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

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We wish you a Merry Christmas and a Happy New Year!



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## 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

### Canada's British Columbia to issue renminbi bonds

Canada's British Columbia is promoting offshore renminbi bond issuances in Hong Kong and Singapore. The province plans to have CNY500 million worth of bonds issued in the offshore renminbi market. The offering will take place in January at the earliest. It would be the first time a foreign government has used this new and increasingly popular means to raise capital. The money raised will be used on utility projects, schools and hospitals. The Hong Kong Monetary Authority (HKMA) said more than CNY500 billion worth of renminbi deposits were held in Hong Kong in 2012, up from CNY63 billion in 2009. The increase has been driven largely by the fast development of yuan-denominated trade settlement. In 2011, the offshore renminbi market expanded 5.5 fold, becoming 22 times larger than it was when it was established in 2007. Since 2010, more than CNY250 billion worth of renminbi bonds, also known as "dim sum" bonds, have been issued. The main types of offshore renminbi investors include commercial and private banks, fund managers, insurance companies and corporate treasuries. Most of them are from Hong Kong and Singapore, and more are coming from Taiwan, Europe and North America. The largest pool of renminbi liquidity is now in Asia. The Canadian province's interest in the offshore renminbi market stems from its support for internationalizing the Chinese currency, a goal that can only be achieved if an efficient, liquid and global bond market is well developed.

### Strong growth predicted for foreign life insurance companies

Foreign life insurance companies in China expect to grow their premium income by up to 30% over the next three years, international accounting firm PricewaterhouseCoopers (PwC) said in a report. The optimistic prediction is based on their current market penetration of just 2%, a strong rise in premiums, and the relative strength of China's economy, according to PwC's Foreign Insurance Companies in China 2012 Survey. Premium income growth is anticipated to be as much as 20% over the next three years, for companies specializing in foreign property and casualty insurance, according to the report. PwC figures show that the 27 foreign life insurance companies have a 4.3% market share, and the 21 foreign property and casualty companies have a 1.2% market share. Foreign life insurance companies said they expected their overall share to increase to around 5% by 2015, while foreign property and casualty insurers believe their share will remain the same in the next three years. The figures are actually significantly lower than the 10% to 20% total market share foreign life insurers had originally forecast when they were surveyed in 2007. Compared to the rest of Asia, China remains an underinsured market. Despite the strong ongoing premium growth, penetration rates are still below most other Asian markets, at around 2% overall, the same as for the property and casualty sector. The report suggested that as foreign insurers grow their business in China, considerable additional capital will be needed. The 18 life insurance respondents forecast that the current capital of CNY54 billion will increase to CNY83 billion by 2015. More than half of the respondents said there is a continuing trend toward bancassurance, while direct marketing and tele-marketing are also important distribution channels. Selling through agents was the channel to see the biggest decline, with two-thirds of respondents believing it to be losing traction after reaching its peak of 3 million agents in 2010. Nine of the 14 life insurance respondents said they planned to lay off between 20% and 40% of their agents this year, while three participants said they would dismiss up to nine in 10 agents in their network, the China Daily reports.

### Hong Kong to become biggest financial center by 2016

Hong Kong is expected to overtake London by 2015 and surpass New York by 2016 to become the world's biggest financial center, reflecting a massive shift in the balance of power in the financial world and a remarkable turnaround since the financial crisis. By 2015, the number of financial service jobs in Hong Kong – which was less than half the London number in 2005 – will have overtaken London to reach 248,000, according to the latest report by the London-based Center for Economics and Business Research (CEBR). By 2016, Hong Kong will have 262,043 financial professionals, compared with 252,543 in New York. Between 2008 – the year in which the global financial crisis set in – and 2012, the number of financial jobs has grown 12% in Hong Kong, compared with a 23% decline in London and a 10% fall in New York over the same period. Western cities are losing their lead because of "the more dynamic growth of the Asian economies, which has created a booming demand for financial services", the report said. "Hong Kong will be boosted by the internationalization of the renminbi," the report added.

## Boom in WMPs poses risks, says Fitch

China's smaller banks boosted sales of wealth management products (WMPs) to account for more than 85% of the CNY3.5 trillion of offerings in the first nine months of this year, raising credit risks and deposit costs, Fitch Ratings said. Joint-stock, city and rural lenders boosted their share of the CNY12 trillion wealth management market to 48% from 32% last year, Fitch said in a report. The yield on 2019 bonds sold by Evergrowing Bank, which Fitch said had the most outstanding products of any non-rated bank, has risen 29 basis points in this half year to 7.38%, according to ChinaBond data. Globally, finance companies pay an average 2.62%, according to Bank of America Merrill Lynch indices. Funding costs are rising as banks, whose WMPs offer higher returns than benchmark deposit rates, try to dissuade households from moving their savings elsewhere. The sales are transforming the stable and cheap deposit base that has supported lenders into one that is “more mobile, expensive and short-term”, creating repayment risks for smaller banks, Fitch said. The China Banking Regulatory Commission (CSRC) warned lenders about the risks of offering the high-yield investments last year and banned them from selling ones with maturities of less than one month. The regulator also prohibited banks from paying investors the expected rate of return by using profits earned from other business segments. The products, which are sold with few details about the assets backing them, are raising concerns that banks will face losses, according to Fitch. The China Banking Association Specialist Committee on Wealth Management Products was set up to tighten standards over the sale and risk management of the investment products. As of the end of September, the amount of outstanding wealth management products distributed by Chinese banks had reached CNY6.73 trillion, an increase of 47% over the end of 2011, Du Jinfu, Chairman of the Discipline Commission at the China Banking Regulatory Commission (CBRC) said at a press conference.

- Bank of China’s Taipei branch has been designated as the clearing bank for renminbi transactions in Taiwan, the People’s Bank of China (PBOC) announced. The mainland and Taiwan signed a currency clearing memorandum on August 31, paving the way for a cross-Strait currency clearing mechanism.
- China’s bank lending fell in November from a year earlier while total social financing expanded at a slower pace, as banks are cautious toward lending at year-end. Chinese banks extended CNY522.9 billion of local-currency loans, the People’s Bank of China (PBOC) said, lower than the CNY562.2 billion in the same month of last year.
- SPD Silicon Valley Bank, the first technology bank in China dedicated to providing financial services for technology innovation firms, officially opened in Shanghai. The bank, equally owned by Shanghai Pudong Development Bank and Silicon Valley Bank, said it has already launched a variety of onshore U.S. dollar products and services. It plans to obtain regulatory approval for yuan business in three years.
- The People's Bank of China (PBOC) will ease its monetary policy next year, with the amount banks are expected to keep in reserve to be cut one or two times, the Bank of China (BOC) forecast. The ratio for larger banks now is 20%, after a 0.5 percentage point cut in May. “The general direction of prudent monetary policy will be slightly looser than that in 2012,” the BOC said, adding that an interest rate cut would be unlikely next year.
- BNP Paribas, France’s largest lender, plans to bolster its stake in Bank of Nanjing from 15% to as much as 20%. A 5% stake would cost about USD200 million at Bank of Nanjing's current share price. BNP Paribas bought 19.2% of the Chinese lender in 2005, two years before the bank's initial public offering (IPO) diluted that stake to about 12.7%. The Paris-based lender purchased an additional 2% stake from October 10 through to December 6.
- Overseas banks have 387 branches in China, compared with about 66,600 operated by the five largest state-owned lenders led by ICBC. The foreign firms held just 1.6% of the nation's CNY83 trillion of deposits and made 1.7% of its CNY58 trillion in loans, the China Banking Regulatory Commission (CBRC) said.

# FOREIGN INVESTMENT

## Shanghai No 1 again for doing business

Shanghai regained the top position as the best city for doing business in China, according to Forbes Magazine. It ranked fourth in 2011. Shanghai scored highly in the sub-indexes of city scale and innovation, but only came in 61st for the strength of its private sector. Shenzhen, last year's runner-up, was third while Guangzhou, last year's winner, was ranked fourth. Hangzhou, capital of Zhejiang province, is this year's runner-up. Jiangsu Province has the most number of cities (18) in the top 100 list, while Zhejiang has 12 and Guangdong has 11. According to the Forbes survey, Suzhou was the most innovative city, overtaking Shenzhen for the first time, because of a significant increase in the number of patent applications and licenses there. Western cities such as Lanzhou, capital city of Gansu province, and Urumqi, capital of Xinjiang, made their debuts on the list.

## Starbucks sets up Farmer Support Center in Yunnan

Starbucks, the world's largest coffee house chain, opened its first Farmer Support Center in Asia and sixth globally in Pu'er, Yunnan province, in a bid to help improve the quality of local coffee beans and make Pu'er a stable sourcing region. John Culver, President of Starbucks China and Asia-Pacific said that Yunnan would continue to play an important role in the company's long-term supply of premium arabica coffee. Starbucks launched its first coffee blend with beans from Yunnan in 2009. Several months ago, the company set up a joint venture with Pu'er-based coffee company AiniCoffee. The joint venture has an annual processing capacity of 20,000 metric tons of green coffee beans. Coffee planting in Yunnan dates back over a century, when French missionaries brought the first plants to the region. Currently, the planting area of coffee in Pu'er is around 40,000 hectares, yielding 36,500 tons of beans annually, which accounts for half of China's total growing area and output. Qian Dewei, Deputy Party Secretary of Pu'er, said the city plans to expand its planting area of coffee to more than 66,000 hectares by 2014, which would have an output of 100,000 tons, worth CNY10 billion. Lu Han, Director of the Pu'er Coffee Industry Federation, said the city's exports of coffee beans in 2011 and 2012 totaled 24,700 tons, worth USD100 million. The Yunnan provincial government issued a plan last year to develop the coffee industry into a strategic sector. It set a target of expanding Yunnan's coffee growing area to 607,000 hectares by 2020, realizing an annual output of 200,000 tons, with an estimated value of CNY34 billion, the China Daily reports.

- Foreigners who obtain permanent residency will have the same pension, employment and property rights as Chinese citizens, under new regulations announced last week. Access to schools for their children will also be on par with Chinese citizens. China started to grant permanent residency permits to foreigners in 2004, and since then, nearly 5,000 have received the permits.
- Carlyle Group, one of the world's largest private equity firms, made investments totaling more than USD700 million in China this year and next year will see even more. "We remain very committed to China and we are very pleased with our performance this year," said Carlyle Managing Director David Marchick. According to Marchick, although China's economy is slowing, there are still very good investment opportunities, including in the retail sector.
- China has invested USD7 billion in the United States so far this year, with another USD7 billion announced, Daniel Rosen, a senior U.S. businessman and academic, told the Asia Society in Hong Kong. Rhodium Group, a consulting firm where Rosen is a Partner, predicts that China's global investment will reach USD1 trillion to USD2 trillion by 2020. This is a relatively conservative projection compared with some more bullish forecasts which put the number as high as USD5 trillion. Rosen was speaking at the launch of a new Asia Society commissioned report on Chinese investment.
- Voith Group plans to invest €400 million in China in the five years from 2012, including an expansion project at its Paper City in Kunshan, Jiangsu province. The company also said it received orders in China in 2012 valued at €769 million, an increase of 3.2% year-on-year. During the fiscal year, Voith secured several landmark orders, further consolidating its leadership in many key industries, including an 87.5 million contract with State Grid Corp to provide four pumped storage units to the Jiangxi Hongping Pumped Storage Power Plant.

# FOREIGN TRADE

## Chinese exports rise less than expected

China's exports in November rose at a much weaker-than-expected pace of 2.9%, compared with an 11.6% surge in October, while imports remained unchanged compared with a year earlier. Foreign trade expanded by 1.5% year-on-year in November, showing a trade surplus of USD19.63 billion. Economists said November's weak export performance and flat import data showed the unsteadiness of the recovery of the Chinese economy, which may prompt the new leadership to put more emphasis on boosting domestic demand to ensure sustainable growth. China's trade with the EU, the country's biggest trade partner, dropped by 4.1% year-on-year in the January-to-November period, compared with a 3% decline in the first 10 months. Trade with the U.S., China's second-largest trade partner, rose by 8.2% in the same period, slower than the 9.1% increase in the first 10 months. The first 11 months saw China-Japan trade decelerate by 2.9% year-on-year from a 2.1% drop in the first 10 months. Zhang Zhiwei and Wendy Chen, Economists at Nomura Securities in Hong Kong, said in a research note that despite the slowdown in November's trade data, "we maintain our view that the economic recovery in China is on track as it is mostly driven by domestic demand". Foreign trade in the January-to-November period expanded by 5.8% from a year earlier as exports increased by 7.3% and imports by 4.1%, yielding a trade surplus of USD199.54 billion, according to the Chinese Customs Administration.

- China's November iron ore imports rose 17% from the previous month to their highest in almost two years, as mills stocked up on raw material for steelmaking due to higher profit margins. Imports were 65.78 million metric tons in November, their highest since January 2011. Total imports in the first 11 months of the year were 672.9 million tons, up 8% compared to the same period a year ago.
- China, the world's biggest buyer of soybeans, boosted imports by 3.2% in November as prices, which dropped from a record, spurred purchases. Shipments amounted to 4.16 million metric tons, up from 4.03 million tons in October and compared with 5.7 million tons in November 2011. Imports in the first 11 months rose 11.4% to 52.5 million tons.
- The State Information Center said in a report that China's exports may grow 8% next year while imports may rise 7.8%. In the first 11 months of this year, exports expanded 7.3% on an annual basis while imports rose 4.1%. "China's foreign trade will expand slowly in 2013 as factors hampering global economic recovery may not disappear easily," the report said. "Besides, rising labor costs, a stronger yuan and the shortage of credit for small traders will add to the existing difficulties," it said.
- The annual Beijing Book Fair will open on January 11, featuring 500,000 titles by over 650 publishers. More than 3,500 bookstores and government buying agencies from both at home and abroad will attend the fair. According to the organizer, 2,350 exhibition booths at the China International Exhibition Center have been reserved so far. For the first time, the fair will provide retail services and sell used books at a discount.

## IPR PROTECTION

### Hong Kong to become IP trading hub

Hong Kong is poised to be the intellectual property trading hub in Asia due to rising demand on the Chinese mainland, officials from the special administrative region (SAR) said at the recent Business of IP Asia Forum. Addressing an audience of more than 1,300 at the forum, Gregory So, Secretary for Commerce and Economic Development at the Hong Kong SAR government, said the geographic balance of IP has changed significantly over the past two decades. From 1995 to 2009, the share of global IP patent applications from the United States, Europe and Japan together dropped from 77% to 59%, while China's share alone increased from 1.8% to 17%. During the same period, China's ratio of trademark applications worldwide grew from less than 10% to more than 25%. "It is obvious that China will continue to be the growth engine for the world economy, and the country has a great appetite for IP obtained from R&D and acquired from abroad," So said. Following Western counterparts, Chinese firms increasingly see IP as a core business asset that should be built, managed, valued and leveraged to drive innovation and growth, he added. New opportunities have arisen for intermediaries that can provide services ranging from management, trading and portfolio building to licensing, financial advice and arbitration. "As always, Hong Kong plays an indispensable strategic role as a gateway to the mainland," Gregory So said. As a regional center of technology transfer, Hong Kong exported USD1.1 billion in technology to the Chinese mainland in 2010, ranking it sixth among regions and countries, the China Daily reports.

- The UN's World Intellectual Property Organization (WIPO) said China filed the most patent applications in the world last year, overtaking the United States for the first time. China's patent office received 526,412 applications in 2011, ahead of the U.S. with 503,582 filings. WIPO Director General Francis Gurry said in Geneva that 2.14 million patent applications were filed worldwide last year, up 7.8% from 2010. China overtook Japan in 2010.
- Shanghai industry and commerce authorities said they were looking into allegations that a planned chocolate theme park has infringed the copyrights of a similar brand of another city-based company. The park, "Chocolate Happy Land," is being built at the former Africa Pavilion inside the former World Expo 2010 site, and covers more than 30,000 square meters. But some said the park looks like a copy of the existing "World Chocolate Wonderland," which claims to be China's first chocolate-themed exhibition.

## MACRO-ECONOMY

### China's factory output, retail sales exceed forecasts

China's industrial output and retail sales exceeded forecasts last month while inflation rebounded from a 33-month low in signs the economic recovery is accelerating. Factory production climbed 10.1% in November from a year earlier, the National Bureau of Statistics (NBS) said, compared with the 9.8% median estimate of analysts surveyed by Bloomberg News. Retail sales growth accelerated to 14.9%, while the consumer price index rose 2% from a year earlier. Economic growth, which has slowed for seven quarters, will exceed the government's target of 7.5% this year, analysts said. The data may also reduce the odds of additional fiscal or monetary easing to support expansion. "The Chinese economy is now in a sweet spot and can stay in the sweet spot" through the first half of next year, Lu Ting, Director of Greater China Economics at Bank of America in Hong Kong, said in a note. "The current macro backdrop should bolster asset prices from equities to commodities." Fixed-asset investment excluding rural households in the first 11 months of the year rose 20.7%, the same pace as in the January-October period. Output of rolled steel rose 16.5% in November from a year earlier, up from an 11.7% pace in October, while electricity production increased the most since February. Industries with accelerating growth included telecommunications and computers, ferrous metal smelting and pressing, and general-purpose equipment, according to the NBS. "Growth is on track to rebound sharply" above 8% this quarter, said Zhang Zhiwei, Chief China Economist at Nomura Holdings in Hong Kong. Inflation probably "bottomed in October and will likely rise further in December and next year, as growth picks up and adds inflationary pressure," Zhang said. The Chinese Communist Party's Politburo, in its first public assessment of the country's development since a new generation of leaders took office last month, said the economy is stabilizing and favorable factors are increasing.

### Domestic consumption and urbanization central to growth

This year's Central Economic Work Conference concluded that promoting domestic consumption and urbanization is central to further economic growth in China. "China will actively and steadily push forward urbanization next year, with a focus on improving quality of the efforts," Xinhua said in a statement after the two-day Central Economic Work Conference in Beijing, the first such meeting under the Communist Party's new leaders. The country's annual economic policy-setting conference is widely watched by analysts for insights into the strategies guiding economic development. "Expanding domestic demand will be a strategic basis for China's development next year," the news agency said. Stocks in the finance, construction and consumer sectors are expected to benefit from the policy. The Beijing conference also decided to maintain a prudent monetary policy and a pro-active fiscal policy next year, rather than to rely on monetary easing to boost the economy. The meeting said "enhancing quality and efficiency of economic growth" would be a central task next year and that policies to control the property market would be continued. Policymakers will deepen economic reforms, further open up the market and enhance protection of foreign investors' rights, including intellectual property rights (IPRs).

- State-owned enterprises (SOEs) directly under the central government have hired more than 2,000 overseas professionals. Another recruitment program, which started last year, aims to introduce up to 1,000 foreign professionals over 10 years to help spur innovation, promote scientific research and corporate management. The project has just brought in 94 recruits, according to Zhang Jianguo, Director of the State

Administration of Foreign Experts Affairs. Professionals recruited by both programs will be entitled to subsidies, research allowances, favorable salaries, residency permits, medical care and insurance policies.

- Investment growth will maintain a relatively rapid pace next year, according to a report by the State Information Center. Fixed-asset investment in 2013 is likely to grow 22% year-on-year, while the growth in the real estate sector will be about 15%. A change in government and a rise in construction projects will create an accommodative environment for investment growth, the Center said.
- China is likely to have the world's largest economy by 2030 – surpassing the United States, the U.S. National Intelligence Council said in a report. The country's rise will signify a shift in power from North America and Europe to Asia, the organization said in its "Global Trends 2030: Alternative Worlds" report. It also said China's total GDP will be 2.4 times as large as Japan's by 2030 and that "Asia will expand to the largest economy in the next 20 to 30 years". According to Chinese Academy of Social Sciences research, economic reforms will help ensure China's GDP grows at an average rate of between 7.5% and 8% in the next 10 years.
- The fiscal income of the Chinese government rose 21.9% in November to CNY787.1 billion, the Ministry of Finance said. Value-added tax revenue picked up 16.2%, while business tax revenue rose 28.6%. Non-tax revenue rose 27% to CNY23.6 billion. This year's fiscal revenue was up 11.9% in the first 11 months.
- The Chinese economy will not witness a hard landing, Stephen Green, head of Greater China Research at Standard Chartered Bank said. Government projects, credit and the real estate sector are the three main leading indicators to forecast China's economic outlook, Green said at a seminar held by the Hong Kong General Chamber of Commerce. He said that the number of both central and local government projects is going up this year, compared with a decline since around 2008, and at the same time, the real credit sector is also witnessing growth, implying that investment activity will pick up.
- China's manufacturing activity is expected to rise to a 14-month high this month, according to an HSBC survey. The HSBC Flash China Manufacturing Purchasing Managers' Index was 50.9 this month, up from November's 50.5. New export orders, however, dropped below 50 from November's 52.4.
- Guangdong's private investment totaled nearly CNY890 billion in the first 11 months of the year, up by more than 22% over the same period last year. The boom was a result of government efforts to encourage private capital in major projects covering transport, energy, education and health, according to a provincial government conference over the weekend.
- China's economic growth will be above 7% in 2013, according to 85 out of 100 Chinese economists in a survey published by web portal 163.com. Among them, 18% said the economy will expand more than 8% next year. Nearly 60% of the economists said the government would maintain a "neutral" monetary policy, while 35% said the stance would be more relaxed. 73% suggested that the authorities should do more to lower the tax burden on businesses and consumers.
- China should foster economic growth through improving productivity and becoming less reliant on capital investments to fuel expansion, which is a recipe for inflation and the creation of asset price bubbles, Cai Fang, Director of the Institute of Population and Labor Economics at the Chinese Academy of Social Sciences (CASS) said. The country's current real rate of economic growth was above potential growth rates, which meant that stimulus measures to boost investment were unnecessary, he added. China's total-factor productivity (TFP) was much lower than that of developed countries because of a lack of measures to allow inefficient enterprises to exit, Cai said.
- Huang Mengfu, Vice Chairman of the Chinese People's Political Consultative Conference (CPPCC) told a financial forum hosted by Caijing Magazine in Sanya, Hainan, that the vast majority of market-dominating SOEs should exit competitive markets to make way for private companies. "SOEs should retreat from the areas where private companies are able and willing to play, while remaining in some key areas concerned with national security and fields where private companies are unwilling to enter," said Huang, who also heads the All-China Federation of Industry and Commerce (ACFIC). Huang said that the SOEs dominance in competitive markets has put private companies at a disadvantage.

- Economist Wu Jinglian, Senior Research Fellow at the State Council's Development Research Center and one of China's best-known advocates of market reform, warned that excess domestic money supply was creating an increasingly unsustainable asset bubble.

## MERGERS & ACQUISITIONS

### AIG to sell aircraft leasing business to Chinese consortium

American International Group (AIG) is to sell nearly all of ILFC, the world's second-largest airplane leasing business, to a Chinese consortium for up to USD4.8 billion, giving the fastest growing aviation market easier and cheaper access to planes. The Chinese consortium – made up of New China Trust, which is one-fifth owned by Barclays, China Aviation Industrial Fund and P3 Investments, and advised by Credit Suisse – will buy 80.1% of ILFC for USD4.23 billion, with the option to buy another 9.9%. Chinese firms have shown interest in aircraft leasing before, and the deal would give China access to a global network of about 200 airlines in 80 countries and regions. China is already ILFC's largest market with 180 planes operating there, giving it a 35% market share. "It's the biggest deal we have in the aircraft leasing world and it's very ambitious," said Paul Sheridan, President of Asia at aviation consultancy firm Ascend Advisor. "We believe there are not enough aircraft on order in China at the moment. It will help Chinese airlines get more aircraft." The world's two largest plane makers – Airbus and Boeing – have said China would become the biggest single market in value terms. U.S. insurer AIG has said it will submit the offer for review by the U.S. Committee on Foreign Investment (CFIUS), which vets foreign agreements based on security concerns. Chinese investments in some sectors have stirred a political backlash, but aircraft leasing is seen as less sensitive than investment in minerals or telecoms equipment. New China Life Insurance denied agreeing to join the consortium. The Industrial and Commercial Bank of China (ICBC) had already denied any role in the deal, with Spokesman Wang Zhenning telling the South China Morning Post: "ICBC as well as its subsidiaries have no plan to join the consortium to acquire ILFC."

### PetroChina acquires stakes in two gas projects

PetroChina will pay USD1.63 billion to BHP Billiton for a minority stake in a proposed liquefied natural gas (LNG) project in Australia. PetroChina will acquire 8.33% in the East Browse joint venture and 20% in the West Browse venture, BHP said in a statement. Taken together, PetroChina will own 10% of the Browse LNG project, according to Neil Beveridge, Analyst at Sanford C. Bernstein. J. Michael Yeager, Chief Executive for petroleum at BHP said the purchase "is an excellent opportunity for both companies. PetroChina has acquired an interest in a world class gas resource, and BHP Billiton has exited a non-strategic asset. PetroChina has also agreed to pay Canadian natural gas producer Encana Corp CAD2.18 billion for a near-half stake in Encana's Duvernay shale assets in Alberta and another CAD1 billion over the next four years to help fund development. Encana will remain the operator of the venture, which contains about 9 billion barrels of oil equivalent (BOE).

- CNOOC's successful acquisition of Nexen may spur more foreign takeovers in North America's energy sector although Canada signaled it would tighten investment rules. The CNOOC/Nexen deal will still need approval from U.S. regulators as 8% of Nexen's output comes from the U.S., but analysts are confident the U.S. will not block the deal.
- China's sovereign wealth fund has sold a 6.9% stake in Goodman Group, Australia's biggest industrial property trust, to raise about AUD519 million. China Investment Corp (CIC) will retain a stake in Goodman of about 9.9%. Goldman Sachs Group managed the share sale to local and foreign investors.
- The number of foreign companies' acquisitions in China dropped in the first nine months of the year, according to Zero2IPO Research. M&A deals decreased to 32 during the first three quarters of the year from 51 a year earlier, but the average transaction volume of each deal increased to USD141 million from USD132 million. Target sectors are machinery and manufacturing. One new trend is that foreign multinationals tend to keep acquired Chinese brands.

## PETROCHEMICALS

### CNOOC eyes know-how from Gulf of Mexico

CNOOC's purchase of Canadian energy producer Nexen may prove to be bittersweet if United States regulators block the Chinese state-run oil company from taking over Nexen's oilfields in the Gulf of Mexico. CNOOC already secured Canada's consent for the USD15.1 billion deal. While the Gulf assets are just a fraction of Nexen's reserve base and production, they would give CNOOC a foothold in the world's premier deepwater oil site from which to acquire the technical know-how to drill in the contested South China Sea. “The Nexen prize is the hi-tech ultra-deepwater drilling tech,” said a person familiar with CNOOC's business strategy, adding that the Gulf of Mexico assets were “one of the key reasons that they are buying Nexen”. Approval from Washington is also important to CNOOC as it wants to be endorsed as an acceptable operator in the U.S. after its high-profile bid for Unocal was blocked in 2005, according to another person. A rejection would not sink the entire deal – CNOOC is ready to buy Nexen excluding the U.S. assets, but it would be a major blow to CNOOC's deepwater ambitions. An acquisition of the Gulf of Mexico assets would make CNOOC the operator of deepwater producing assets for the first time, giving it the prized opportunity to grasp the expertise it needs to realize its production target. CNOOC, which derives nearly all its domestic output from shallow waters, has vowed to build deepwater capacity of one million barrels of oil equivalent (BOE) a day by 2020, more than doubling the company's total production, the South China Morning Post reports.

- China’s net crude imports rose to the highest level in 6 months in November as the nation processed more than 10 million barrels of oil a day for the first time. China bought 23.25 million metric tons of crude more than it exported last month, according to figures from the General Administration of Customs. The country processed a record 41.61 million tons of crude in November, equivalent to 10.2 million barrels a day.
- China Petroleum & Chemical Corp (Sinopec) started a new crude distillation unit at its Maoming refinery this month, bringing the facility’s capacity to more than 20 million metric tons a year. China is expected to increase its annual oil-processing capacity to 578 million tons, or 11.6 million barrels a day, by the end of this year, and 700 million tons by 2015.

## REAL ESTATE

### IMF warns of sharp correction in Hong Kong property market

The International Monetary Fund (IMF) warned that Hong Kong's property market faced the risk of a sharp correction as prices had doubled from the trough in 2008. Property prices, which have risen 20% this year, posed a severe risk to the domestic economy because half of the outstanding loans in the city were based on real estate as collateral, the IMF said. “A huge run-up in property prices in Hong Kong poses policy challenges to government authorities in the city,” said Steven Barnett, IMF Representative in Hong Kong. He added that bank lending and domestic economic activity would face headwinds because of a sharp fall in property prices. He said policies such as increasing land sales and ramping up construction of public housing for sale to the middle class were the keys to tackling the red-hot property market in Hong Kong, where gross domestic product (GDP) is expected to expand 1.25% this year, with an inflation rate of 3.75%. The IMF projects GDP will expand 3% next year. Despite lukewarm economic conditions, Hong Kong's home prices have surged to become the world's most expensive, surpassing the heights of the property bubble in 1997. “A combination of limited supply of new housing, strong demand from local and non-local purchasers, and low interest rates imported from the United States has been driving up prices”, the IMF said. “A sharp price correction would lead to falling collateral values and negative wealth effects, which could trigger an adverse feedback loop between economic activity, bank lending and the property market,” the IMF report said.

- Shanghai has sold a downtown commercial plot of land at the highest price this year. The 107,500-square-meter site near the Shanghai South Railway Station was sold for CNY5.4 billion. A group of four companies, led by China Vanke, the country’s biggest developer, and Shanghai Greenland Group, which is building China’s second tallest tower, bought the site.

- Zhang Xin, Deputy Director of Hangzhou's Housing Management Bureau, is under investigation by the Communist Party's Central Commission for Discipline Inspection (CCDI) for "taking advantage of his position and making personal gains". Online postings alleged Zhang had more than 20 properties under his name worth hundreds of millions of yuan, mostly offered as gifts by property developers.
- Dalian Wanda Group has decided to cooperate with Reliance Group, a large conglomerate led by Indian billionaire Anil Ambani, to develop real estate projects in India. The two companies will examine a land development project in Navi Mumbai, a satellite city of India's financial capital, and a 32-hectare site in Hyderabad. The investment could be between USD1 billion and USD1.5 billion. Wanda Group owns CNY220 billion worth of assets in China.

## RETAIL

### Government policy depresses sales of luxury goods

Tightened policies on government spending for luxury goods in China depressed sales of those products as gifts, which has contributed to the slowest annual growth of the market in five years, according to Bain & Co. The consultancy predicted luxury sales on the Chinese mainland to grow a meager 7% this year. Gift spending, as a share of total luxury spending, has dropped 5 percentage points year-on-year to about 25%, said Bruno Lannes, Partner of Bain in China and lead author of the "China Luxury Market Study". He cited a government regulation, effective from October, forbidding government spending on extravagant items, as well as the social media exposure of a number of government officials with luxury goods brands. Lannes said products for men will be hardest hit by the changes, including watches and menswear. Lannes predicted there will be a paradigm shift, and future gift items will likely have less conspicuous branding. The luxury market value on the Chinese mainland is expected to hit CNY113 billion by the end of the year. Watches are expected to be among the hardest hit categories with a 5% drop in market value. Chinese purchases worldwide reached CNY306 billion with spending abroad increasing by 31%, as Chinese shoppers have learned to take advantage of the weaker euro and U.S. dollar. "For big-ticket items such as watches and jewelry, you can see as much as a 40% pricing gap between the euro and the yuan," Lannes said. The luxury market outlook for 2013 is expected to pick up moderately from the 2012 level, the report said.

### More than 1,500 shopping malls are under construction

Last year, 15 million square meters of floor space for at least 1,500 malls were under construction in China, "which is just about enough," according to Guo Zengli, President of the China Shopping Center Development Association. Only five shopping malls were being built in Western Europe in 2011, according to the U.S.-based CBRE Group. China now has 2,812 shopping malls, a number that is likely to exceed 7,000 by 2025, Guo said. According to CBRE data, eight Chinese cities are among the top 10 cities in the world with the largest number of new shopping malls. Of the existing malls in China, 80% are considered to be large, meaning they have between 50,000 and 100,000-plus square meters of floor space. In the U.S., only 20% of malls fall within those dimensions, Guo said. Most Chinese malls are aimed at buyers of medium-priced and relatively high-priced goods, and tend to offer the same brands as each other. Most fail to meet the shopping needs of the general public. Many cities lack a comprehensive plan for commercial operations. As a result, many recent projects undertaken to renovate old commercial districts in Chinese cities have been failures, especially in their mixing of new designs with traditional settings, Guo said. Shopping centers in third- and fourth-tier cities should be smaller than those in mega-cities, especially at a time when online retailers are increasingly taking business away from physical stores, he added.

- The Taiyuan Price Administration Bureau in Shanxi province is investigating a Carrefour store that has been accused of cheating customers with mislabeled price tags. The price on packages of Cola Cao, a chocolate cereal bar, was listed as CNY11.9, but customers were charged CNY14.8 at checkout. The maximum penalty the store could incur is a CNY500,000 fine, depending on the amount of illegal income. Carrefour said the lower price tags were mistakenly left on the packages after a sales promotion had ended. The store changed the price tags back to CNY14.8 after the investigation by the Price Administration.

- The total output of China's drinks industry has grown about seven-fold over the past 12 years, according to the China Industrial Information Issuing Center of the National Bureau of Statistics (NBS). Last year, the output of the industry reached 1,200 million tons, up 20.7% year-on-year. In the first nine months of the year, sales of bottled water accounted for 25.65% of the market share. Carbonated drinks accounted for 21.91%, tea drinks for 16.36%, herbal tea for 7.21% and juice for 22.24%.
- China Resource Vanguard Co said that it will further expand its high-end supermarkets. "By the end of 2016, China Resource Vanguard will open 50 Ole stores and 30 BLT shops," it said. The company currently has 20 Ole shops and 10 BLT stores in the country. It opened its first Ole store in China in 2010. "The market for high-end retail is mature. Ole shops usually start to make a profit after a year and a half," said Dai Hong, General Manager of Ole's business.
- Authorities are inspecting major food manufacturers to prepare for a new standard to govern the level of industrial plasticizers in food and beverages in an attempt to restore public confidence. Concerns over the toxic chemical were triggered after one of the nation's best-known liquor brands, Kweichow Moutai, was found to contain more phthalates than allowed by a standard issued by the Ministry of Health in June last year.

## STOCK MARKETS

### No new IPOs expected before Chinese New Year

The ban on share offerings could last until Lunar New Year as the China Securities Regulatory Commission (CSRC) tries to underpin the weak market. The IPO system will probably go through another round of reforms more than three years after its last overhaul, analysts say. The CSRC has suspended IPO approvals for two months and is set to extend the ban on new share offerings until at least February. The benchmark Shanghai Composite Index has declined 6.4% so far this year, following a 14.3% drop in 2010 and a 21.7% fall last year. A flood of initial share offerings was blamed for the sharp fall, draining liquidity from the market. There are more than 800 IPO applicants waiting for the go-ahead from the CSRC to raise funds. Investment bankers had high expectations that new IPOs would be allowed after the Lunar New Year holiday which starts on February 9. "All companies will have to file their 2012 earnings before going through the review procedure and the preparations for the earnings reports will take some time," said Ding Ke, Chief Executive of Huaying Securities. But holding up new IPOs also has its drawbacks. "The more IPOs [the CSRC] holds up temporarily, the worse the liquidity problem that will arise when the suspension ends," said Haitong Securities Analyst Zhang Qi. The China Securities Journal has reported that the regulator was also considering introducing warrants in the IPO system to protect investors.

- The Karachi Stock Exchange (KSE) is looking for Chinese investment. "We are considering privatizing 40% of the KSE, and are looking for strategic investors," Chairman Muneer Kamal said after meeting top executives of the Shanghai Stock Exchange. They discussed possibilities for closer cooperation, including strategic investments and cross listings.
- China scrapped a ceiling on investments by sovereign wealth funds (SWF) and central banks in its capital markets. They can now exceed the USD1 billion limit that still applies to other qualified foreign institutional investors (QFIIs), according to revised regulations posted on the State Administration of Foreign Exchange's website.
- Shanghai stocks soared the most in more than three years to a four-month high last week as robust data boosted optimism over China's economy. The surge was also fueled by speculation that the Central Economic Work Meeting this weekend may yield stimulus measures. The index gained 4.31% for the week, the biggest gain in 13 months.
- Stocks in China are likely to perform better in 2013 than this year thanks to a rebound in economic growth, Nomura Securities predicted. "A-share prices may grow by 15% to 20% in 2013," said Michael Kurtz, the global head of equity strategy, adding he has very positive expectations amid forecasts for increased economic growth. Kurtz said he expected rising inflation to reduce the interest rate, which may attract capital. Dai Xianglong, Chairman of the National Council for the Social Security Fund (NSSF) and a former Governor of the People's Bank of China (PBOC), also said the A-share

market will perform better in 2013 than this year.

## TRAVEL

### Beijing-Guangzhou high-speed rail line to open on December 26

The high-speed railway between Beijing and Guangzhou will open on December 26, the Railways Ministry said. It will offer the longest bullet-train ride in the world and cut the 2,298-kilometer journey time between the two cities from 22 hours to less than eight hours. It will not only connect Beijing to Guangzhou, but also link the capitals of four land-locked provinces – Shijiazhuang in Hebei; Zhengzhou in Henan; Wuhan in Hubei; and Changsha in Hunan. It will eventually allow high-speed trips between Beijing and Hong Kong, after the Shenzhen-Hong Kong high-speed link's completion, scheduled in 2015. Trains will run at 300 km/h, although they are designed for speeds of up to 350 km/h. The shortest journey time between Beijing and Guangzhou will be less than eight hours, compared to three hours by air. The authorities have not announced pricing for tickets. Zhao Jian, Professor at Beijing Jiaotong University who researches railway economics, predicts the line will be loss-making from day one. “The more trains they run, the higher the deficit will be,” he said.

### AirAsia buys 100 Airbus A320s and A320neos jets

AirAsia, the region's biggest discount airline, unveiled an order for 100 additional Airbus A320 jets. The order included 36 current-generation A320s and 64 fuel-efficient A320neos, Airbus said. British Prime Minister David Cameron joined AirAsia Chief Executive Tony Fernandes at Airbus' wing-manufacturing facility in Broughton, Wales, for the announcement of the contract, valued at USD9.4 billion at list price. AirAsia, whose shares have fallen 29% this year, is Airbus' biggest customer for single-aisle aircraft worldwide. The airline ordered 200 A320neo aircraft valued at USD18 billion at the Paris Air Show last year. Airbus had already booked the latest order in its tally last month, without disclosing the customer. “This order is primarily about expansion," Fernandes said. "Business has been very strong in Southeast Asia, especially Thailand, Indonesia and Malaysia, coupled with very robust demand out of China and India.” “I'm not worried about overcapacity as new aircraft delivered will be used as both replacement and new capacity growth,” said Arnaud Bouchet, Analyst with BNP Paribas in Singapore. AirAsia's stock will be removed from the FTSE Bursa Malaysia KLCI Index from December 24 after its market capitalization fell this year.

- The Chinese government announced the dates of China’s seven major holidays next year. To compensate for the holidays, some weekends prior to or following the holidays are considered working days. The holidays are: New Year’s Day (January 1-3), Spring Festival (February 9-15), Tomb-Sweeping Festival (April 4-6), May Labor Day (April 29-May 1), Dragon Boat Festival (June 10-12), Mid-Autumn Festival (September 19-21), and National Day (October 1-7).
- Shanghai’s Hongqiao International Airport ranks 15th in restaurants and food service among airports worldwide, up from 16th last year, according to a customer satisfaction survey in the third quarter by the Airport Council International (ACI). Some passengers still complain that some food is still more expensive than in downtown. The operator, the Shanghai Airport Authority, has signed agreements with business owners to lower food prices after reducing rents. Hongqiao airport is in the world’s top 30 airports based on customer satisfaction, while Pudong International Airport rated among the world’s top 10 airports. Shanghai’s two airports ranked as the top two on the Chinese mainland.
- The Ministry of Railways said that during the first 11 months of the year, fixed-asset investment in railways, including railway infrastructure investment and train purchases, totaled CNY506.97 billion, up 3.1% year-on-year. Railway infrastructure spending surged 142% year-on-year to reach CNY70.1 billion in November. “The government may keep its railway investment target unchanged at CNY630 billion next year,” said Wang Mengshu, Academic at the Chinese Academy of Engineering. According to the 12th Five Year Plan for Railway Development, China will invest CNY2.3 trillion in railway infrastructure during the 2011-2015 period.
- Dai Bin, President of the National Tourism Administration's China Tourism Academy, said outbound trips by Chinese tourists were expected to grow by 16.7% this year from last year's 70.25 million. The United Nations' World Tourism Organization (WTO)

said a record 1 billion tourists crossed international borders this year, with Chinese tourists the biggest growth driver, followed by Russians. Dai said South Korea was expected to rank ahead of Japan as the most popular destination for Chinese tourists this year, because of the prevailing tensions between China and Japan. Other popular destinations included Singapore, Thailand, Cambodia and neighboring countries, followed by Australia, Russia, Europe and the United States.

- European nations should ease visa limits to welcome Chinese consumers and be more open to foreign investors, Jesse Wang, Executive Vice President of China Investment Corp (CIC), said. As Europe sought to revive its economy it should learn from Hong Kong and gradually remove travel restrictions, just as Hong Kong and mainland China had done since 1998, he added. He said Chinese visitors were keen to travel to Europe and a more relaxed visa policy could tap into this demand and help pull euro-zone countries back from the brink of recession.

## ONE-LINE NEWS

- The Communist Party's Organization Department confirmed that Li Chuncheng was removed as Deputy Party Secretary of Sichuan province and dismissed as an Alternate Member of the Central Committee. Li's downfall was unexpected and swift, coming less than a month after the 18th Party Congress elected him as a non-voting member of the Central Committee. He was suspected of buying and selling official positions and, as a senior official in the city of Chengdu and later of Sichuan province, had a hand in steering real estate development deals in return for favors.
- The list of the winners of the 2012 CCTV China Economic Person of the Year was announced. Robert Kuok, President of Kerry Group, received the lifetime achievement award. Ten people were elected 2012 China Economic Persons, including Liang Wengen, President of Sany Group, and Jack Ma, Chairman and CEO of Alibaba Group. Beidou Navigation Satellite System Group under the China Aerospace Science and Technology Corp won the innovation prize. President and CEO of Beijing Xiaomi Technology Co Lei Jun was given the Newcomer Award.
- China Daily launched an Africa edition last week. "The relationship between China and the African continent is one of the most significant relationships in the world today," Publisher and Editor-in-Chief of the paper Zhu Ling wrote in the inaugural copy. "It is growing and complex and not always understood... we hope to set that right," he added.
- More than 1,000 lawyers, academics and professionals signed an open letter calling for newly chosen members of the Communist Party's Central Committee to publicly disclose their family assets to rein in corruption. The letter will be sent to the National People's Congress (NPC).
- Work on a Fuzhou subway station was stopped after construction crews unearthed the remnants of what is believed to be a royal palace dating to the Western Han dynasty (206 BC - AD 8). An archaeological excavation planned for next year is expected to take at least four months. In the meantime, construction of the Pingshan station has been suspended.
- China's space probe, Chang'e-2, has successfully flew by the asteroid Toutatis, about 7 million kilometers from Earth. Chang'e-2 made the fly-by on December 13, the State Administration of Science, Technology and Industry for National Defense said. It was the first time an unmanned spacecraft launched from earth had such a close view of the asteroid.
- Vice President Xi Jinping and Vice Premier Li Keqiang both met former U.S. President Jimmy Carter in Beijing. It was Li's third meeting with U.S. guests since the 18th National Congress of the Communist Party of China in November. The frequency of Li's meetings with U.S. guests reflects the importance that the new CPC leadership attaches to China-U.S. relations, the China Daily reports. The two countries established diplomatic ties on January 1, 1979, when Carter was U.S. President.

## ANNOUNCEMENTS

## Job announcement: Business Development Manager China

**BUSINESS DEVELOPMENT MANAGER CHINA**

- **Location**

- Beijing

- **Responsibilities**

- Maintain current customers and look for new customers
- Present at conferences and attend exhibitions
- Assist colleagues to make sales plans, budgets and strategies
- Execute the agreed sales plan and strategy according to the approved budget
- Get quotations for locally sourced equipment

- **Qualifications**

- University Master's degree, in engineering preferred
- Over 3 years of relevant work experience
- Familiar with water, waste, sludge, air treatment industry; understand market and customers in the field well.
- Self-motivated. Work under pressure.
- Excellent interpersonal skills and negotiation skills.
- Fluent in spoken and written English and Chinese.

**Interested candidates please send your resume to donald.wildiers@waterleau.com**

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WATERLEAU is a Total Environmental Solutions & Services Provider for both municipalities and industries with a complete portfolio of WATER, AIR, WASTE treatment and integrated RENEWABLE ENERGY applications based on proprietary WATERLEAU technology. In China, WATERLEAU has built municipal and industrial water treatment plants, as well as waste-to-energy plants, while exploring sludge drying, biogas and flue gas treatment. WATERLEAU's track record includes over 1,000 satisfied customers globally.

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