法兰德斯中国商会 FCCC VCKK

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

NEWSLETTER | 30 JUNE 2014

FCCC ACTIVITIES

Weihai-Ghent: Economic Cooperation Seminar – 8 July 2014 – Weihai

The cities of Weihai and Ghent, the Flanders-China Chamber of Commerce (FCCC), Ghent University and Flanders Investment & Trade (FIT) are organizing an economic cooperation seminar in Weihai, Shandong province on 8 July 2014 at 10h. Venue to be announced later.

Programme

9h30	Registration
10h00	Welcome by Mrs. ZHANG Hui, Mayor of Weihai
10h10	Welcome by Mr. TERMONT Daniël, Mayor of Ghent, “Movie: Ghent puts knowledge to work”
10h20	Ghent: research and investment opportunities by Mrs. Els Pandelaere, Investment Promotion Manager, Ghent by Mr. Domien Proost, Representative China Platform: Ghent University and Province of East Flanders
10h50	Weihai: introduction to the investment environment and overview of the main sectors by TBA
11h20	Role of the Flanders-China Chamber of Commerce and opportunities for cooperation by Mrs. Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce & Secretary General, EU-China Business Association
11h30	Flanders-Gateway to Europe by Isabelle Wang, Investment Deputy, Flanders Investment & Trade
11h45	Question and answer session and networking lunch

Registration via the FCCC website: www.flanders-china.be

ACTIVITIES

Meeting with Chinese delegation: environment and energy – 30 June 2014 – Antwerp

On Monday, June 30, 2014, the Flanders Cleantech Association is receiving a delegation of its Chinese partner CAEPI, together with a delegation of about 10 Chinese environmental and energy companies looking for partners in Flanders.

CAEPI is the Chinese Association of the Environmental Protection Industry, which is guided by the Ministry of Environmental Protection (MEP). During the visit the Flanders-China Chamber of Commerce (FCCC) will introduce the cleantech mission to China in October which the FCCC is organizing together with the Flanders Cleantech Association, Flanders Investment & Trade (FIT) and the Province of East Flanders. More information about the Chinese delegation and the introduction of the projects “CAEPI Delegation” can be requested by sending an e-mail to info@fca.be.

The meeting will take place in the strategically located Portview at the Noorderlaan in Antwerp.

Participation is free of charge for FCCC members and limited to companies in the cleantech sector.

In addition to information about the delegation on June 30, you can also request a list of opportunities in the Tianjin region (the prosperous industrialized port region on the coast close to Beijing) via info@fca.be.

The meeting with CAEPI on June 30 and listing of your areas of interest in the registration form are part of the preparations for the cleantech mission to China in October. You will receive more information on June 30, which will also be available on our website www.flanders-china.be

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.

On 16th -18th September 2014, the European Chamber will co-organize the sixth edition of China Europa in Shenyang with the theme: Innovative Solutions for Sustainable Energy and Urban Development.

Since 2006 Europe and China have come together nearly every year to host China-Europa, a comprehensive business convention on urban development that has had the highest support from China's Ministry of Commerce and the European Commission.

Why participate in China Europa 2014: five reasons

- Discover major urban projects in European and Chinese cities on China Europa exhibition area
- Update your knowledge about the last technologies and solutions of the Sustainable Urban Development thanks to a dedicated workshops programme
- Promote your expertise and products to private and public decision makers in ideal conditions during pre-arranged business meetings
- Benefit from the presence of numerous major stakeholders in energy and urban development, such as territories highly committed towards sustainable development
- Save time and money in your international prospecting efforts

Organizers expect over 300 businesses to participate in this international convention. Furthermore, this event will be graced by the presence of a Vice Minister from MOFCOM, EU Commissioner Günther Oettinger and over 10 Mayors from China.

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

EUCBA European Business Delegation "Yangtze River Delta" – 20-27 September 2014

The Yangtze River Delta is regarded as China's economic powerhouse with Shanghai being China's financial and logistics center, and the provinces Zhejiang and Jiangsu important manufacturing bases.

As EUCBA member of Germany, DCW is organizing an EUCBA European Business Delegation to China: "Exploring the Yangtze River Delta", 20-27 September 2014 to Shanghai, Taicang, Kunshan, Changzhou, Jiaxing and Suzhou.

During the week-long meetings will be organized with high-ranking local government representatives, who will give an introduction to the investment environment of their cities and to their special services for foreign investors.

There will also be opportunities to visit economic development zones and industrial parks, meet European investors in the region and learn from their experiences in China. Furthermore, visits will be organized to international organizations and associations, where you will receive advice for your China plans.

The tour will be complemented by a sightseeing program, which will provide a better cultural understanding of the traditional and modern China. The delegation will be accompanied by Mr. Rainer Gehnen, Vice General Secretary of EUCBA.

You may download the flyer or visit www.eucba.org/visits2china for more information.

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PAST EVENTS

Presentation: Key Findings of Business Climate Survey in China and Update on EU-China Trade & Investment Relations – 25 June 2014 – Brussels

The EU-China Business Association, BUSINESSEUROPE and the European Union Chamber of Commerce in China, organized a presentation on the business climate in China and the EU-China trade and investment relations. This meeting took place on 25 June in Brussels.

During this conference the latest findings from the China Business Confidence Survey 2014 were presented. This survey was realized by the European Union Chamber of Commerce in China and gathers together the views of over 550 European businesses in China. At this meeting, the European Commission also provided an update on the recent negotiations of the EU-China Investment Agreement.

The EU-China Business Association is the EU-wide federation of business organizations in the EU promoting business relations with China. The Flanders-China Chamber of Commerce holds the secretariate-general of the association.

Following a word of welcome by the EU-China Business Association, Gwenn Sonck, Secretary General and BUSINESSEUROPE, Carsten Danohl, Director; Mr Adam Dunnett, Secretary General, European Union Chamber of Commerce in China, introduced the China Business Confidence Survey 2014, while a Representative of the European Commission gave an update on the negotiations of an EU-China Investment Agreement. The event was concluded by a question and answer session.

The results of the China Business Climate Survey can be downloaded via this link: http://china.msq.be/files/docs/20140627-170033_96_business_confidence_survey_2014%5Benglish_version%5D-1.pdf

Shanghai Investment Promotion Conference – 24 June 2014 – Kortrijk

A conference on investment opportunities in Shanghai, Shanghai Fengxian European SME Industry Park and Shanghai Jinshan Zhujing Industry Park, was organized by the Flanders-China Chamber of Commerce (FCCC), VOKA West-Flanders, the Shanghai Foreign Investment Development Board, Shanghai Fengxian European SME Industry Park and the Shanghai Jinshan Zhujing Industry Park.

The current investment environment in Shanghai and preferential policies available for SMEs were introduced. Participants had the opportunity to meet with senior level delegates who provided practical advice on how to do business in China.

The conference took place on 24 June 2014 in Kortrijk. Following a word of welcome by Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce and by Mr Hans Maertens, Managing Director, VOKA – Chamber of Commerce West-Flanders, Mr Tao Dong, Vice President, Shanghai Foreign Investment Development Board gave a presentation on the investment environment and policy in Shangha. The Shanghai Fengxian European SME Industry Park and the Shanghai Jinshan Zhujing Industry Park were introduced by their respective representatives. An exchange of views and a walking dinner concluded the event, which was organized with the support of Flanders Investment and Trade.

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

The Flanders-China Chamber of Commerce (FCCC), Voka Chamber of Commerce East Flanders and the Province of East Flanders organized a meeting with the Flemish Trade Commissioners in China. This event took place on 16 June in Gent. This event provided an excellent opportunity to discuss companies' activities in China with the Flemish Trade Commissioners.

Following a word of welcome by Mr Hedwig De Pauw, Director Economic Affairs and International Relations, Province of East-Flanders and an introduction by Mrs Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce and by Stefan Derluyn, Director Region Ghent and Port, Manager Innovation & Internationalization, Mr Peter Christiaen, Flemish Trade Commissioner in Beijing; Mrs Sara Deckmyn, Flemish Trade Commissioner in Shanghai and Mr Dirk Schamphelaere, Flemish Trade Commissioner in Guangzhou, talked about challenges and opportunities for Flemish companies in China"

The event was concluded by an exchange of views and a networking cocktail.

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

Interest rates on smaller forex deposits liberalized in Shanghai

The People’s Bank of China (PBOC) is liberalizing interest rates on smaller foreign-currency deposits across Shanghai in the first pilot free trade zone (FTZ) reform to be applied outside the zone. Interest rate ceilings on foreign-currency deposits of less than USD3 million are removed following a 4-month trial in the zone. It will apply to companies initially but could be extended to individuals later. The rate ceiling for foreign-currency deposits was 1.5% for current accounts. China liberalized lending and deposit rates, from 2000, for accounts holding more than USD3 million. The city currently has more than USD20 billion in smaller foreign-currency deposits. Foreign-currency deposits amounted to USD76.7 billion in Shanghai at the end of May, a seventh of the national total. Outstanding foreign-currency lending was USD79.8 billion, a 10th of the national total. Liu Ligang, Chief Economist at Australia & New Zealand Banking Group for China, described the move as “an important experiment for China’s interest rate liberalization.” Seven banks have been granted approval to offer free trade accounts, which in theory allow holders to move local and foreign exchange funds in and out of China without being subject to the strict capital controls that apply outside the free trade zone. Foreign-currency deposits totaled USD566 billion in May, representing about 3% of total deposits in China.

Gold transactions falsified to borrow from banks

Chinese gold processing firms have since 2012 used falsified gold transactions to borrow CNY94.4 billion from banks, according to China’s National Audit Office (NAO). Coming on the heels of alleged metals financing fraud at Qingdao Port, this may prompt authorities to launch another crackdown on commodity financing. Spot checks on 25 gold processing companies such as jewelers, showed they made a combined profit of more than CNY900 million by using the bank loans to take advantage of the difference between onshore and offshore interest rates, as well the appreciation of the currency. Chinese firms could have locked up as much as 1,000 tons of gold in financing deals by the end of 2013, the World Gold Council (WGC) said in April, indicating a big slice of imports has been used to raise funds due to tight credit conditions, rather than to meet consumer demand. At current prices, that would be worth about USD42 billion. The NAO also said it found problems with coal, corn and cotton reserves. Traders warned that warehouse fraud could lead to the drying up of credit for all but large firms and state-owned enterprises (SOEs) which dominate commodities trading. Thousands of small firms will be faced with tougher bank requirements for financing, causing them to sell down stockpiles, squeezing demand for metals and other raw materials. According to sources, Standard Chartered Bank has suspended some commodity financing deals in Qingdao Port after authorities there launched a probe into a private trading firm, Decheng Mining, that is suspected of duplicating warehouse certificates to use metal stockpiles multiple times to raise financing. Goldman Sachs estimates that commodity-backed deals account for as much as USD160 billion, or about 30% of China's short-term foreign-exchange borrowing.

- China will launch a two-year trial in Shanghai, Beijing, Guangzhou and Wuhan on July 1 to allow retirees to use their homes as collateral for pensions from insurers, as the government moves to widen financial support for the rising ageing population. Reverse mortgage, a type of loan in which a homeowner can convert a portion of his property into cash, is common in developed markets. Insurance firms must have a history of at least five years and a registered capital of no less than CNY2 billion to take part in the program. The number of people aged above 60 has reached 202.43 million in China.
- Chinese lenders have raised a record amount of funds offshore so far this year, and that trend is set to continue as banks replenish capital to meet regulatory requirements, analysts said. Data from Dealogic showed that domestic lenders have

raised USD14 billion offshore through bond issues, compared to about USD9 billion for the whole of last year.

- China may struggle to meet this year's fiscal revenue target, Finance Minister Lou Jiwei warned. The central treasury received CNY2.9 trillion from January to May, a year-on-year increase of 6.3% and 0.7 percentage points lower than the budgeted target. This year's budgeted growth in central fiscal revenue is 7%. But total national fiscal revenue has reached CNY6.12 trillion, an increase of 8.8% and higher than the 8% budgeted.
- Banks in China sold CNY68 trillion of wealth management products last year, 38% more than in 2012. The China Banking Association said in a report that by the end of December, there was an outstanding amount of CNY10.2 trillion on products that have not matured. Non-interest income at banks contributed 22.5% to total banking revenue last year, up from 19.5% in 2012, driven by fees from selling wealth-management products.
- The State Administration of Foreign Exchange (SAFE) said that it will introduce more foreign exchange derivatives on August 1 in a bid to offer instruments to better manage risk. Under new rules, banks will be allowed to offer diversified foreign exchange options and other products to help their clients better manage their overseas trading risk.
- China will designate a clearing bank in Sydney for overseas trading of the yuan, following London and Frankfurt as a location for a Chinese bank to clear transactions in yuan. The Chinese currency remained the seventh most used currency for global payments in May.
- China Construction Bank (CCB) has become the second major Chinese financial institution to buy a London property after agreeing to pay around GBP110 million for a Central London office building for its European headquarters. CCB bought 111 Old Broad Street, a recently refurbished seven-story property with a total area of 11,416 square meters, from Belgium's KBC Group. CCB was newly selected to become the first Chinese bank to provide yuan clearing services in London and open its first branch in Europe.
- The People's Bank of China (PBOC) has refrained from selling repurchase agreements for the first time in four months as banks' hoarding of cash to meet regulatory requirements drove the benchmark money-market rate to a seven-week high. The central bank's decision to halt the use of repurchase agreements resulted in a net CNY12 billion being added to the financial system last week via its open-market operations. It also auctioned CNY50 billion of three-month treasury deposits at 3.8%, the lowest rate since September 2012.
- Among 46 economies, the IMF said China was the 11th worst in "corporate income tax efficiency" from 2011 to 2012. Corporate income tax efficiency is defined as actual tax revenue compared to the potential revenue that could have been collected, given the tax base and tax rate. China's tax efficiency was roughly 35%, meaning it failed to collect 65% of corporate taxes. A major reason was its high tax rate, which encouraged companies to shift their profits abroad, the IMF said.
- China has been included on a list of jurisdictions cooperating with the United States on the "Foreign Account Tax Compliance Act" (Fatca), a U.S. law that requires financial institutions around the world to provide information on U.S. taxpayers to the U.S. government to combat tax evasion. Inclusion of China in the listing removes the threat of blacklisting or penalties that had been hanging over Chinese financial institutions. It will also enable Beijing to obtain information on mainland Chinese taxpayers in the U.S.

FOREIGN INVESTMENT

China to be net investor as ODI exceeds FDI

China's outward investment (ODI) is very likely to exceed foreign direct investment (FDI) inflows this year, making the country a net investor, according to the United Nations Conference on Trade and Development's World Investment Report. This "inevitable trend" will have "great significance in reshaping the economic structure and long-term development" of China, the report said. In 2013, China's foreign direct investment rose by 2.3% year-on-year to USD123.9 billion, ranking second in the world after the United States. "The quality of FDI inflows improved, with more into high-end manufacturing and services with high added value," said Zhan Xiaoning, Director of the Investment and Enterprise Division at UNCTAD. In 2013, investment outflows from China increased by 15% year-on-year to USD101 billion, the third highest in the world after the United States and Japan, the report said. As China continues to deregulate outbound investment, outflows to developed and developing countries are expected to grow further, it said. "China's economic landscape, driven by exports and foreign investment in the past three decades, will change significantly. Outward investment will serve as an important driver for industrial upgrading and economic growth," Zhan said. Liang Guoyong, Economic Affairs Officer at UNCTAD, said: "It is very hard to predict when China will become a net investor, but the trend is inevitable." Huo Jianguo, President of the Chinese Academy of International Trade and Economic Cooperation, a Ministry of Commerce (MOFCOM) think tank, said China's new role as a net investor will help ease trade frictions.

- Foreign-funded companies are urged to consider using professional mediators to help handle an increasing number of disputes involving Chinese employees, according to Guo Jun, Director of the Legal Affairs Department of the All-China Federation of Trade Unions (ACFTU). Last year, courts nationwide handled about 300,000 labor dispute cases, in addition to more than 1 million cases mediated by trade unions. Arbitration tribunals handled about 666,000 labor disputes, an increase of 23,000 from 2012.
- The Coca-Cola Co started construction of a new environmentally-friendly plant in Harbin, Heilongjiang province. The 200,000-square-meter plant, which is located in the New South Harbin Industrial City, will have 9 production lines for both sparkling and still beverages, including Coke, Sprite, Fanta, Minute Maid, and Ice Dew. Upon completion, the total investment will exceed USD100 million, with an annual production capacity of 1.2 million tons of beverages. Coca-Cola currently has one plant in Heilongjiang, which was established in 1995. Its capacity has been fully utilized.
- Canada's Federal Court has slapped down a bid by about 1,500 rich would-be immigrants, most of them Chinese millionaires, to force the government to process their visa applications under the defunct Immigrant Investor Program, or pay them CAD5 million each. Justice Mary Gleason said that "would-be immigrants have no right to force the Minister of Immigration to set any particular quota for any economic immigration class. No one possesses a right to immigrate". The applications of about 60,000 would-be immigrants have now been formally scrapped.

FOREIGN TRADE

Australia, China make progress in free trade talks

China and Australia may conclude a decade of negotiations on a free-trade agreement by the end of this year, Australian officials said following talks between Xu Shaoshi, Chairman of China's National Development and Reform Commission (NDRC) and Australia's Treasurer Joe Hockey. "Both governments are determined to bring it to completion later this year," said Australian Minister for Trade and Investment Andrew Robb. The complex negotiations, which include agricultural tariffs and quotas, manufactured goods, foreign investment and services, have not gone smoothly. Robb, who was in Beijing for the inaugural Australia-China Strategic Economic Dialogue, said one of the most difficult parts was agriculture. Measures under discussion also include the appointment of a yuan clearing bank in Australia. China is now Australia's largest two-way trading partner in goods and services, valued at more than USD150 billion in 2013. China is also Australia's largest export market for goods, valued at USD95 billion in 2013. Trade and Investment Minister Robb also said that Australia welcomes more Chinese investment in northern Australia.

EU investigates Chinese stainless steel products

The European Commission (EC) has launched an anti-dumping investigation in cold rolled stainless steel product imports from China and Taiwan, as it felt that they were being dumped at prices lower than the actual costs in the European Union. Xu Xiangchun, Information Director of Mysteel.com, a steel industry consultancy based in Shanghai, said the Chinese government has not announced any policies to encourage exports of steel products or provide subsidies to these companies. "Most of the steel companies have increased exports due to weak domestic demand and falling prices," he said. "If the EC decided to impose punitive taxes on stainless steel products, it will hurt many of these companies." However, the EC decision will not have a big influence on China's full-year steel exports as stainless steel accounts for a small portion of total exports. According the EU statistics office, the EU imported cold-rolled stainless steel sheets from the Chinese mainland and Taiwan with a total value of € 758 million in 2013, a 10-fold increase from 2002. China's steel industry is facing severe overcapacity caused by shrinking demand and huge production capacities built up in the past few years. Many domestic steel producers have been trying to expand in overseas markets to maintain operations. According the China Iron and Steel Association (CISA), China's steel products exports totaled 18.33 million metric tons in the first quarter, up 27% year-on-year.

- China should join negotiations on the Trans-Pacific Partnership (TPP) as soon as possible to reap the benefits, Ma Jun, Chief Research Economist of the People's Bank of China (PBOC) said. This would add about 2 percentage points to annual economic growth, he added. The pact would link an area with about USD28 trillion in annual economic output, or 39% of the world total, and would be the biggest trade deal in U.S. history.

- Palm oil purchases by China, the world's second-biggest buyer, may decline by about 11% this year as economic expansion slows and banks tighten lending to commodity importers. Imports may fall to 5.9 million tons in the 12 months to September 30 from a year earlier, according to the median of five researchers and traders in a survey. The top suppliers of palm oil to China are Indonesia and Malaysia.

HEALTH

Food Safety Law to include heavier penalties

A draft revision to China's Food Safety Law that pledges tough sanctions for offenders and the strictest supervision system had its first reading last week at the bimonthly session of the Standing Committee of the National People's Congress (NPC). A number of acts of malpractice, including injecting clenbuterol into pork, recycling cooking oil from leftovers in restaurant kitchens, selling meat from sick pigs, making medicine capsules with toxic gelatin, and passing rat and fox meat off as mutton and beef have made headline news in China in recent years.

- Leading hospitals overseas are setting their sights on newly rich Chinese seeking quality medical services. Melissa Goodwin, International Department Director at the Mayo Clinic, a medical practice in the United States, visited China last month to woo patients. The number of Chinese patients increased more than 100% in the past two years. Last year, Mayo received nearly 200 Chinese patients, with 25% to 30% of them referred by agencies.
- An advanced and expensive treatment of tumors has begun clinical trials in Shanghai and is expected to reduce the number of Chinese patients who travel overseas for the procedure. The first trial of the proton and heavy ion treatment was performed on a 71-year-old man who suffered from prostate cancer. He received the treatment at the Shanghai Proton and Heavy Ion Center earlier this month. The Center went into operation in 2013 and is managed by the Shanghai Cancer Center, a hospital affiliated with Fudan University.
- Cancer remained the No 1 killer for Beijing residents for the seventh year in a row, with the rate of thyroid cancer rising the fastest, according to a report by the Beijing Health and Family Planning Commission. More than 40,000 Beijing permanent residents were diagnosed with cancer last year, according to Wang Ning, Deputy Director of the Beijing Cancer Control and Prevention Office. That translated into 110 new diagnoses a day last year, compared with an average of 63 cases a decade ago, Wang said.

IPR PROTECTION

Plaintiffs face high costs, evidence and procedure hurdles

Plaintiffs in patent cases are often challenged by high costs, difficulty in collecting evidence and time-consuming procedures as they try to protect their intellectual property rights through the judicial system, said experts at a recent forum in Beijing organized by the China Intellectual Property News. In 2013, intellectual property offices and IP protection centers resolved more than 5,000 patent disputes nationwide, double the number a year earlier.

- A national industrial design patent database has been completed in Wuxi, the only professional image search system in China that allows for access to industrial design data both in China and abroad. It had more than 4 million patents on industrial designs by the end of May. Images collected in the database now exceed 20 million.

MACRO-ECONOMY

HSBC PMI above 50 for first time since November

The HSBC Flash China Manufacturing Purchasing Managers' Index (PMI) rose to a seven-month high of 50.8 for June. It was the first time the index was above the 50 level demarcating expansion from contraction since November. The components showed that production picked up by 2 points from a month earlier to 51.8 in June, and new orders increased 1.8 points to

51.8. The stock of finished goods fell by 1.8 points to 48, registering the lowest level since September 2011. Zhu Haibin, Chief Economist for China at JPMorgan, said the improvement in the flash HSBC PMI suggested the first-quarter slowdown in industrial activity had likely bottomed out. “The manufacturing sector appears to be on track to some decent recovery,” Zhu said. China has announced a number of policies to support growth and create jobs, such as allowing banks to keep a smaller amount of money as reserves and accelerating the construction of railways. There will be two separate sets of undercurrents affecting China’s growth in the second half, Zhu said. “On the positive side, the moderately above-trend growth in the global economy, led by the developed countries, should support China’s export sector,” Zhu said. “On the domestic front, infrastructure investment will likely receive further policy support.” However, the real estate sector remains a key downside risk for the macro-economic picture for the rest of the year, Zhu said, as reported by the Shanghai Daily.

On the other hand, the China Beige Book's quarterly survey showed that besides manufacturing, other sectors such as transport, mining, retail and services all weakened. “What stands out is weakness – perhaps unprecedented weakness – in capital expenditure,” Leland R. Miller, President of New York-based CBB International said. “Since investment has been the engine of the economy for the past seven years, this weakness has sweeping effects on sectors, regions and gauges of firm performance. Overinvestment has been an addiction and withdrawal symptoms will not be pretty.”

President Xi pushes integration of the Jing-Jin-Ji region

Every Chinese administration since Deng Xiaoping's has taken on an ambitious economic project that defines its legacy. For President Xi Jinping, that project is to link 130 million people across Beijing, Tianjin and Hebei province into a single megalopolis, the so-called Jing-Jin-Ji region. Compared to the Yangtze River Delta and Pearl River Delta, the northern Bohai Bay cluster lags in the development of private enterprises, lacks their cohesive industrial base, and is less open to the outside world. In 2012, exports accounted for 15% of its gross domestic product (GDP), compared to 60% in the Yangtze River Delta and 63% in the Pearl River Delta. Vice Minister of Finance Wang Bao’an has said the new metropolis would require an investment of CNY42 trillion. The industrial base in the Pearl River Delta took shape in the 1980s after Deng's move to turn Shenzhen, Xiamen and Zhuhai into special economic zones. A decade later, the administration of Jiang Zemin and Zhu Rongji pushed forward the industrialization of the Yangtze River Delta by designating Shanghai's Pudong area as the financial hub of the nation. The fourth generation of leaders, Hu Jintao and Wen Jiabao, turned their focus to underdeveloped areas, and sought to address income disparity with their “Go West” and “Develop Central China” campaigns. President Xi Jinping’s plan to integrate Beijing, Tianjin and Hebei would test the leadership's determination to break down barriers of vested interests groups, according to Shen Jianguang, Chief China Economist with Mizuho Securities. The region's gross domestic product (GDP) was USD1 trillion last year, similar to South Korea's, and the 15th highest in the world. But wealth is spread unevenly: the per-capita GDP of Beijing is USD15,000, while Tianjin's is USD11,500 and Hebei's only USD6,300.

Profit growth slowed slightly in May

Profit growth at major Chinese industrial companies decelerated in May because of sluggish business, higher inventories and rapidly increasing costs, said analysts. The year-on-year growth rate of 9.8% for the first five months was down slightly from the 10% pace for the first four months, the National Bureau of Statistics (NBS) said. Slower growth in the electronics, coal and general equipment industries depressed the overall rate. Profits of state-owned enterprises increased 3.4% , while they rose 12.9% at private companies. Among the 41 industries surveyed, 32 registered profit growth in the first five months, while eight saw their profits decline. The coal mining and processing industries recorded a 43.9% profit decline in the first five months. Five industries including vehicle manufacturing, electricity and heating power production and supply accounted for 77% of the profit growth. Oil refining, coking, and nuclear fuel processing recorded 49.3% profit growth in the first five months, the highest among all industries. Vehicle manufacturing recorded 29.6%. Xu Sitao, Chief Representative of the Economist Group in China, said an improved reading for the manufacturing PMI in May suggested that the slowdown abated slightly in the second quarter.

- With its perceived image of job security and decent pay, the civil service remains the preferred career option for university graduates, the Shanghai Statistics Bureau said. In a survey conducted last month of 2,173 graduates and postgraduates from 11 Shanghai universities, 34% said their first choice was a government position. On the factors affecting job selection, almost 77% of respondents said salary and benefits were their primary concern. Most said they were hoping for a starting salary of CNY5,300, though their actual average pay is likely to be nearer CNY4,400.
- An economic “hard landing” due to the recent property boom is unlikely, according to Chris Leung, Executive Director and Senior Economist of DBS Bank (HK). “Lots of

Western economists insist on a pessimistic view of China because of bleak data so far this year. However, we believe there is no need to exaggerate risk. China's growth rate has been gradually slowing for 12 quarters in a row. If this is not a soft landing, then what is it?" Leung stressed that deceleration is in line with the central government's plans, calling it the cost of the structural reform it has vowed to carry out.

- The Chinese government will issue a document detailing the fees imposed on enterprises, the first such document since 1997. The list of approved fees is to help companies avoid paying fees illegally charged by individuals contending they are collecting official charges. The list will be published before the end of this year.

MERGERS & ACQUISITIONS

Bright Food pursuing M&A options

Bright Food Group Co, the Chinese owner of British cereal maker Weetabix, said it is seeking acquisitions and has the ability to pay as much as CNY10 billion for a target. Bright Food is open to buying domestic and overseas companies and it is not interested in deals that are "too small" and prefers to work on one acquisition at a time, Chairman Lu Yongjie said. The company is also preparing an initial public offering (IPO) for its Australian unit Manassen Foods, he said. The Shanghai-based company, which has interests that span food and beverages, farming and retailing, bought Israel's Tnuva Food Industries last month. "Chinese food firms seek overseas deals to acquire product research capabilities and better resources," said Todd Yang, Shenzhen-based Analyst at Guosen Securities Co. Bright Food, whose domestic brands include White Rabbit candy, has retail outlets across China and also operates tea, dairy and rice farms. It sells fresh milk, yogurt and baby formula in China.

PETROCHEMICALS

China oil stockpiles climb to record

China may be bolstering its emergency crude reserves as refiners expanded commercial stockpiles to a record high last month. Crude inventories rose 4% from April, China Oil, Gas & Petrochemicals, published by Xinhua, said in a report. That is about 33.59 million tons, or 246.2 million barrels, the most in records going back to January 2010. Petrol supplies also swelled to a record, climbing 0.9% to an estimated 7.6 million tons. Refiners accelerated crude imports in April and May as the nation sought to increase its energy security with prices at a "fairly" high level, said Amy Sun, Oil Analyst at ICIS-C1. "We believe high commercial stocks may indicate refiners are potentially stocking feedstock for the government," she said. "China may be taking this opportunity to start filling strategic storage." Beijing does not publicly release strategic stockpile figures.

Timely Russian gas deliveries far from certain

Shares of China Gas Holdings and its largest shareholder Beijing Enterprises Holdings have surged more than 10% on the back of Russia's long-term natural gas supply deal with China that was signed in May, as they are seen as the biggest beneficiaries with substantial operations in China. The import deal secures long-term energy for Chinese distributors whose growth has been crimped by supply. But the companies may have underestimated the risk of potential delays in gas delivery and the time it will take for output to ramp up. This could be a challenge for China Gas to hit its target to triple distribution volume with Russian gas in the next five financial years, Macquarie Securities analysts said in a research report. They expected Russian gas to start flowing to China in 2019 at the earliest and that a ramp-up to full capacity would take five years. This cautious view is in line with that of the Oxford Institute for Energy Studies, which is affiliated with Britain's University of Oxford. "Russian infrastructure projects are typically over budget and late," the report said, which cited an even more conservative projection by industry consultancy Wood Mackenzie, which expects 5 billion cubic metres (BCM) of gas supply via the 'Power of Russia' pipeline in 2020, and thereafter expects a gradual ramp-up to the contracted 38 BCM by 2025 – seven years later than expected, the South China Morning Post reports.

- China's third-largest oil producer CNOOC has teamed up with privately-owned CNPC&TAFO Petro Corp to jointly develop the gas station business. Sinopec Group and PetroChina have up to now dominated the gas station market. By the end of 2013, Sinopec owned more than 30,500 gas stations in China, accounting for about 33% of the total number. PetroChina has more than 20,000 gas stations and CNOOC only 445. CNOOC is also facing competition from domestic players including Sinochem Group and foreign players such as Royal Dutch Shell.
- China National Petroleum Corp (CNPC) has appointed five outside Directors and

established a board, as part of its long-term efforts to boost performance and check corruption. CNPC's board now has eight members including Zhou Jiping, CNPC Chairman and Liao Yongyuan, General Manager. The establishment of a board is expected to speed up the company's corporatization and internationalization process.

- Retail prices of gasoline and diesel have been hiked by CNY165 per metric ton and CNY160 per ton respectively from June 24. Under China's new pricing regime, which came into effect last year, domestic fuel prices are adjusted when international crude prices reflect a change of more than CNY50 per ton for gasoline and diesel over a period of 10 working days.
- Legendary Chinese oil trader Yang Qinglong, who started China's oil business with Iran in the 1990s, has died of cancer. Yang set up China's state trader Zhuhai Zhenrong Corp around 1995 to import crude oil from Iran. By 2001, the company was supplying 16% of China's crude imports, importing 11 million tons of Iranian crude or 220,000 barrels per day. It also exported refined petroleum products back to Iran. Yang retired in 2011 to become Zhenrong's Adviser.
- Japanese shipbuilder Kawasaki Heavy Industries plans to construct gas carriers in China. “Our Chinese venture, Nacks, has built a variety of vessels so far, and LNG and LPG carriers are the only area that has yet to be handled,” Akio Murakami, Director of Kawasaki Heavy's Shipbuilding and Offshore Division, said in Tokyo. Kawasaki Heavy, based in the western port city of Kobe, estimates costs at its Chinese facilities are as much as 20% lower than at South Korean yards.
- China Petrochemical Corp (Sinopec) will invest CNY4 billion this year and another CNY10 billion in 2015 in more than 1,000 projects as it strives to double its energy efficiency by 2025. “Raising efficiency is the key to saving energy and cutting emissions,” Chairman Fu Chengyu said at the 2014 China Summit on Caring for the Climate in Beijing. The company said that doubling its energy efficiency would be equivalent to saving 42 million metric tons of coal or planting 940 million trees.
- China National Petroleum Corp (CNPC) has approved the opening of its oil and gas pipeline facilities to third-party use. Chairman Zhou Jiping said this will increase the efficiency of the industry, as specified under the central government's guidance on energy reform. Taking pipeline assets away from the total control of PetroChina will help boost the market, especially for small and mid-sized gas producers that don't have pipelines, said an industry observer. PetroChina, the listed arm of CNPC, owns about 70% of the country's crude pipelines and up to 90% of the natural gas pipelines.

REAL ESTATE

Renewed demand in smaller cities

Despite a month-on-month slump of housing prices in May for the first time in almost two years, some leading domestic developers remain optimistic that inelastic demand from first-time buyers will revive transactions in second- and third-tier cities. He Miaoling, Vice President of Hong Kong-listed Evergrande Real Estate Group, said the property sector seems to have stabilized after some major shifts earlier this year, including the decline in May and the failure of some small developers. “Transactions were robust in June, especially in second- and third-tier cities. We've gotten a boost in confidence about sales,” He said. According to the China Real Estate Index System, an affiliate of SouFun Holdings, sales by area in 40 cities rose 13% month-on-month in the second week of June, with a year-on-year gain of 7%. Guangzhou-based Evergrande said sales rose 64.4% to CNY56.21 billion from January to May, more than half of the full-year sales target of CNY110 billion. Sales of Poly Real Estate Group posted a reversal from a 12% decline in April to a 10% gain in May, while China Vanke achieved more than 40% of its annual sales target during the first five months. The developers that have run into trouble didn't react properly to the shifting market, which has become more competitive, according to He. He attributed Evergrande's robust sales to the development of more market-oriented projects, especially in second- and third-tier cities. Xu Jiayin, Chairman of Evergrande, said prices in second- and third-tier cities will rise 5% in 2014 if GDP grows by 7.5%. According to the Ministry of Housing and Urban-Rural Development, there are about 80 million urban residents aged 24-28 who are potential homebuyers, the China Daily reports.

- Beijing has made nearly 1,880 affordable apartments available to buyers at CNY22,000 per square meter, almost 50% less than in neighboring blocks, but the government and homebuyers will have joint ownership of the properties. If the property is sold, co-owners will have to pay 30% of their profits to the government. The apartments attracted more than 120,000 prospective buyers, who had to draw lots. The Beijing government plans to offer nearly 50,000 such homes this year, with 11 projects having been unveiled and now inviting buyers to register.
- House prices in China remained “too high” in the second quarter of this year. In its quarterly survey, the People’s Bank of China (PBOC) found that 63% of respondents

thought prices were prohibitively high. Half of those questioned said they thought prices would remain unchanged in the coming quarter, while 21% said they expected them to rise. The survey polled 20,000 households in 50 cities.

- Residents of Hohhot, the capital of Inner Mongolia, will no longer face curbs on the number of homes they can own as the city has revoked the restriction, becoming the first to do so. Non-local residents will also be allowed to buy homes. At the current pace of new home sales, inventories in Hohhot would last for more than 10 years. Zhang Dawei, Chief Analyst at Centaline Property, expects that “by the end of this year, it is possible that more than 30 cities around the country may follow the move by Hohhot in order to boost home sales.” He said the home-purchase curbs will remain in cities with a population of over 10 million.
- Chen Zhenggao was appointed Minister of Housing and Urban-rural Development by the Standing Committee of the National People’s Congress (NPC). Chen was Mayor and Party Secretary of Shenyang, the capital of Liaoning, when current Premier Li Keqiang was Party Secretary of the province between 2004 and 2007. Chen's predecessor, Jiang Weixin, who had served as Minister since March 2008, reached the retirement age of 65.

SCIENCE & TECHNOLOGY

China’s supercomputer remains the world’s No 1

China’s Tianhe-2 supercomputer held onto its first-place ranking in the Top 500 charts, which measures the capacity of the world's supercomputers. It performed at a sustained 33.86 petaflops, or quadrillions of calculations per second. But the computer is plagued by high operating costs and a lack of software. The electricity bill for the machine at the Sun Yat-sen University campus in Guangzhou runs between CNY400,000 and CNY600,000 a day, to be paid by the user. Tianhe-2 has been used for railway design, earthquake simulation, astrophysics and genetic studies, but so far investment has focused on hardware, forcing clients to write their own software to use it. “It is at the world's frontier in terms of calculation capacity, but the function of the supercomputer is still way behind the ones in the U.S. and Japan,” said Chi Xuebin, Deputy Director of the Computer Network and Information Center under the Chinese Academy of Sciences (CAS). According to Professor Yuan Xuefeng, Director of the National Supercomputer Center that manages Tianhe-2 in Guangzhou, the machine takes one second to finish what 1.3 billion personal computers would need 1,000 years to complete. It has so far served 120 clients at 34% of its capacity.

- China has ambitious plans to touch down on Mars by 2020, likely with a rover, and to collect its own samples from the red planet 10 years after that, Ouyang Ziyuan, Chief Scientist of the country’s lunar project, said at the 22nd International Planetarium Society Conference in Beijing, attended by 35 member countries. China’s Mars probe program started in 2009 in a partnership with Russia. However, the Russian spacecraft Fobos-Grunt carrying the Chinese probe Yinghuo-1 crashed on November 9, 2011, after lift-off.
- The Ministry of Education denied media reports that about 600 undergraduate colleges will be converted into skills-based senior vocational schools. The Ministry is however classifying higher institutes, and some will be categorized as applied-technology oriented. China's vocational education is receiving unprecedented attention from the central government. Vocational school graduates can more easily find work compared to college graduates.

STOCK MARKETS

Three newly-listed companies hit first-day trading limit

Three companies that went public last week all jumped by the first-day trading limit as their low prices drew a huge demand from investors who were starved after a four-month drought of new shares. The shares of Feitian Technologies, Wuxi Xuelang Environmental Technology and Shandong Longda Meat Foodstuff all surged by the first-day trading limit of 44% on their trading debut on the Shenzhen Stock Exchange. “Below-average valuations contributed to the strong performances of the new listings,” said Yang Liu, Analyst at Qilu Securities. Feitian Technologies, a Beijing-based security hardware and solutions firm, rose to CNY47.71 from the offer price of CNY33.13 after the company priced its shares 16.6 times earnings, far below the industry average of 52 times. The other two companies also priced shares at valuations below the average level of their peers.

- China Vanke Co is seeking a strategic partnership, according to a statement by Chairman Wang Shi in Hong Kong as the company’s H shares debuted on the main board of the stock exchange. China Vanke converted its B shares in Shenzhen to H shares and listed in Hong Kong by way of introduction without raising any new capital. The stock opened at HKD13.66, compared with the last trading price of HKD12.41 for its B shares on June 3.

TRAVEL

Xian to Taiyuan high-speed rail line to be put into service

The 567 kilometer high-speed railway between Xian and Taiyuan, capitals of Shaanxi and Shanxi province respectively, will be put into operation on July 1. The section from Taiyuan to Datong is expected to be opened next June. With a total length of 859 km from Xian to Datong, the traveling time between the two cities will be cut from 16 hours to four. The railway will connect several famous tourist attractions, including the Yungang grottoes, Pingyao ancient city and Xian with its Qin terracotta warriors and horses, all listed as UNESCO World Heritage sites. The route also includes attractions like the 1,400-year-old Hanging Temple embedded horizontally 60 meters of Mount Heng and the Wooden Pagoda in Yingxian, the oldest, tallest wooden structure in China, dating back to the 11th century. Jinci Temple in Taiyuan, famed for the 43 sculptures in its Holy Mother Hall, is also a must to visit. The rail line is expected to promote the growth of tourism in Shanxi and Shaanxi provinces.

- The number of Chinese tourists visiting South Korea reached a record high last year, when some 4.32 million trips were made. Chinese tourists are playing an increasingly significant role for the tourism market in South Korea, accounting for 35.5% of the country's inbound tourism market. Both countries are further relaxing visa policies.
- Taiwan and the mainland are to hold talks on allowing mainland visitors to use Taiwan as a transit point to travel to other countries, a move that would significantly benefit Taiwan's tourism sector. Tourism and airline officials said that if Taiwan became a transit point for mainland tourists, it would greatly benefit the direct-flight arrangements and make it more convenient for visitors.
- The number of train trips on the Beijing-Shanghai high-speed railway has surpassed 220 million since its debut three years ago. Daily average trips have more than doubled from 132,000 three years ago to 272,000 in the first half of this year, said the China Railway Corp.

ONE-LINE NEWS

- For the first time since 1949, an official of the Chinese government – as opposed to semi-official representatives – has visited Taiwan. Zhang Zhijun, Director of the State Council's Taiwan Affairs Office, is the People’s Republic of China’s most senior official in charge of cross-strait relations. Zhang skipped the capital of Taipei during his four-day trip, which took him to New Taipei City, Kaohsiung, Taichung and Changhua.
- Su Rong, 66, was removed as Vice Chairman of the Chinese People’s Political Consultative Conference (CPPCC) for a suspected breach of discipline. He is the highest-ranking official to be investigated since the start of a nationwide anti-graft campaign launched in late 2012. The investigation could be related to a number of projects in Jiangxi province from 2007 to March 2013 when he was the provincial Party Secretary.
- Wei Jianghong, Chairman of copper producer Tongling Nonferrous Metals Group, based in Anhui province, committed suicide by jumping from a building. He was also a Deputy to the National People’s Congress (NPC). Vice Chairman Yang Jun will serve as acting Chairman. Wei's suicide may be related to a corruption inquiry.
- China should vigorously develop nuclear energy and restart the plan to build nuclear power stations inland to reduce the nation's high energy consumption per unit of gross domestic product and clear smog and haze, according to the Report on the Development of China's Eco-Cities (2014) by the Chinese Academy of Social Sciences (CASS).
- The World Dongguan Entrepreneurs Convention 2014 in Dongguan, Guangdong province, was attended by more than 1,300 businessmen and scholars to brainstorm about the city's economic and industrial transformation. The city was once called “the factory of the world”. The World Dongguan Entrepreneurs Association was established in 2012 as the first union of entrepreneurs in the Pearl River Delta. It has 660 members.
- Fang Wei, Chairman of the Board of Liaoning-based Fangda Group, a carbon, steel and chemical company, was dismissed as a Member of the Standing Committee of the National People’s Congress (NPC), as he is implicated in the corruption

investigation of Su Rong. In 2012, then aged 39, he ranked second with an estimated fortune of CNY15 billion in the Hurun report "The Richest Chinese Under Forty."

QUOTES OF THE WEEK

"It took less than three hours to fly from Beijing to Taiwan, but the step took 65 years."
Zhang Zhijun, Director of the State Council's Taiwan Affairs Office, quoted in the Shanghai Daily, June 25, 2014.

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