, with 60% of the investment going to high-speed projects, Li Changjin, Chairman of China Railway said, adding that it was difficult to complete this year's plan for railway infrastructure investment.
- China Railway Construction Corp has won two contracts worth CNY13.2 billion. One is a CNY10 billion contract for the transport system in the "Blue Silicon Valley" in Qingdao, Shandong province. The project will reclaim 159,500 square kilometers of land from the ocean in six cities, including Qingdao, and develop 64,000 sq km of land. The aim is to develop the area into an economic zone by 2015. The second CNY3.2 billion contract is to build part of a subway line in Shijiazhuang, the capital of Hebei province.
- In October, China's fixed-asset investment in railways rose 141.4% from a year ago to CNY81 billion, while spending on new railway links soared 240.8% to CNY69.8 billion, according to the Ministry of Railways (MOR).

- Hong Kong Airlines hopes to add at least three new aircraft to its fleet in the next two years in a bid to increase its competitiveness amid growing rivalry from budget carriers, such as Jetstar. The airline also planned to replace all its Boeing aircraft with Airbus planes to standardize its fleet so as to reduce maintenance costs, said Executive Vice President Jeff Sun. Jetstar Hong Kong, a budget airline set up by China Eastern Airlines and Australia's Jetstar, is awaiting approval for a license to operate services from Hong Kong.
- China is to further open up low-altitude airspace to private planes next year with communications and surveillance facilities already built to ensure flight safety. The announcement was made by Ma Xin, an official with the State Air Traffic Control Commission, at the Zhuhai air show. "As the reforms forge ahead, we believe the general aviation industry will gain momentum and become a new growth point just like the car industry," Ma said.
- Airbus expects to build the planned A320neo jet in China, as the company holds discussions about extending the life of its first assembly line outside Europe through 2025. The factory already makes the current A320 model. The Airbus A320neo is due to enter service in 2015.
- Hainan Airlines will begin offering luxury flights between Beijing and Shenzhen next month featuring 34 first-class seats with sleeping berths, as well as 82 business-class seats. A one-way ticket will cost at least CNY2,100 for a three-hour flight.
- Shanghai plans to build the country's first suspension monorail to improve transportation in the Hongqiao area. The electricity-powered monorail has a planned length of about 10 kilometers and is expected to connect Metro stations, residential areas, office buildings and Hongqiao International Airport. The monorail will be capable of transporting more than 6,000 passengers per hour. It is expected to open by the end of 2015.
- Companies participating in the 9<sup>th</sup> China International Aviation and Aerospace Exhibition in Zhuhai sealed 30 deals worth USD11.8 billion. China Aerospace and Technology Corp, the maker of the Shenzhou spacecraft and Chang'e lunar probes, secured seven contracts worth more than CNY30 billion covering aerospace, defense and space technology applications. China Aerospace will team up with China Telecom to provide communication satellite in-orbit delivery for the Democratic Republic of the Congo. A total of 202 aircraft were sold at the event.

## ONE-LINE NEWS

- 158,000 of the 765,000 foreign students on U.S. campuses last year were from China.
- Électricité de France and nuclear engineering firm Areva have signed an initial agreement with the China Guangdong Nuclear Power Group (CGNPC) to design a mid-sized nuclear reactor. The three parties signed the development project to build a 1,000-megawatt nuclear reactor, but no location has been chosen for the project.
- The Chinese government has approved the development of a new economic zone across three provinces in Northwest China, including the cities of Hohhot, Baotou and Ordos in Inner Mongolia, Yinchuan in Ningxia, and Yulin in Shaanxi province. The aggregate economic output of the zone is expected to be CNY1.5 trillion.
- China, the world's largest rubber consumer, has started stockpiling natural rubber and will buy up to 200,000 tons for state reserves from the domestic market to support prices. The government will purchase 60,000 tons by year-end at a price of CNY24,600 per ton. But the move may not have a long-term impact as the country's inventory is so high, dealers said. January-September natural rubber imports were up 9.64% to 1.579 million tons year-on-year.
- Hong Kong's economy returned to modest growth in the third quarter, helped by improving exports and rising domestic consumption. Gross domestic product (GDP) grew 1.3% compared to the same period last year, and by 0.6% from the second quarter when output shrank 0.1% from the preceding period.

## QUOTES OF THE WEEK

“Our party faces many severe challenges, and there are also many pressing problems within the party that need to be resolved, particularly corruption, being divorced from the people, going through formalities and bureaucracy caused by some party officials. We must make every effort to solve these problems. The whole party must stay on full alert.”

“Our people have an ardent love for life. They wish to have better education, more stable jobs, more income, greater social security, better medical and health care, improved housing conditions, and a better environment. They want their children to be healthy, have good jobs and lead more enjoyable lives. Our mission is to meet their wishes.”

Chinese Communist Party General Secretary Xi Jinping, in his speech to the press in the Great Hall of the People in Beijing, November 15, 2012.

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- Large enterprises: €875
- SMEs: €350

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