法兰德斯中国商会 FCCC VCKK

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

NEWSLETTER | 19 MAY 2014

FCCC ACTIVITIES

Meeting with Chinese Business Delegation to Brussels – 12 June 2014 – Brussels

The EU Project Innovation Center (EUPIC) – the leading partner of Enterprise Europe Network (EEN) West China – will lead a 100-person delegation with over 60 Chinese tech-based companies including aviation, ICT, energy saving, environmental protection, life science, modern-agriculture and precision instrument sectors. A matchmaking meeting and seminar will be held on Thursday 12 June in Brussels. The goal of this important business delegation is to help establish partnerships and cooperation opportunities with European counterparts.

The mission is supported by the Chinese Ministry of Science and Technology, the Chengdu municipal government and Chengdu Hi-tech Industrial Zone Administration. This large delegation is also considered a follow-up activity to the Mission for Growth in China last year led by Mr. Tajani, Vice President of the European Commission.

The programme, registration form and the Chinese companies' profile can be downloaded via the following link: https://www.b2match.eu/eu-china-cooperation-fair2014

The Chief Representative of the EU Project Innovation Centre (Europe Office) EEN West China, located in Brussels is Mr André LI: andre_li@eupic.org.cn.

This event is organized in cooperation with the Flanders-China Chamber of Commerce (FCCC) and the EU-China Business Association.

Meeting and reception with the Flemish Trade Commissioners in China – 16 June 2014 – 19h00 – Gent

The Flanders-China Chamber of Commerce (FCCC), Voka Chamber of Commerce East Flanders and the Province of East Flanders are organizing a meeting with the Flemish Trade Commissioners in China. This event will take place on Monday 16 June at 19h00 at the Province of East Flanders, Gouvernementstraat 1 in Gent.

This event is an excellent opportunity to discuss your companies' activities in China with the Flemish Trade Commissioners.

The programme is as follows:

18h30	Registration
19h00	Welcome by Mr. Hedwig De Pauw, Director Economic Affairs and International Relations, Province of East-Flanders
19h05	Introduction Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce and by Stefan Derluyn, Director Region Ghent and Port, Manager Innovation & Internationalisation
19h15	"Challenges and opportunities for Flemish companies in China" Mr Peter Christiaen, Flemish Trade Commissioner in Beijing Mrs Sara Deckmyn,Flemish Trade Commissioner in Shanghai Mr Dirk Schamphelaere, Flemish Trade Commissioner in Guangzhou
20h00	Exchange of views and networking cocktail.

A separate invitation will be sent and will be available on the FCCC website.

The participation fee for members of the FCCC is €65. The fee for non-members is €85.

ACTIVITIES

Seminar: Protection of business, economic and national interests – 5 June 2014 – Vilvoorde

Voka Halle-Vilvoorde, Voka Metropolitan and the Brussels Diplomatic Academy of the Free University of Brussels are organizing a seminar on the protection of business, economic and national interests, on company and state secrets and how they are protected.

Thursday 5 June 2014, 14h00 – 18h00 at Voka Chamber of Commerce Halle-Vilvoorde – Medialaan 26 – 1800 Vilvoorde – parking in the business park.

Price: Members Voka Halle-Vilvoorde and Voka Metropolitan: €125, Non-members: €190. An attendance certificate issued by the VUB will be available. Companies based in Flanders can use KMO-Portefeuille.

2014 China National Low-Carbon Day & 2nd Shenzhen International Low-Carbon City Forum – 10-11 June 2014 – Shenzhen

The 2014 China National Low-Carbon Day & 2nd Shenzhen International Low-Carbon City Forum will be held on 10-11 June, 2014 in Shenzhen. The National Low-Carbon Day was initiated by the National Development and Reform Commission (NDRC) in 2013 and is an annual event to promote low-carbon development in China. Together with the event, the 2nd Shenzhen International Low-Carbon City Forum will also be held. The Annual Report of China Emission Exchange will be released during the event.

Themed "Low-Carbon Development: Quality-Based Urbanization", the National Low-Carbon Day and the Forum will provide opportunities to understand China's low-carbon development agenda and the new urbanization roadmap from both responsible policy makers at the central level and mayors at local levels, particular demands from local government leaders on their respective low-carbon development plans, and the opportunity to meet and establish contacts with the multitude of stakeholders in China's billion dollar low-carbon development future. Xie Zhenhua, Vice Chairman of National Development and Reform Commission (NDRC), who is responsible for China's national low-carbon development plan, has confirmed his participation in both events.

Over 500 leaders from government, industry, investors, academia, international organizations, business associations and media from over 40 countries will gather to discuss the new direction of the human-centered, environmentally-friendly and ecological urbanization path set by China's State Council in March 2014 and its far-reaching economic and business implications.

Participants at the 2-day event are expected to have in-depth interactions in different formats over topics of effective approaches of low-carbon development and the new model of urbanization, the imperatives for economy, technology, policy and governance transformation, and the potential collaborative opportunities for cities and industries. Private bilateral meetings will also be arranged for concrete projects match-making purposes.

Both events are by invitation only. After receiving indication of willingness to participate, the registration form and hotel booking form will be sent. Registration is free. For questions or information regarding the events: lowcarbonforum@vip.163.com

China Europa – 16~18 September 2014 – Shenyang

China Europa, the essential business gathering between Europe and China, is a key event focusing on commercial relations between Europe and China in the field of sustainable urban development, and offers European and Chinese companies and territories a unique opportunity to meet and to develop efficient economic links, in optimal conditions. It guarantees fruitful and constructive encounters with a number of qualified and targeted contractors and suppliers. It is also an opportunity to identify new development opportunities in Europe and in China and to benefit from exchanged expertise and good practice via a programme of conferences and themed workshops. The leading Chinese and European economic authorities consider China Europa to be the leading event in Sino-European business relations and exchange in the field of sustainable urban development. By providing extensive support towards the business convention's organization, these bodies assert their will to reinforce productive cooperation that will contribute towards shaping tomorrow's sustainable towns and cities.

More information on the event is available at: http://www.china-europa.org/rendez-vous-incontournable-business-europe-chine-china-europa-2014-en.asp

PAST EVENTS

FCCC Conference: “Doing Business with Belgium” – 24 April 2014 – Qingdao

The Flanders-China Chamber of Commerce (FCCC) and the China Council for the Promotion of International Trade (CCPIT) Qingdao Sub-Council organized a conference: “Doing Business in Belgium: Flanders, the heart of Europe” on 24 April 2014 in Qingdao, Shandong province. This session was organized with the support of Flanders Investment & Trade, the Port of Antwerp, the Province of East Flanders, Ghent University and Dewolf & Partners.

Following a word of welcome by Mr Feng Wenqing, Chairman of the China Council for the Promotion of International Trade – Qingdao, Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce (FCCC), gave an introduction the seminar on Doing Business with Belgium : the heart of Flanders. Following viewing of the movie “Flanders, Small Size, Big Opportunities”, Mrs Isabelle Wang, Investment Deputy, Flanders Investment & Trade, gave an address about 'Flanders-Gateway to Europe: Trumps of Flanders' and Mr Luc Arnouts, Chief Operating Officer, Port of Antwerp, talked about “Antwerp, heart of Europe’s shipping & logistics Industry and gateway to 250 million consumers”. “Study at Ghent University: education and research” was introduced by Mr Domien Proost, Chief Representative Beijing Office, University of Ghent and Province of East-Flanders. Mr Jacky Sun, Associate, Dewolf & Partners, talked about “Investing and doing business in Belgium – Legal aspects”. This interesting event was concluded by an exchange of views and a networking reception.

Panel Discussion with Captains of Industry – Results Sino Belgian Business Survey 2014 – 24 April 2014 – Ghent

Moore Stephens, together with the Flanders-China Chamber of Commerce (FCCC), organized a discussion on the results of this year’s survey with a panel of captains of industry and independent pundits in Ghent on April 24. Catherine Vuylsteke, Author, Journalist, Film Maker and China Expert, gave the opening speech, followed by a Captains of Industry panel discussion moderated by Andries Verschelden (Partner, Moore Stephens). Panel members were William Gu, Vice President Global Commercial Management Volvo Construction Equipment; Patrick Van Overloop, KBC General Manager Asia Pacific; Paul Van den Bulcke, Director at Taminco; and Geert Roelens, CEO Beaulieu Group. The event was concluded by a Q&A session and networking drinks.

China Job Market – Gent – 1 April 2014

A job market for Chinese high potentials was organized by Ghent University Doctoral Schools, the Flanders-China Chamber of Commerce (FCCC) and the Province of East Flanders. The fair took place on 1 April at the International Convention Center (ICC) in Ghent, where at the same time the Graduate Fair and Job Market for Young Researchers was held.

Ghent University Association with its four member institutions – Ghent University, University College Ghent, Artevelde University College Ghent and University College West-Flanders – has approximately 250 Chinese students. Chinese final-year Master students and young researchers (doctoral students and postdoctoral fellows) received a personal invitation to visit the Graduate Fair. The job market was also advertised through the Chinese interuniversity student council. The purpose of the Fair was to help final-year Master students and young researchers find a (first) job and make it easier for employers to network with these young professionals.

NOTICE

Sponsorship opportunities

The Flanders-China Chamber of Commerce (FCCC) offers several sponsorship opportunities to give companies more exposure to potential new clients and collaboration. Opportunities are available in our weekly newsletters, quarterly Chinese newsletters, our new website, our conferences and meetings with Chinese delegations.

If you are interested in obtaining more information about the sponsorship opportunities, you can download the detailed information at the following link : www.flanders-china.be/sponsorship_opportunities_2014.doc

PUBLICATIONS

FCCC publishes “FCCC Members' Portraits in China Vol.2”

See FCCC Members' Portraits on the FCCC website.

FINANCE

Banks extend fewer loans in April

Money supply in China picked up in April while social financing fell to CNY1.55 trillion, indicating a cooling economy. Banks in China extended CNY774.7 billion in new yuan loans in April, below CNY1.05 trillion a month earlier and CNY792.3 billion a year ago, the People’s Bank of China (PBOC) said. But growth in M2 rose to 13.2% in April from 12.1% in March, which was the weakest since 1999. The official annual target was set at 13%. A stabilizing economy would rule out any possibility for monetary policies to ease, according to Liu Dongliang, Senior Analyst at China Merchants Bank. At a forum in Beijing, People’s Bank of China Governor Zhou Xiaochuan reiterated that the central bank would fine-tune policy settings as needed, but he ruled out the possibility of any massive stimulus.

- Chinese bitcoin businesses are drafting plans to escape the crackdown on the digital currency by moving offshore. China's biggest bitcoin exchange, Huobi, is considering shifting its operations abroad to protect its customers. Before the crackdown, customers could deposit or transfer money to or from the company's Chinese bank account. In future, they may have to use overseas bank accounts in order to bypass China's tightly controlled banking system. A series of crackdowns by the People's Bank of China (PBOC) since December has seen the price of a bitcoin drop to CNY2,712 from CNY5,000 during the Lunar New Year.
- China's fiscal revenue rose 9.2% year-on-year in April to CNY1.25 trillion, faster than the 6.2% annual gain in April last year. Real estate-related tax income, however, fell 4.2% from a year ago as home sales fell. In the first four months, China’s fiscal revenue rose 9.3% year-on-year to CNY4.75 trillion. Central government revenue totaled CNY2.14 trillion, up 7%, and local government revenue was CNY2.62 trillion, up 11.3%.
- Yuan deposits in Taiwan that surged five-fold in the past year are mostly sitting idle, according to global banks who say more investment options are needed to make the renminbi a global currency. Credit Suisse Group estimates that about half of the CNY268 billion of savings in Taiwan are re-deposited at the Bank of China's Taipei branch, while only 7% is used for loans.
- The China Banking Regulatory Commission (CBRC) has issued new rules on non-financial companies selling trust products. They are banned from sending product information to random customers via public advertisements or text messages. Trust products can only be sold in private placements and be made available only to institutional investors and high net-worth individuals who can afford to lose their entire investment. Trust companies are also prohibited from selling products via agencies, such as third-party wealth-management companies. Non-bank lending accounted for 60% of the country’s GDP last year. China’s vast “shadow banking” sector is now valued at USD4.4 trillion, according to the Chinese Academy of Social Sciences (CASS). The sector equals nearly one-fifth of the domestic banking sector’s total assets.

- Shanghai's first privately-owned bank will be set up soon in the pilot free trade zone (FTZ). Analysts expect Shanghai-based conglomerates Fosun Group and Juneyao Group to be the first to receive the green light to open a private bank in the FTZ. A dedicated division of the China Banking Regulatory Commission (CBRC) will be set up in the FTZ to oversee banking operations within the zone.
- The investment return of China's local government debt is good, and its risk can be controlled, the Chairman of the Export-Import Bank of China said. "Most funds borrowed by local governments are used for infrastructure construction, which generates good investment returns and promotes the development of the local economy," said Chairman Li Ruogu. By the end of 2012, the direct debt of China's local governments stood at 36.7% of GDP.
- As China's economy continues to cool, companies are waiting longer and finding it harder to get paid for goods and services they have already sold, leading to record amounts of receivables – and potential write-offs – on corporate balance sheets. Slow collection of money owed is causing companies to delay their own payments to suppliers, in a ripple effect being repeated across the economy. Company receivables on average reached USD160.49 million at the end of last year, more than double the USD65.9 million average at the end of 2009.
- Banks in China posted a slight rise in non-performing loan ratio to 1.04% at the end of March from 1% at the end of last year, the China Banking Regulatory Commission (CBRC) said. Outstanding bad loans totaled CNY646.1 billion at the end of the first quarter, up CNY54.1 billion from the same period of last year. Foreign banks in China posted a bad loan ratio of 0.52% and had combined outstanding bad loans of CNY6 billion during the quarter. The rural commercial banks had the worst asset quality among peers as their average NPL ratio was 1.68% at the end of March.
- Bank of Communications (BoCom) said 13 of its executives have purchased 563,100 of its shares on the open market in Shanghai to boost confidence. They collectively spent CNY2.1 million. The bank's shares have fallen 18% over the past 12 months. The shares will be locked up from trading for three years from the day of purchase under Chinese regulations. The buyers included Chairman Niu Ximing and President Peng Chun.
- Companies based in the Shanghai pilot free trade zone (FTZ) can now combine their onshore and offshore foreign exchange accounts, make centralized payments for different subsidiaries, and merge different payments to reduce the number of transactions and increase efficiency. The first batch of 21 energy, manufacturing, logistics, trade and investment enterprises in the FTZ signed contracts with 13 Chinese and overseas banks for centralized foreign currency treasury management solutions. This is seen as a step to eventually liberalize capital accounts in the FTZ.
- The People's Bank of China (PBOC) and finance regulators said in a joint notice that they will tighten controls over the financial industry, particularly interbank borrowing. Analysts said the rules are aimed at reining in the "shadow banking" system.
- China Development Bank Corp, the country's biggest policy lender, reported its weakest annual loan growth in at least four years, highlighting government efforts to slow credit growth and allow market forces to determine who gets financing. The bank issued almost CNY1 trillion in urbanization-oriented loans last year. Total loans reached CNY8.19 trillion.

FOREIGN INVESTMENT

FDI returns to growth, up 3.4% in April

Foreign direct investment (FDI) returned to growth last month, up 3.4% from a year earlier to USD8.7 billion in April, reversing March's decline of 1.5%. In the first four months, China has attracted USD40.3 billion in foreign investment, up 5% year-on-year. Ministry Spokesman Shen Danyang said foreign direct investment was stable on the whole, and its renewed growth reinforced the view that China remained an important destination for foreign investors. Foreign investment flowing into China's service sector gained 19.1% to USD22.5 billion in the first four months, making up 55.8% of the overall figure. In comparison, the manufacturing sector drew USD14.5 billion, down 11.4% on an annual basis. For the first four months, Hong Kong remained a top investor in the mainland with USD27.8 billion, followed by Singapore and Taiwan with USD2 billion each. Investment from South Korea, the fourth largest investor in

China, rose at the quickest pace during the period, surging 139% from a year ago to USD1.8 billion. Investment by the United States dropped 11% to USD1.2 billion. A total of 6,661 overseas enterprises set up business in China during the period.

Meanwhile, China's outbound direct investment (ODI) fell 12.9% to USD25.6 billion in the first four months. The decrease was mainly due to the high comparative base last year when China completed several huge projects. In the first four months, 66.5% of China's outbound non-financial investment went to seven economies: Hong Kong, ASEAN, the EU, Australia, the U.S., Russia and Japan. Investment in the seven totaled USD17.1 billion.

- Mobs burned and looted scores of foreign-owned factories in Vietnam following a protest by about 20,000 workers against China's recent placement of an oil rig in the South China Sea in an area that Vietnam also claims. Factories owned by Taiwanese and South Korean investors were also inadvertently targeted. Several people died and many more were injured during the riot. More than 600 were arrested by police. Thousands of Chinese have fled to neighboring Cambodia or have been repatriated to China. The Chinese embassy in Hanoi urged Chinese to take safety precautions and avoid unnecessary travel.
- Foreign enterprises enjoy vast room for development in China as the increasingly open country treats them on a par with domestic ones, Premier Li Keqiang said. China is deepening reform and opening-up, and it provides an equal and fair environment for both Chinese and foreign enterprises, Li told visiting Chairman of the International Chamber of Commerce, Harold McGraw III.

FOREIGN TRADE

China trying to boost imports, balance trade

China will keep trying to boost imports as it seeks to achieve a trade balance, Assistant Minister of Commerce Tong Daochi said at the China Import Expo in Kunshan, Jiangsu province. The April trade figures "suggest our imports and exports are stabilizing," he added. Exports grew 0.9% year-on-year last month in dollar terms, while imports rose 0.8%. In March, exports fell 6.6% while imports contracted 11.3%. Holding the import exhibition "reflects the government's determination to bring balance to foreign trade and further reduce our trade surplus," Tong said. China's trade surplus was CNY215.4 billion in the first four months, down 42.9% from a year earlier. Tong said that China is willing to be more involved in multilateral mechanisms. He also urged developed countries to further open their markets and said that China will change its system accordingly. "Emerging economies should have a bigger say in global economic governance," said Jiang Zengwei, Chairman of the China Council for the Promotion of International Trade (CCPIT). The foreign trade of Guangdong province fell by 18.7% in April, and a smaller decline is anticipated this month, the Guangdong Sub-Administration of China Customs said. The fall in the province's foreign trade was 23.5% in the first four months to CNY1.88 trillion, accounting for 23.2% of the national total.

Customs: EU and China sign landmark mutual recognition agreement

EU and Chinese trusted traders will enjoy lower costs, simplified procedures and greater predictability in their activities, thanks to a new mutual recognition agreement. The EU and China commit to recognize each other's certified safe traders, thereby allowing these companies to benefit from faster controls and reduced administration for customs clearance. Mutual recognition of trusted traders also allows customs to focus their resources on real risk areas, thereby improving supply chain security on both sides. The EU is the first trading partner to enter into such an agreement with China, having already signed similar deals with the U.S. (2012) and Japan (2011). EU Commissioner for Taxation and Customs, Algirdas Šemeta, was at the Joint Customs Cooperation Committee (JCCC) meeting in Beijing, for the signing of the agreement.

Commissioner Šemeta said: "By agreeing to mutually recognize each other's safe traders, the EU and China are taking a big step forward in our trade relationship. The agreement is fully in the spirit of trade facilitation, by making customs procedures easier, cheaper and faster for our trusted operators. It is also in the spirit of growth, by improving our business environment and accelerating trade. Our citizens will benefit from greater protection too, as customs can focus more resources on where the real risks lie. In short, everyone is a winner with this customs agreement."

- A year after spending USD3.6 billion to buy grain trader Gavilon to expand in China, Japan's Marubeni Corp has been shaken by defaults on soya bean sales and faces an investigation into alleged tax evasion in China. "The rapid expansion that Marubeni is pursuing has caused them to take risks that other grains companies would not in their pursuit of business," said Nobuyuki Chino, President of Continental Rice Corp. Chinese buyers recently defaulted on at least 500,000 tons of soya bean shipments and threatened to default on more than 20 physical cargoes. Marubeni supplies 25% of China's soya bean imports.
- Alibaba.com is offering subsidies to encourage Chinese suppliers to use the company's online export services. Alibaba.com will pay manufacturers and suppliers up to CNY0.03 for every USD1 in value of export transactions handled through OneTouch, the Shenzhen-based integrated foreign trade services company. OneTouch, a subsidiary of Alibaba.com, provides Chinese exporters with online services, including customs clearance, trade financing, foreign exchange and logistics. OneTouch provided export services to 14,070 customers and facilitated import and export transactions valued at more than USD4 billion in 2013.
- The vast majority of China's importers and exporters use the e-clearance program Customs Paperless Reform. According to PricewaterhouseCoopers's annual survey of managing customs and international trade in China, covering 400 companies, 82% is using e-clearance, a sharp increase from just 46% as recently as 2013. The General Administration of Customs announced that it will launch customs clearance reform in Beijing and Tianjin on July 1.

HEALTH

Former GSK GM and staff facing bribery charges

Staff at UK drugmaker GlaxoSmithKline (GSK), including its former China General Manager Mark Reilly, are facing bribery charges after the completion of a police investigation in Changsha, Hunan province. Reilly is accused of operating a "massive bribery network" involving hundreds of millions of yuan, Gao Feng, Deputy Director of the Ministry of Public Security's Economic Crimes Unit, told a news conference. Reilly engaged in "wanton" bribery to meet high sales targets set by GSK's head office, Gao said, and drug prices were inflated by declaring high costs at Chinese customs. Police found GSK was selling its drugs at prices much higher than those of the same products in other countries, sometimes as much as seven times. "The more it bribed, the more drugs it could sell," Gao told reporters. After police had received tip-offs about suspected bribery at the company in 2012, Reilly and two other executives, Zhang Guowei and Zhao Hongyan, bribed government officials in Beijing and Shanghai to thwart an investigation. A formal probe was launched last July. During Reilly's four-year tenure, GSK's revenue in China surged 77% to CNY6.9 billion. He has meanwhile been replaced by Hervé Gisserot. GSK, Britain's biggest pharmaceutical company, operates a global research and development (R&D) center in Shanghai and six manufacturing sites in China. It has invested more than CNY500 million in the country. GSK announced in December that it was severing the link between sales targets and staff income as part of an overhaul of its marketing activities in China. Analysts familiar with the health care system in China say kickbacks are commonly used by domestic drug manufacturers. Doctors sometimes accept bribes, hospitals add surcharges to drug prices and encourage overuse of expensive drugs or procedures. The GSK case is the biggest corruption scandal involving a foreign company in China since the Rio Tinto affair in 2009, which resulted in four executives, including an Australian-Chinese executive, being jailed for between seven and 14 years, the Shanghai Daily reports.

- The central government passed a draft revising the Food Safety Law and sent it to the Standing Committee of the National People's Congress (NPC) for review. According to the revision, companies producing or selling food should establish a system to make sure that their products are traceable. The revision also enhances the punishment for violations. The government will also establish a system to reward whistleblowers who report those who threaten food safety as well as put in place compulsory food safety liability insurance for food companies.

IPR PROTECTION

Several locations vying to establish first IP court

Beijing, Shanghai, and Guangdong province are all vying to open China's first dedicated IP court. Disputes involving foreign parties posted an 18.75% rise last year. More than 2,700 judges have worked with 420 IP divisions of courts nationwide since the first was founded in Beijing in 1993. Local courts face mounting IP caseloads, with the number of civil cases alone reaching nearly 90,000 in 2013 from some 30,000 in 2009, according to the data from the Supreme Court. New IP dedicated courts are expected to address the growing complexity of IP cases, varied criteria used in judgements and local protectionism. Li Shunde, Deputy Director of the Intellectual Property Center at the China Academy of Social Sciences (CASS), said: "The idea is to address the issue of different criteria at appeal courts across the country". There are currently more than 30 high courts at the provincial level nationwide that are entitled to deal with intellectual property appeals.

MACRO-ECONOMY

Weak economic data reported for April

Unexpectedly weak activity data for April pointed toward a stalling economic recovery in China, reviving expectations that the government will continue policies aimed at nurturing growth. Industrial production expanded 8.7% from a year earlier, slowing from of 8.8% in March, the National Bureau of Statistics (NBS) said. Retail sales in the month rose by a three-year low of 11.9%, narrowing from a gain of 12.2% in March. For the first four months of this year, fixed-asset investment (FAI) growth moderated to 17.3%, the lowest level in more than a decade. "The data suggest that China's economy is yet to stabilize," said Zhou Hao, Economist at Australia & New Zealand Bank. "If this trend extends into May and June, China's second quarter growth could remain below 7.5%," Zhou said. "The authorities would have to further ease monetary policy to help pull the economy out of a state of lethargy," he added. China's gross domestic product (GDP) in the first quarter expanded 7.4%, the slowest in 18 months and shy of the official target of 7.5% for 2014. Chen Hufei, Economist at the Bank of Communications (BoCom), said slower FAI growth was particularly alarming because funding for big infrastructure projects has been a major source of economic stimulus in China. New policies to support growth included lowering the amount of money rural banks are required to keep in reserve and an accelerated timetable for railway construction. Zhu Haibin, JPMorgan Chief Economist, suggested that China should consider extending the reserve requirement ratio (RRR) to all banks. President Xi Jinping said that China's economy must adapt to a "new normal" in terms of the pace of growth, a comment that many took as a signal that the government has no plans for a big new stimulus package.

China one of the most globally-connected economies

China has become one of the most globally connected economies in the world, ranking 25th among 131 countries, in terms of trade, finance, people and data flows, McKinsey said in a report. China's ranking is five places higher than in 1995. China's flows of goods, services and finance totaled USD5.1 trillion, or 20% of all global flows and nearly twice its share of the global gross domestic product (GDP). China ranked 5th for the flow of goods and 6th for finance flow, McKinsey said. The ranking reflects China's role in global manufacturing supply chains and its large inflows of foreign direct investment (FDI) and outflows of central bank reserves. "By further increasing its connectedness in services, data and people, China has the potential to capture the full benefits of globalization and accelerate the transition of its economy to one that is driven more by innovation and consumption," Chen Yougang, McKinsey Partner and head of MGI (McKinsey Global Institute) China, said in the report. But China's data and communication flows are limited, ranking 33rd in cross-border internet traffic and other communication flows despite having the world's largest number of internet users, the Shanghai Daily reports.

- The Chinese government has decided to accelerate the development of the production-oriented service industries, such as research and design, commercial services, marketing and after-sales services to stimulate domestic demand and boost employment. Qualified enterprises will receive favorable tax rates.
- Shanghai's industrial production rose by a slightly faster pace in April but fixed-asset investment (FAI) grew by a slower rate in the first four months of this year. Industrial

output expanded 4.8% from a year earlier to CNY266.1 billion last month, as FAI in the first four months rose 4.1% to CNY144 billion. Shanghai's economic growth in the first quarter weakened to 7%, slower than the national rate of 7.4%. Shanghai's foreign trade increased 7% to CNY911.1 billion during the January-April period.

PETROCHEMICALS

Plans made to shut down small refiners

China plans to shut down small, obsolete petroleum refining facilities with an annual capacity of less than 2 million metric tons. All new refining projects must ensure sufficient raw material supplies, while for Sino-foreign joint refining projects, the foreign side must be able to supply more than 60% of the crude. The National Energy Administration (NEA) has also drawn up a capacity reduction timetable for major refiners, including PetroChina. In March, China was a net exporter of refined products, shipping out 650,000 barrels per day (BPD) while importing 560,000 BPD.

- China has targeted an annual import of 65 billion cubic meters of natural gas from Turkmenistan by 2016, as Turkmen President Gurbanguly Berdymukhamedov visited Beijing. Both sides agreed to ensure the smooth and stable operation of the China-Central Asia gas pipeline, and to start construction of Line D as soon as possible and put it in operation by 2016. Lines A and B have a combined capacity of 30 billion cu m per year. The transport capacity of Line C is 25 billion cu m. The two countries will also speed up construction of the second phase of the Fuxing gas field in Turkmenistan with a capacity of 30 billion cu m.
- PetroChina unveiled a plan to sell its entire stake in some sections of its west-to-east natural gas pipelines, worth some CNY39 billion, in the second pipeline assets disposal in a year. It would help the company re-allocate resources from mid-stream distribution to more lucrative upstream oil and gas exploration and production. The move also shows it is receptive to calls by Beijing for state firms to become more market-oriented and more efficient. By selling 100% of some pipelines, PetroChina will lose control over which customers they will serve, paving the way to open the pipelines to third-party usage.

REAL ESTATE

10.2 million houses stand empty

China has about 10.2 million units of empty housing, and that number could rise by 3 to 4 million a year, according to Credit Lyonnais Securities Asia. If this estimate is accurate, it means that China's vacancy rate was 15% last year, 5 percentage points higher than the average in the United States. Vacancy rates varied among Chinese cities, CLSA said. In first-tier cities, the rate was 10%. The rate in second- and third-tier cities as a group was 16%. Ordos in Inner Mongolia had the highest vacancy rate of 23%. However, the National Bureau of Statistics (NBS) does not release reliable numbers. The number of vacant homes is directly linked to the extent of oversupply and the bubble in the property market. CLSA's estimate is among the more conservative, with other estimates of vacancy rates ranging from 20% to 30%. A study by Peking University in 2013 said an average Chinese family owns 100 square meters of living space, and 10% of households own two or more residences. CLSA's estimate is based on an independent survey it began last May in 12 cities that covered 609 residential projects and 800,000 apartments. The survey team carried out home visits and went to projects to see how many lights were on at night. It only surveyed units completed from 2007 to 2011. Oversupply could be lessened in second-tier cities through massive population inflows, but the situation in third-tier cities was far more worrisome, as the construction spree of recent years left large inventories and less people migrate to such cities. Last year, 790 million sq m of housing was sold in third-tier cities. By 2020, that area will shrink as much as 60%. But in first- and second-tier cities, sales areas will rise 6% to 12%. Overall, sales by 2020 will shrink by 36%, the China Daily reports.

Foreign developers looking for Chinese buyers

Wealthy Chinese are increasingly looking for overseas real estate investment opportunities, so foreign developers are coming to China in search of clients and business partners, especially in the luxury-residential sector. Shanghai-based international investor Greenland Group announced in March a 67,000 sq m project in Toronto, Canada's largest city, as its latest overseas real estate acquisition. In the past year, Greenland had announced deals in Australia, Malaysia, South Korea, Spain, Thailand, the UK and U.S. Jones Lang LaSalle (JLL) said China's outbound commercial real estate investment reached USD7.6 billion last year, up 124% year-on-year. It estimated Chinese investors will spend more than USD10 billion in 2014 in overseas commercial real estate markets. Against that background, foreign developers are looking for Chinese partners to jointly seek out potential clients in China. At present, U.S. and European investors lead commercial real estate investment in Canada, but Chinese investors are expected to follow rapidly.

New home sales declining

New home sales in China declined at a faster rate in the first four months of this year, by both value and volume. The value of new homes sold dropped 9.9% from the same period a year earlier to CNY1.53 trillion, while the volume dropped 8.6% to 245.2 million square meters. Tighter credit at commercial banks has effectively kept home seekers on the sidelines, which has caused a couple of non-major cities around the country to introduce policy loosening. Developers are reducing their investment in real estate development. Investment in housing development rose 16.6% year-on-year to CNY1.53 trillion across the country in the January to April period. “The main priority for developers at the moment would be to unload their inventories rather than expand further,” said Yan Yuejin, Analyst at the E-House China R&D Institute. China's home sales fell 18% in April amid tighter credit. The value declined to CNY418 billion from CNY509 billion in March, according to National Statistics Bureau (NBS) data for the first four months of the year. The value of total sales from January to April fell 9.9% to CNY1.53 trillion from a year earlier. At least six smaller Chinese cities have been relaxing local curbs on speculative and investment-driven home buying since the end of April.

- Real estate agencies are laying off staff after sales slumped over the past two months to just one-third of the levels seen in 2012. They are also holding off on opening new branches. “Tightening monetary financing conditions, combined with overbuilding and increased developer leverage in 2013, have worsened the housing market's supply-demand picture,” said Barclays in a report. The British bank said that Beijing won't allow China's property bubble to suddenly burst, as a 5% decline in property investment growth would shave 50 basis points off of China's GDP growth. Instead, the bubble will gradually deflate this year and next, it added.
- An increasing number of Chinese property developers are facing the threat of bankruptcy as their credit dries up and weak sales have cut their cash flow to a trickle. “We welcome investment from any company that can address our problems,” Guo Yaoming, Chairman of Guang Real Estate Group said. A capital injection of CNY300 million to CNY500 million would allow the company to weather the current crisis. According to a report by Goldman Sachs Group & Gao Hua Securities Co, the financial situation of 110 developers listed on the A-share market deteriorated in the first quarter.
- Zhong An Real Estate, which is facing a cash squeeze, plans to spin off its commercial development and investment business unit, China New City, in a HKD2 billion global offering. The plan had yet to be approved by shareholders, who would meet on May 30, and details including the size of the global offering and the price range had yet to be finalized. Following the spin-off, Zhong An will become a pure residential property developer, with projects mainly in the Yangtze River Delta. China New City will use the listing proceeds for project finance and working capital.
- In its monthly survey of home prices in 70 major Chinese cities, the National Bureau of Statistics (NBS) reported that prices rose in 44 cities in April, compared with increases in 56 cities in March and 57 cities in February. On an annual basis, Shanghai’s home prices increased the most in China in April, up 13.6% from a year earlier. Prices in 18 cities were flat, while prices in Hangzhou, Ningbo, Wuxi, Wenzhou, Jinhua, Anqing, Ganzhou and Huizhou declined. The average increase for housing prices in the 70 cities was 0.1% in April from the previous month. New housing starts, a leading sign of property investment, fell 27.2% in the first quarter, while home sales fell 5.7%.
- An average wage earner has to save for 13 years just to raise the down payment for a small flat no bigger than 80 square meters in Beijing, without spending anything even on food. The down payment on average accounts for 30% of the home price. Two

cities where the situation is even worse are Hong Kong and Macao.

RETAIL

Retail sales show slower growth

Retail markets in the first quarter have seen growth slow to 6.1% compared with 10.4% a year ago, showing that consumers are getting more selective in their daily purchases and purchase volumes are staying stagnant, according to Kantar Worldpanel, a global market research institution. The slowdown in the first quarter was primarily due to Chinese consumers' reluctance to spend as well as continued weakness in government and company spending on employee welfare, according to Jason Yu, General Manager of Kantar Worldpanel China. The trend is more noticeable in food rather than non-food categories, which still reported 6.8% growth year-on-year. Juice and tea sales saw more than 20% value growth, but carbonated soft drinks sales leveled off. Strong demand for chocolate was reported but biscuits sales slowed down. The retail market has recorded a slowdown mainly in top-tier cities, including Beijing, Shanghai, Chengdu and other provincial capital cities, but there is still room for growth in lower-tier cities. The Kantar Worldpanel report forecast that for the rest of the year, growth in China's consumer goods market will slow as shoppers are expected to remain cautious about weakness in the macro-economy. The report predicts affordable goods purchases should rise as people reduce spending on luxury goods and fine dining, the China Daily reports.

SCIENCE & TECHNOLOGY

Space mission postponed till next year

China's next mission into space will not occur this year and may not involve a moon landing, Long Lehao, Director of the Science and Technology Committee of the Chinese Academy of Launch Vehicle Technology, said. "China had previously announced plans for an engineering test mission to the moon that was expected this year," said Dr Morris Jones, Australia-based Space Expert. "These remarks suggest that the mission has been delayed," he said. China's lunar rover suffered technical difficulties on the moon surface in January, after landing successfully in December. It is still unclear why the rover malfunctioned.

- The number of Shanghai high school students applying to take the college entrance exam continued to slide this year. In 2006, 113,600 sat the test, but this year the total will be just 52,000, or 1,000 fewer than last year. The main reason for the decline is the low birth rate in the city in the 1990s. Many high school students are choosing to study abroad or go to work.
- Chinese people have been "experimented upon" over the past 10 years through unwittingly eating genetically-modified (GM) rice, Greenpeace said, adding that GM rice is being sold illegally. Greenpeace accused research institutions of playing a major role. China gave safety approval for the BT Shanyou 63 variety of rice in 2009 but it has not gone into commercial production, even though billions of yuan has been spent on research. Food products exported to Japan, South Korea and the European Union have been found to contain BT Shanyou 63.
- The Applied Superconductivity Laboratory at Southwest Jiaotong University in Chengdu has successfully tested a "super-maglev" train that could theoretically hit speeds of up to 2,900 kilometers per hour. The train would run inside a vacuum tube to remove air resistance. The test vehicle's top speed is currently 50 km/h but this could be increased with higher temperatures and a more powerful superconducting maglev ring. The current speed is limited by the small diameter of the ring, which is only 12 meters.

STOCK MARKETS

Citic Pacific reaches agreement with institutional investors

Citic Pacific has reached agreement with 15 government funds and leading institutional investors to subscribe to HKD39.5 billion of shares it will issue to finance the acquisition of its parent company's assets, which is billed as a landmark deal that will help advance state enterprise reform. About HKD16.8 billion, or 42.5%, of the shares have been taken up by China's largest pension fund, the National Social Security Fund (NSSF). Safe Investment, the Hong Kong fund management unit of the State Administration of Foreign Exchange (SAFE), has agreed to buy HKD4.65 billion of the shares, while Qatar Holding will subscribe to HKD1.56 billion worth and Singapore's Temasek will acquire a HKD780 million stake. The biggest commercial purchases are HKD3.9 billion from China Life Insurance and HKD2.3 billion from insurer AIA. There is also a HKD1.95 billion investment from Bank of China (BOC), HKD1.56 billion from Agricultural Bank of China (ABC), and HKD1.17 billion each from China Construction Bank (CCB) and Industrial and Commercial Bank of China (ICBC). Other investors include Taiwanese insurers CTBC Life Insurance and Fubon Life Insurance, Japan's Tokio Marine & Nichido Fire Insurance and Mizuho Bank, and state-owned Beijing Infrastructure Investment. Despite the CNY227 billion price tag and lack of a discount to the book value of assets being bought by Citic Pacific, Somerley Capital, said the deal was “fair and reasonable”, despite a 38% dilution in net asset value per share. While conglomerates normally deserve a discount, Citic Pacific's situation is different given the acquisition will raise its profit nine-fold, helping to offset the higher valuation of assets acquired, according to MTD Financial Planning. The transaction is unprecedented as it will expose all but 1% of Citic Group's assets to public and stock market regulatory scrutiny, the South China Morning Post reports.

- China CNR Corp, the country's second-largest train maker, published its Hong Kong initial public offering (IPO) plan and opened subscriptions. The IPO is expected to raise as much as HKD11 billion. Trade is expected to start on May 22. UBS, China International Capital Corp and Macquarie Group are joint managers of the offering. CNR has secured three cornerstone investors: Dongfeng Motor Co, a Hong Kong subsidiary of China National Machinery Industry Corp, and Shanghai-listed Jinxi Axle Co. CNR performed better than its rival CSR last year, in both profit and revenue terms.
- The share price of food and beverage maker Uni-President China fell 7.1% on May 12, its lowest for more than 18 months, after it announced a HKD3.28 billion rights issue. The firm said it would use the HKD3.27 billion of net proceeds to repay bank borrowings and for general working capital. In the first quarter, Uni-President's net profit fell 25.2% to CNY236.5 million. For the whole of this year, Haitong predicts Uni-President's net profit will fall 14.8% to CNY780 million.
- Wang Dongming, Chairman of Citic Securities, China's largest brokerage firm by market value, has been fined two months' salary by his own firm after publicly reprimanding Industrial and Commercial Bank of China (ICBC) for racking up huge profits. Citic Securities said it had decided to fine Wang to raise his awareness of the need to exercise caution when speaking publicly. The fine could cost him close to CNY1 million. ICBC is a client of Citic Securities. ICBC's first-quarter net profit rose 6.75% year-on-year to CNY73.46 billion.

TRAVEL

Forward fuselage section of C919 to be delivered

China moved closer to making its own large passenger jetliner as the first large part of the domestically developed C919 rolled off the assembly line. The forward fuselage, or front section, of the airplane, which typically includes the first-class cabin, will be delivered to the Commercial Aircraft Corp of China soon. The component was developed and manufactured by Hongdu Aviation Industry Group in Jiangxi province. It consists of more than 1,600 parts and is made of third-generation aluminum-lithium alloy, used for the first time in a commercial aircraft in China. The cutting-edge alloy will help to improve the aircraft's structural strength and reduce its overall weight. The company became the sole supplier of forward fuselage and rear fuselage components for the C919 in May 2009. It began to produce forward fuselage parts in December 2011 and allocated substantial resources and personnel to the research and development of new techniques, advanced materials and equipment for the project. The rear fuselage is still under development, as the technical complexity is higher than that of the forward part. Shanghai-based COMAC has begun to manufacture the airframes of the first three C919s that will perform test flights, with the first one set to begin assembly by the end of this year, according to Wu Guanghui, Deputy General Manager of COMAC. COMAC has already received 400 orders from 16 domestic and foreign clients for the C919. The aircraft's maiden flight is expected to take place in 2015, with the first deliveries scheduled for 2017. It will be able to carry up to 168 passengers and has a maximum flight range of about 5,500 km, the China Daily reports.

- China's newly-stablished budget carrier Jiuyuan Airlines has placed an order for 50 Boeing 737 jets, worth more than USD3.8 billion at list prices. With a registered capital of CNY600 million, Jiuyuan Airlines is based at Guangzhou Baiyun International Airport. It is China's second budget carrier after Spring Airlines.

VIP VISITS

Japanese and Chinese Trade Ministers meet

The Japanese and Chinese Trade Ministers held talks in the first high-level meeting between the two countries since a visit by Japan's Prime Minister Shinzo Abe to the Yasukuni shrine sparked a diplomatic row in December. Toshimitsu Motegi and his Chinese counterpart Gao Hucheng agreed to put political tensions aside to improve bilateral economic ties, when they met on the sidelines of the Asia-Pacific Economic Cooperation (APEC) forum in Qingdao, Shandong province.

ONE-LINE NEWS

- China Everbright International, the waste-to-electricity and waste water treatment company, is in a "rapid development phase" and has not been notified of any investigation of its books and operations. The firm had signed agreements on nine projects involving CNY3.4 billion of investment so far this year, compared with 12 projects with investment of CNY2.48 billion last year, CEO Chen Xiaoping said.
- The number of state officials indicted and sentenced for graft has risen substantially, the Supreme People's Court (SPC) revealed. As many as 10,840 officials were investigated and punished for corruption in the first quarter of the year – a year-on-year increase of 19.8%. Among them, 57 held bureau-level positions. Some of the 3,095 suspects received jail sentences.
- The crackdown on corruption in the energy sector has deepened as several senior government officials and company heads have been placed under investigation, including Xu Yongsheng, Deputy Director of the National Energy Administration (NEA) and Wang Jun, Deputy Director of the New Energy Department under the NEA. The NEA was established in 2008 to reform China's energy industries. Investigators also found almost CNY100 million in cash in the home of Wei Pengyuan, Deputy Director of the NEA's Coal Department.
- Wang Shuaiting, Chairman of the listed subsidiary of China Travel Service (Holdings) Hong Kong, is being investigated for corruption during his tenure at China Resources. He is the fourth former China Resources executive to be detained. Bo Qiliang, Overseas Operations Manager of PetroChina, is also under investigation.

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