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# EU-China Business Summit Special Edition

NEWSLETTER | 18 JULY 2016

EU-China Business Association 欧盟中国贸易协会

## 11th EU-China Business Summit – 13 July 2016 – Beijing

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## 11th EU-CHINA BUSINESS SUMMIT – 13 JULY 2016 – BEIJING

The 11th EU-China Business Summit “Emerging Opportunities from a Changing Industrial Landscape” – 13 July 2016 – Great Hall of the People, Beijing

The 11th EU-China Business Summit was held on 13 July, 2016 at the Great Hall of the People in Beijing under the central theme of “Emerging Opportunities from a Changing Industrial Landscape”.

Mr Philippe Van Der Donckt, Vice Chairman FCCC, and Mrs. Gwenn Sonck, Secretary General EUCBA and Executive Director FCCC, represented the EU-China Business Association (EUCBA) and the FCCC at the Summit.

The EU-China Business Summit was jointly organized by the European Union Chamber of Commerce in China (European Chamber) and the China Council for the Promotion of International Trade (CCPIT), under the patronage of the European Commission and the Ministry of Commerce (MOFCOM), and with collaboration from the EU-China Business Association and BUSINESS EUROPE.

The Business Summit was held in parallel with the Political Summit. EU and Chinese political leaders, the Premier of the People’s Republic of China, Li Keqiang, President of the European Council, Donald Tusk and President of the European Commission, Jean-Claude Junker joined the Political Leaders Plenary Session by delivering keynote speeches. This year’s summit gathered around 600 Chinese and European attendees, including Chinese Ministers and European and Chinese business leaders.

Breakout sessions covered three key themes: New Industrial Revolution, Investment, and Connectivity, and featured senior representatives from both European and Chinese companies.

## Premier Li Keqiang urges EU to fulfill WTO promises

Premier Li Keqiang urged the European Union to keep its commitment under the World Trade Organization (WTO) framework and stop imposing unfair anti-dumping investigations against Chinese exporters. Li called on the EU to follow Article 15 of the Accession Protocol of China's entry into the WTO, which says all WTO members should stop following subrogate country measures in anti-dumping cases against China by December 11, 2016. Under such measures, importers can use production costs in a third country to define the value of exports from a non-market economy when calculating the dumping margin. Many anti-dumping investigations on Chinese exports were conducted under this mechanism despite China having successfully built a market economy after decades of reform and opening-up, Xinhua reported.
Li co-chaired the 18th China-EU Leaders' Meeting with European Council President Donald Tusk and European Commission President Jean-Claude Juncker on July 12 in Beijing. Li said

that China firmly supports Europe's integration process and wants to see a stable, flourishing and strong EU. China is willing to work with the EU to reach a high-level investment agreement and initiate feasibility research of a free trade zone (FTZ), both aiming to boost liberalization and facilitation of trade and investment, Li said. Li called on both sides to enhance cooperation in infrastructure construction, 5G, network security, maritime sectors and people-to-people exchanges.

The Premier also called for further cooperation with Central, East and South Europe to enhance balanced development of the continent. He said China is willing to cooperate in fields such as infrastructure, third-party markets, innovation and research, and cybersecurity. Both sides signed an agreement on energy cooperation at the Great Hall of the People after a meeting lasting an hour and a half. Last year, China and the EU decided to link up China's Belt and Road Initiative with the EU's investment plan, as well as establish a China-EU mutual investment fund and a China-EU connectivity platform.

## Remarks by EU President Donald Tusk at the EU-China summit in Beijing

Mr. Donald Tusk, President of the European Council, addressed the EU-China Summit, saying he was pleased to meet Chinese Premier Li Keqiang in Beijing. The Summit gave Chinese and European leaders the opportunity to demonstrate the strength of our Strategic Partnership in these testing times, he said. President Tusk said that the European Union welcomes China's Presidency of the G20 this year in Hangzhou. “As two of the largest economies in the world, the EU and China have an important stake, as well as responsibility, in ensuring the growth and stability of the global economy,” and “the European Union looks forward to closely work with China to resolve international conflicts and address foreign policy priorities,” Tusk said.

He emphasized that global issues, like migration, international development assistance, the environment and fighting climate change, can only be resolved through a global response, for which a collaborative EU-China relationship is crucial. Tusk said that the protection of the rule-based international order may be the biggest challenge ahead of us.

Globalization brings many benefits to our nations, but more and more people feel that it is happening without rules, the President of the European Council said. If we let these feelings grow, the first victims will be the Chinese and European economies, not to mention people. “Today's summit should send a message to our people and to the rest of the world of our joint commitment to our Strategic Partnership,” Donald Tusk said.

Link to Donald Tusk’s speech

In a second speech after the conclusion of the 18th summit between the European Union and China, President Tusk said both parties had rich and sometimes very candid discussions on all dimensions of their relations, adding that talks with President Xi and Premier Li were “fruitful and conclusive”, moving the strategic partnership between the European Union and China forward. Ahead of the September G20 summit in China, both parties agreed to tackle the migration crisis at the global level. They also agreed to have another round of dialogue between the EU and China about human rights this year in Brussels.

Donald Tusk also said he had the opportunity to visit the National Museum in Beijing, giving him “a chance to appreciate Chinese history and its impressive culture”. He concluded by saying that progress was made “also thanks to the openness and frank approach by both President Xi and Premier Li.”

Link to Donald Tusk’s speech

## Remarks by European Commission President Jean-Claude Juncker at the EU-China Summit in Beijing

Mr. Jean-Claude Juncker, President of the European Commission, addressed the EU-China Business Summit in French. He mentioned that he came to China for the first time 20 years ago in 1996 and immediately fell in love with the country. He said he was – then as now – impressed by China’s history and civilization. Together, China and Europe, can raise the prosperity and well-being of the people of China and the peoples of Europe, and strengthen the stability of the world. Many wonder what road Europe will take after the decision of the British people to leave the European Union, Juncker told his audience, emphasizing that Europe – even the Europe of 27 member states – is and would remain the second largest economic zone in the world.

Commission President Juncker reviewed the past four decades of relations between the European Union and China and the progress achieved. The European market has made it possible to speed up the Chinese economic miracle through exports, Juncker said, and it allowed millions of people to rise out of poverty. We are at the dawn of a new era in our bilateral relations, and its success will depend on how we tackle the complex process of transformation together, Juncker said.

Link to Jean-Claude Juncker's speech (in French)

## EUCCC President Joerg Wuttke addresses the Summit

Mr. Joerg Wuttke, President of the EU-China Chamber of Commerce in China addressed the Summit. "Sixteen years ago the founders of the European Chamber brought more than just an additional business organization to China. They also brought a new commitment to reform, conceived in the belief that China can do better, and dedicated to the proposition that fair trade and a level playing field for investment benefits China first and foremost. They also understood that a China that reforms is of great benefit to EU business", he said. He added that both China and Europe are engaged in challenging times.

"We meet today, while the global economy is fragile, the ugly face of protectionism is rearing its head and populism challenges growth as well as the livelihoods of many of our citizens. We have come to pledge new ideas, formulate new solutions and to express our confidence in the ability of our leaders to steer our regions through troubled waters," the President of the EU-China Chamber of Commerce in China said. "The members of the European Chamber are known for doing diligent work with our 400-page *Position Paper*, not mincing words while discussing overcapacity and remaining confident in China's ability to reform as they meet dignitaries in Beijing, as well as in the other eight cities where our chapters maintain offices," Wuttke said. "The EU and China, each struggling with the pain of transition, are too big to fail in their efforts. It simply isn't an option," the EUCCC President concluded, saying the 1,600 members of the European Chamber in China are able, willing and committed to do their bit, small as it might be.

Link to President Joerg Wuttke's speech

## President Juncker and Premier Li witness the signature of 12 new urbanization partnerships at EU-China Summit

President of the European Commission Jean-Claude Juncker and China's Premier Li Keqiang witnessed the signature of 12 new partnerships between Chinese and EU private and public entities in the field of urbanization. The signature ceremony took place on 13 July, on the sidelines of the EU-China Summit.

This third batch of partnerships signals a step forward in the implementation of the EU-China Sustainable Urbanization Partnership, launched at the highest level in 2012. Most of these partnerships involve EU companies specialized in the improvement of the urban environment, on the one hand, and Chinese local authorities who wish to rely on this expertise in their efforts to develop a more sustainable approach to urbanization, on the other.

The organization of this event reflects the EU's strong commitment to support EU business in sectors related to urbanization (which are often SMEs) to access the Chinese market. This endeavor is carried out in close collaboration with EU member states: the Ambassadors of Sweden, Lars Fredén, and Italy, Ettore Francesco Sequi, as well as representatives of the Embassies of the Netherlands and Austria, attended the signing ceremony, according to the website of the Delegation of the European Union to China.

## Press conference by Presidents Tusk and Juncker

President of the European Council Donald Tusk and President of the European Commission Jean-Claude Juncker gave a press conference for the domestic and foreign press on July 13 at the Embassy of the Delegation of the European Union to China in Beijing. They were introduced by Ambassador Hans-Dietmar Schweisgut. Follow the links to view the relevant segments of the press conference:

Introduction by EU Ambassador to China Mr. Schweisgut

Remarks by President Tusk

Remarks by President Juncker

Q&A

## Premier Li attends 11th Asia-Europe Meeting (ASEM) in Mongolia

Chinese Premier Li Keqiang attended the 11th Asia-Europe Meeting (ASEM) on July 15 in Ulan Bator, Mongolia. Belgian Minister of Foreign Affairs Didier Reynders also attended. Premier Li Keqiang said he expected growing cooperation among Asian and European nations guided by pragmatism. In elaborating on his proposal of "renovating the Euro-Asia cooperation concept", Li urged ASEM members to foster an awareness of a community of shared responsibilities and destinies, to effectively counteract challenges besetting Asia and Europe. At the summit, Li suggested ASEM members engage in dialogue and cooperation, and prevent new sources of tumult from occurring in their own regions so as to safeguard world peace and regional stability. The global community should advocate unity and coordination, he said, and discard a Cold War mentality and zero-sum game. The Premier said China opposed any country distorting international law and applying a double standard in addressing disparities and disputes.

Link to Remarks by Premier Li Keqiang

## High Representative Mogherini gives a speech at the Chinese Academy of Social Sciences

Vice President of the European Commission and High Representative of the European Union for Foreign Affairs and Security Policy, Federica Mogherini, on July 13, 2016 gave a speech at the Academy of Social Sciences in Beijing (CASS).

Mrs. Mogherini said that it was the first occasion to present the EU's Global Strategy after introducing it to the European Council, the European Union Heads of State and Government, at the end of June. The High Representative was in Beijing on the occasion of the EU-China Summit. "This is a very intense and complex moment both for our European Union and for our world. And in a moment like this, I really appreciate this exchange of views with an audience like this one, like yours," Mogherini said. Besides the Global Strategy, she also shared a few thoughts on the new EU Strategy on EU-China relations. She also said it was important "to try and look at Europe from the outside, through your eyes," because "our friends and partners around the world see the value of our Union much better than we Europeans do".

Link to the full text of Vice President and High Representative Federica Mogherini's speech

## EU Trade Commissioner urging deeper global and bilateral trade and investment ties

During a four-day visit to China, EU Trade Commissioner Cecilia Malmström spoke to students at the University of International Business and Economics (UIBE) in Beijing. She stressed the enormous benefits that the EU-China relationship had brought to both sides and argued that in addressing their own major challenges – a sustained economic recovery across the EU and reform and opening up in China – both sides would benefit each other as well as their own citizens.

She highlighted a number of concerns on the lack of a level playing field for EU firms doing business in and with China, stressed the potential of negotiations for an EU China Investment

Agreement and argued for joint EU and Chinese leadership in the World Trade Organization (WTO). The Commissioner's visit to Beijing follows meetings in Shanghai for the G20 meeting of trade ministers, where she and other representatives of the world's leading economies stressed the importance of trade and investment for global growth and employment and recommitted to their pledge to avoid protectionism.

The Commissioner also participated in the EU-China Summit alongside President Juncker, President Tusk and Vice President Mogherini. In parallel she gave a speech to business leaders at the EU-China Business Summit.

Read the speech at the UIBE in Beijing

Read the speech at the EU-China Business Summit

## FCCC/EUCBA ACTIVITIES

### EU-China Business and Technology Cooperation Fair China Tour 2016 – 28 October – 4 November 2016 – Chengdu, Qingdao

The European Commission, the Enterprise Europe Network and EUPIC are organizing a tour to the EU-China Business and Technology Cooperation Fair China from 28 October to 4 November 2016 in Chengdu and Qingdao. This tour is organized with the support of the EU-China Business Association (EUCBA).

As an important platform for building ever closer relationship between 28 EU member states and China, the 11th EU-China Business and Technology Cooperation Fair, in the context of the importance of the land and marine Silk Roads linking China and Europe, will take place in Chengdu and Qingdao, two vital strategic cities of west and north China, the first phase in Chengdu from 28 October till 1 November, 2016 and the second phase in Qingdao from 2 to 4 November, 2016. The fair will gather 1,500 participants of companies, state/regional governments, clusters, business associations, EU-China Cooperation experts, universities, R&D institutions from west and north China, the European Commission, EEN partners, and European countries who are seeking potential collaboration and partnerships with their counterparts.

Chengdu is the centre of West China and hometown to the giant pandas. It is also the i nitial station of the Chengdu-Europe Express Railway to Lodz, Poland. Forbes listed Chengdu as one of “The Next Decade’s Fastest Growing Cities Globally”. Chengdu Shuangliu International Airport is ranked first in Mid & West China, with direct flights to Amsterdam, London, Paris, Frankfurt, Moscow, etc. There are 14 Consulates General in Chengdu. Leading industries are ICT, environment, renewable energy, new materials, life sciences, bio-pharmaceuticals, aviation, and modern agriculture.

Qingdao is located at the intersection of two Silk Roads, both through the continent and over the sea. It is the converging point for Asia-Pacific economic integration. 70% of China's academicians and 30% of senior researchers on maritime sciences and technologies are based in Qingdao. The EU Is now the No 1 trading partner for Qingdao. Leading industries are maritime equipment, maritime bio-pharmaceuticals, renewable energy, new materials, maritime environment, ICT, home appliances, and rolling stock.

## ADVERTISEMENT AND SPONSORSHIP

### Advertisement and sponsorship opportunities 2016

The Flanders-China Chamber of Commerce offers several advertising and sponsorship opportunities in order to give your activities more exposure to potential new clients and collaboration.

If you are interested in advertising or sponsoring or need more information, please send an e-mail to: gwenn.sonck@flanders-china.be
www.flanders-china.be

The sponsoring opportunities are the following:

**1. SPONSORING OF ACTIVITIES**

During FCCC activities, you can put a banner of your company at the event and distribute documentation of your company and obtain free invitations.

Invitations are distributed via E-mail and the FCCC website and newsletters. The events are announced in different media channels.
The fee is according to each different event.

**2. SPONSORING AT THE FCCC WEBSITE**

Your logo will be displayed on the FCCC home page with click through to your own website or to your own page on the FCCC-website

GOLDEN SPONSOR (12 months): 1.950 €
SILVER SPONSOR (6 months): 1.450 €

**3. SPONSORING IN THE FCCC WEEKLY NEWSLETTER**

Every Monday, the weekly Newsletters are sent and posted on the FCCC website.

Number of recipients every week: 1200 executives dealing with China

GOLDEN SPONSOR (12 months): 1.950 €
SILVER SPONSOR (6 months): 1.550 €
SPONSOR (3 months): 895 €

**4. SPONSORING IN THE QUARTERLY E-NEWSLETTER IN CHINESE AND ENGLISH LANGUAGE: "NEWS FROM THE HEART OF EUROPE: FLANDERS"**

- Newsletters are also posted online at the FCCC website
- 1 issue every quarter
- Number of direct recipients: +/- 2000 Chinese and Belgian business leaders, local authorities and institutions
- Distributed through the different Chambers of Commerce in China
- Your logo on the electronic newsletter and a 200-word profile of China activities

GOLDEN SPONSOR: 1.650 € -3 issues
SILVER SPONSOR: 1.250 € - 2 issues

Amounts are excl. VAT.

**5. SPONSORING EU-CHINA ACTIVITIES**

The EU-China Business Association (EUCBA) is an association of Associations in the European Union countries promoting business relations between European enterprises, institutions and their Chinese counterparts. It is an International non-profit organisation registered in Belgium.
The FCCC holds the secretariat-general of the EUCBA.

The EUCBA organises high-level EU-China events and also publishes a Quarterly newsbulletin.
www.eucba.org

If you are interested in advertising or sponsoring or need more information, please send an e-mail to: gwenn.sonck@flanders-china.be

## PAST EVENTS

### China workshop: Doing Business with China for SME's – 28 June 2016 – FIT Exportfair, Brussels

On 28 June, the Flanders-China Chamber of Commerce and Flanders Investment & Trade organized a China workshop focused on Doing Business with China for SME's. This took place at the FIT Exportfair.

Following a word of welcome by Mrs. Gwenn Sonck, Executive Director Flanders-China Chamber of Commerce; Mr Bo Ji, Chief Representative, Cheung Graduate School of Business – Europe, Assistant Dean, Global Executive Education, talked about “Winning in China”. “What keeps managers awake about banking in Asia?” was presented by Mr Mathias Deferme, Relationship Manager KBC Hong Kong. He explained that as a manager you want to:
1/ eliminate the administrative burden as much as possible; and
2/ obtain stable, long term and cross border financing solutions; and
3/ minimize the trade risk of your business; and
4/ be able to provide and hedge RMB payments.
But most of all you want a local banking partner that understands your home market business and understand your real banking needs.

The list of seminars and workshops which were held at the Export Fair is available at:
http://www.exportbeurs.be/exportbeurs/pages/13688-programma

### Meeting and Reception with the future Consuls-General from Belgium in Shanghai and Guangzhou – 20 June 2016 – Brussels

The Flanders-China Chamber of Commerce (FCCC) organized a meeting with the future Consuls-General from Belgium to Shanghai and Guangzhou. This event took place on 20 June 2016 at BNP Paribas Fortis in Brussels.

This event was an excellent opportunity to introduce your companies’ activities in China with Mr Paul Lambert, future Consul-General of Belgium in Shanghai and Mr Joris Salden, future Consul-General of Belgium in Guangzhou. Mr Stefaan Vanhooren, Chairman of the FCCC, made the opening speech at the event, which was concluded by an exchange of views and networking.

## AUTOMOTIVE

### Vehicle sales increase more than expected

Sales of passenger cars and commercial vehicles rose 14.58% in June from a year earlier to 2.07 million units, bringing the combined sales in the first half to 12.83 million units, up 8.14% year-on-year, the China Association of Automobile Manufacturers (CAAM) said. Sales of passenger cars, which make up the bulk of China's vehicle sales, rose 9.23% in the first half of this year, overtaking the 8% growth target. The market rebounded in October after the central government cut vehicle purchase taxes for energy-saving vehicles with an engine smaller than 1.6 liters. The cut equals to 5% off the retail price of over 70% of China's passenger cars sold. It is an incentive for people to buy before the beginning of next year when the policy may not be renewed. However, the pending expiration of the policy "will leave a negative impact on the passenger car sales in 2017," said Zou Tianlong, Auto Analyst of UBS Securities. The policy-driven growth model also applies to the new-energy segment where 170,000 new-energy vehicles (NEVs) were sold so far this year, up 127% year-on-year. But consumer research firm Nielsen's latest report predicted that growth in new-energy car sales might slow in the latter half of this year as the government has cut subsidies and reduced car-purchasing quotas in big cities. Although up to 50% of potential green car buyers prefer gasoline-electric-hybrid vehicles to plug-in hybrid cars and purely electric ones, the former vehicles do not get any official favorable policies and are not even classified as new-energy cars by sales because of its middle-way solution, the Shanghai Daily reports. Sales of new-energy passenger vehicles in 2018 will be more than triple the 200,000 vehicles sold in 2015, and pure-electric cars will account for the majority of this, Director Zhao Xinzhi of Nielsen China said. But after 2020, when the subsidies for NEVs end, gasoline-electric hybrid cars and plug-in hybrid cars will experience "explosive growth", he added.

- The Shenzhen government cancelled the bulk of an CNY1.8 billion order for BYD electric buses it placed only recently. Shenzhen Western Bus Co has terminated a procurement plan for 2,228 10-meter long electric buses from BYD Auto Industry. BYD had announced on July 7 that it was the first-ranked winning bidder for the tender worth CNY1,797 million. The tender, comprising three batches, included 296 8-m long electric buses, 2,228 10-m long electric buses and 395 10-m long electric buses. Shenzhen has set a target to make its fleet of 16,000 buses all powered by batteries by 2017.
- Analysts predict the Chinese auto market will continue to do well in the second half of this year after strong sales in June, thanks to government policy support, a solid increase in sales of SUVs, and growth in the electric car segment. They added that Chinese used car sales and online auto sales still lag behind other countries. Bank of America Merrill Lynch analysts expect overall July wholesale shipments in China to register a 25% year-on-year growth.

## FINANCE

### Supply-side reforms expected to stoke bad debt levels of city banks

Chinese banks are under the most-severe pressure from bad loans in a decade, with the country's ongoing supply-side structural reforms expected to accelerate their exposures to soured debt. In particular, city commercial lenders – which are often intertwined with local governments and have lax corporate governance – are likely to see the highest earnings volatility, according to analysts. The Chinese government's supply-side reform program aims to match supply with demand in the economy by lowering taxes and cutting overcapacity. The measures include suspending new investments, shutting down capacity, and reducing production in some sectors, such as coal and steel. However, "as much of the capital expenditure in those sectors was funded by bank borrowing, the cuts in production are expected to push up banks' non-performing loan (NPL) ratios, " said Edmond Law and Jasmine Duan, Analysts for UOB Kay Hian, in a research note. UOB now expects the production cuts to push up the banks' NPLs by an additional CNY600 billion, assuming 20% of loans to those sectors with overcapacity, will become NPLs. "Chinese banks are facing the most severe bad-loan pressure since 2004, when China cleaned up bad debt at state-owned banks and restructured them for IPOs, " said Yu Xuejun, Chairman of the supervisory board for major state-owned financial institutions under the China Banking Regulatory Commission (CBRC). According to Yu, NPLs in China's banking sector had "far exceeded" CNY2 trillion by the end of May, with the NPL ratio jumping to 2.15% of total bank lending, up 0.16 of a percentage point from the start of the year, the South China Morning Post reports.

### Central bank official calls for increasing fiscal deficit

Sheng Songcheng, head of statistics and analysis at the People's Bank of China (PBOC), has called for a proactive fiscal policy, including trimming corporate tax burdens, issuing more government debt and increasing the fiscal deficit. China could handle a deficit of 3% to 5%, Sheng told a financial forum in Shanghai. China targeted a fiscal deficit of 3% this year, or CNY2.18 trillion. He said China is seemingly falling into a "liquidity trap" where companies prefer to hoard cash rather than invest it despite the large amount of liquidity in the market. The growth of M1, which includes cash and current deposits, surged from 14% in October to 24.6% in June. At the same time, growth of M2, a broader measure of M1 plus time deposits, kept decelerating this year, remaining flat at 11.8% in June, which was the same pace as in May. China has targeted M2 growth of about 13% this year. The surging M1, which showed corporate preference for cash hoarding, came in tandem with poor private investment data in recent months. Private sector investment continued to slow, with growth hitting a record low of 2.8% in the first half that in turn dragged down the pace of overall investment to 9% in the period. Zhu Haibin, J.P. Morgan China Chief Economist said in a note that he expected the government to maintain an expansionary fiscal policy and a neutral monetary policy in the second half of this year, with a slight bias toward easing if growth slowed, the South China Morning Post reports.

- The New Development Bank announced that it will issue CNY3 billion of renminbi-denominated green bonds. It will be the first green bonds issued by a multilateral development bank in China's interbank bond market. The NDB was founded by the BRICS countries Brazil, Russia, India, China and South Africa.
- China's fiscal revenue rose 1.7% year-on-year to CNY1.56 trillion in June. Fiscal revenue grew 7.1% to CNY8.55 trillion in the first half of this year. The Ministry of Finance expects revenue growth to be further affected by reform policies in the following months as downward pressure on China's economic growth remains. The central government collected CNY3.72 trillion in fiscal revenue, up 3.3% year-on-year in the first half, while local governments saw fiscal revenue rise 10.1% to CNY4.84 trillion.
- The Asian Infrastructure Investment Bank (AIIB) has appointed two former senior officials from Japan and the United States to its international advisory panel, although both countries have declined to join the bank. Former Japanese Prime Minister Yukio Hatoyama and Paul W. Speltz, former U.S. Executive Director of the Asian Development Bank (ADB) will join the panel.

## FOREIGN INVESTMENT

### China's FDI reaches 10-month high

China's foreign direct investment (FDI) jumped 9.7% in June from a year earlier to CNY98.2 billion, recovering from a 1% drop in May and hitting a 10-month high. In the first half of 2016, FDI rose 5.1% from the same period a year earlier to CNY441.76 billion. Foreign investment in the services sector rose 8% in the January-June period to CNY310.8 billion, accounting for 70.4% of all FDI, with investment in high-tech services soaring 99.7% from a year earlier. Investment in the manufacturing sector fell 2.8% in the first half from a year earlier to CNY124.9 billion, making up for 28.3% of total FDI.

## FOREIGN TRADE

### China's June exports stabilize, imports contract slightly

China's exports stabilized in June while imports recorded a slight contraction. Yuan-denominated exports rose 1.3% year-on-year to CNY1.17 trillion, slightly faster than May's 1.2% gain but slower than April's 4.1%, according to the General Administration of Customs. Imports fell by 2.3% to CNY863.3 billion – the 19th decline recorded in 20 months – after a surprising 5.1% growth in May. The trade surplus stood at CNY311.2 billion, narrowing slightly from that in May, but 12.8% more than a year before. Huang Songping, Spokesman for the General Administration of Customs, said China's exports and imports improved in the second quarter from the first three months. Some leading indicators showed that China's exports may face "relatively big downward pressure" in the third quarter amid continuing weak global demand, he added. Huang noted that the country's exports are losing some of their edge as re-industrialization trends in developed countries with advanced manufacturing capacities and mushrooming lower-cost manufacturers in emerging nations have exerted double pressure on China. In U.S. dollar-denominated terms, China's exports fell 4.8% year-on-year in June, while imports were down 8.4%. Foreign trade in the first half of 2016 was 3.3% lower than a year earlier at CNY11.13 trillion, with exports down 2.1% and imports down 4.7%. The trade surplus for the first six months widened 5.9% year-on-year to CNY1.67 trillion. Exports to the European Union, China's largest trading partner, rose 1.3% year-on-year in the first six months while those to the United States, the second-biggest, shed 4.6%. Exports to the Association of Southeast Asian Nations (ASEAN), the third-largest, fell 2.9%, the Shanghai Daily reports.

Huang Songping tried to calm fears that surging imports from Hong Kong indicated rising capital outflow via false trade activities. He said the rise in imports from Hong Kong was due to a growing appetite for gold, while China is shifting its gold imports to Hong Kong from traditional gold suppliers such as Switzerland, South Africa, and Australia. In yuan terms imports from Hong Kong grew 144% year-on-year to CNY65 billion in the first half, but when gold was excluded, imports from Hong Kong shrank 2% over the six months, in line with the general trade trend so far this year.

- Shanghai has recognized the first group of 94 regional headquarters of domestic and foreign trading companies. They are the main force to drive Shanghai's construction into a world-class trading center, said Shang Yuying, Chairwoman of the Shanghai Commission of Commerce. “The recognition is an important way to expand their influence and further attract trading companies to gather in Shanghai.” In 2015, the 94 companies generated an aggregate CNY4.3 trillion in transactions, taking up one-third of the city's total trade.
- U.S. trade diplomat Chris Wilson told a World Trade Organization (WTO) meeting in Geneva that China had not done enough to qualify for market economy status (MES) and that other members would not automatically grant it to China.

## IPR PROTECTION

### Civil, administrative and criminal IP trials to be integrated

The "three-in-one" mode for intellectual property cases that integrates civil, administrative and criminal trials in one court will be further promoted in courts nationwide, according to a conference held on July 7 in Nanjing, Jiangsu province. The two-day event, which attracted nearly 200 IP judges from across the country, called for Chinese courts to give full play to judicial protection of IP rights. Tao Kaiyuan, Vice President of the Supreme People's Court, said the “three-in-one” mode is an important measure to improve the overall efficiency of judicial protection in the IP field. The mode has already been adopted in six provincial-level courts and nearly 200 intermediate and lower-level courts.

- The Heilongjiang government has proposed to build a China-Russia IP service center and launch a cross-border IP service covering Russia, Mongolia and northeastern Asia. The strategy includes 32 guidelines covering areas including IP creation, application, protection, management and service.

## MACRO-ECONOMY

### 6.7% second-quarter GDP growth reported

China managed to sustain a 6.7% growth year-on-year in the second quarter on stronger-than-expected activities in June, but economists warned of headwinds in the second half of the year as private investment is set to weaken. The second quarter growth rate was flat from the first quarter, the National Bureau of Statistics (NBS) said. The reading beat market expectations of 6.6%, according to a Bloomberg news poll. The service sector grew 7.5% year-on-year in the first half, accounting for 54.1% of the overall economy, up 1.8 percentage points from a year earlier. The primary industry added 3.1%, and the secondary industry rose 6.1%. Industrial output surged 6.2% year-on-year in June, accelerating from a 6% increase in May. Retail sales jumped 10.6%, faster than May's 10% growth. However, fixed-asset investment (FAI) slowed further to 9% in the January-June period. “Within the three economic drivers (exports, investment and consumption), consumption contributed 73.4% of the economic growth, 13.2 percentage points more than the same period of last year,” said Sheng Laiyun, NBS Spokesman. “Domestic demand remained the decisive factor in supporting China's stable economic growth.” Julia Wang, HSBC Economist, said the slowdown in private investment threatened the economic outlook in the second half. “With near-term worries subsiding for now, we are more concerned about the continued slowdown in private sector investment and the implication for the medium term,” Wang said. She said the slowdown reflects deterioration of business confidence in the private sector, the Shanghai Daily reports.

- Chinese centrally-administered state-owned enterprises (SOEs) reported better financial performances in the first half of 2016. The total profit of the 106 SOEs stood at CNY623.47 billion, down 3% year-on-year, but the fall narrowed by 2.4 percentage points compared with the first six months of last year, according to the State-owned Assets Supervision and Administration Commission (SASAC). Thirty-eight SOEs reported an increase of over 10% in revenue, while 16 saw their income grow more than 30%.
- The National Development and Reform Commission (NDRC) approved 96 fixed-asset

investment projects valued at CNY461.6 billion in the first six months of 2016. China's fixed-asset investment (FAI) grew 9.6% year-on-year in the first five months, 0.9 percentage points lower than in the first four months of 2016.

- China's electricity use rose 2.7% year-on-year in the first half of this year to 2.8 trillion kilowatt-hours, according to the National Development and Reform Commission (NDRC). Electricity use in the service sector rose 9.2% and 7.7% in the agricultural sector, while it increased by 0.5% in the industrial sector. The data point to positive changes in China's economic structure, as power use in the service sector grew faster than in the industrial sector.
- The financial conditions of steel and coal firms have improved thanks to government-led capacity reduction measures. Crude steel production fell 1.4% year-on-year in the first five months of 2016 and coal production of large miners dropped 8.4%. China aims to cut around 45 million tons of crude steel capacity and more than 250 million tons of coal capacity in 2016.
- China's crude output dropped 4.6% to 101.59 million tons in the first six months of the year, the lowest since 2012, according to the National Bureau of Statistics (NBS). Ethylene output also decreased to the lowest in a year to 1.39 million tons.
- Wages in China kept pace with economic growth in the first half of this year, but maintaining that would be difficult, the National Bureau of Statistics (NBS) said. Disposable household income, adjusted for inflation, rose 6.5% in the first half of the year, compared with economic growth of 6.7%. Several provinces have slowed or halted increases of minimum wages as companies face pressure from rising expenses and weakening demand.

## MERGERS & ACQUISITIONS

### Two Chinese travel companies to merge

The Chinese government has approved the merger of CITS Group Corp and China National Travel Service (HK) Group Corp. Experts said the merger will help the industry better integrate upstream and downstream companies, and help enterprises to enhance their competitive advantages. CITS will become a fully-owned subsidiary of CTS. The State-owned Assets Supervision and Administration Commission (SASAC) will be the controlling shareholder of CTS and will no longer supervise CITS. Dai Bin, Dean of the China Tourism Academy, said in the future there would be one state-owned tourism group and three major local private tourism groups. Founded in 1928, CTS has been one of the four major state-owned enterprises (SOEs) based in Hong Kong. By the end of last year, the group achieved sales revenues of CNY33.5 billion and profits of CNY2.37 billion. The assets of the new conglomerate will exceed CNY120 billion. Founded in 2004, CITS has been the largest Chinese travel agency with the strongest business operations. The latest move is part of the ongoing trend of mergers between major SOEs across various industries, as the government aims to combine the core resources of SOEs and reduce their management costs, the China Daily reports.

- Dalian Wanda-owned AMC Entertainment Holdings, the second-largest movie theater chain in North America, will buy the London-based Odeon & UCI Cinema Group with 242 theaters and 2,236 screens in Europe in a deal valued at about GBP920 million. Wanda said the transaction will make it the biggest movie theater operator in the world with a leading presence in the world's three largest movie markets. The Chinese company is aiming for about 20% of global box office by 2020.
- State-owned French energy giant EDF has taken an 80% controlling stake in Hong Kong-based UPC Asia Wind Management (AWM). The U.S. Global Environment Fund will retain a 20% share of AWM. "Our goal is to accelerate our low-carbon generation, with a diversified energy mix where nuclear and renewable energy balance each other," said EDF's Chief Executive Jean-Bernard Levy in a statement. By the end of 2014, China already had surpassed the United States as the country with the world's largest installed base of wind power at 100 GW and last year attracted around half of global wind power development.
- China National Chemical Corp (ChemChina) has further extended the deadline of its USD43 billion share buyout offer for Swiss crop seeds and pesticides firm Syngenta,

as it awaits for all of the deal's conditions to be fulfilled, including regulatory approvals. The Beijing-based firm has set a new deadline of September 13. The offer, which opened on March 23, had an original deadline of May 23 and was later extended to July 18.

- Samsung Electronics Co said it is in talks to buy a stake in Chinese electric-vehicle manufacturer BYD Co. Samsung said it will not participate in BYD's existing operations, but the two sides plan to discuss cooperation in businesses going forward. The Korea Economic Daily reported that Samsung had agreed to buy a 4% stake for CNY3 billion in BYD.
- The State-owned Assets Supervision and Administration Commission (SASAC) announced the merger of China National Cereals, Oils and Foodstuffs Corp (COFCO) with Chinatex Corp, in the process creating a bigger rival to compete with the so-called ABCD companies – ADM, Bunge, Cargill and Louis Dreyfus. Chinatex will become a subsidiary of COFCO.
- China's state-owned enterprises (SOEs) are expected to see more cross shareholdings via share transfers as the government looks to diversify the shareholding patterns of SOEs to improve governance and efficiency. Since December 2015, there have been at least 10 such share transfers among major SOEs directly under the supervision of the central government.

## REAL ESTATE

### State-owned developers amassing land assets

Many state-owned real-estate businesses are using their financial muscle to amass land as an asset, rather for its development potential, causing serious concern among private developers, who fear they will continue to lose out. They also fear the ongoing practice will push up land prices to levels that private firms simply cannot afford. There is also speculation that some state firms are teaming up with local governments to push up property prices. "Companies like Cinda are not gobbling up land under the logic of developers, but under the logic of asset allocation," said Zhang Hongwei, Research Director of Tospur Real Estate Consulting. After regulators in mid-June told developers to refrain from such aggressive purchases, the buying frenzy has calmed down. Cinda beat 23 bidders on June 1 to pay CNY5.8 billion for a Shanghai plot, just five days after it beat 17 rivals with a CNY12.3 billion offer for a plot in Hangzhou. The company will end up paying nearly CNY48,000 per square meter, and property agents estimate it would have to sell any apartments it built there for above CNY80,000 to earn a standard profit. That would represent a 74% premium on the current price of homes nearby. Sun Hongbin, Chairman of developer Sunac China Holdings, said the current bidding frenzy is not making a lot of financial sense, the South China Morning Post reports.

### Chinese home price rise much faster than globally

Chinese cities occupied four of the top five places where home price saw the steepest increases, with Shenzhen topping the global list. Shenzhen's home prices surged 62.5% year-on-year to March, according to the London-based Knight Frank's Global Residential Cities Index. It was followed by Shanghai, where home prices rose 30.5% over the same period. The average growth rate for the 150 cities, meanwhile, was 4.5%. Nanjing and Beijing took fourth and fifth place, with home prices rising 17.8% and 17.6% respectively. The only non-Chinese city in the top five was Istanbul, which came third with home prices up 19.6%. Knight Frank said loose monetary policy was one of the main reasons behind the big increase in home prices in Chinese cities, but the growth rate may slow through the year as some cities, including Shenzhen and Shanghai, have introduced new policies to rein in the overheated real estate market, the China Daily reports.

- China Vanke – together with partners it did not identify – is planning to spend CNY12.87 billion to acquire 96.55% of the shareholding of a company affiliated with Blackstone Group. Vanke will itself pay CNY3.89 billion of the total sum. The deal will not involve the issuing of any shares, so it will only marginally impact the battle with its biggest shareholder Baoneng Group for control of the company. Most of Blackstone's commercial properties are in China's second- and third-tier cities.

- Shanghai's Grade A office rents climbed more slowly on both sides of the Huangpu river in the second quarter of this year, and the city is set to see vacancy rates rise amid an abundance of new supply in the second half. Grade A office rents edged up 0.6% from the first quarter to CNY9.90 per square meter per day in Puxi between April and June, the slowest pace recorded in the past six quarters, according to JLL's quarterly market report. Rents in Pudong rose 1.1% quarter-on-quarter to CNY11.40 per sq m per day during the same period.
- New homes worth CNY4.18 trillion, excluding government-subsidized affordable housing, were sold in the first half in China, a year-on-year jump of 44.4%. A total of 570.9 million square meters of new homes were sold, up 28.6% year-on-year. "Despite the slower pace of sales, buying sentiment among home seekers still remained generally vibrant, reducing overall inventories around the country," said Lu Wenxi, Senior Manager of Research at Shanghai Centaline Property Consultants Co.

## RETAIL

### Retail sales expected to rise 9.2% in 2016

China's retail sales are set to rise 9.2% in 2016, and the retail and consumer goods industry as a whole is likely to grow by single digit over the next five years, according to an industry report. China's retail and consumer goods industry is expected to grow by a compound annual rate of 7.5% in value from 2016 to 2020, PricewaterhouseCoopers (PwC) said in its report. Total retail sales may hit CNY44 trillion by 2020. The country's retail sales of consumer goods grew 10.3% year-on-year to CNY15.6 trillion in the first half of 2016. "The face of China's retail and consumer products sector is rapidly changing, as the purchasing power of the Millennial shoppers rises, there is a shifting demand for new products," said Kevin Wang, PwC China retail and consumer leader.

## STOCK MARKETS

### Hang Seng posts biggest weekly gain in 15 months

Hong Kong's Hang Seng Index extended its bull streak on July 15 to five sessions, capping the biggest weekly gain since April 2015, after China posted stronger-than-expected growth in the second quarter and U.S. equities rose on upbeat bank earnings and economic indicators. The Hang Seng rose 0.5% or 98.19 points to 21,659.25. For the week, that marked a 5.3% jump, the best performance in more than a year. China's GDP growth of 6.7% for Q2 came as a positive surprise to the market. Also boosting the sentiment was an overnight rally on Wall Street, which propelled the S&P500 and the Dow Jones Industrial Average to new all-time highs. JP Morgan led the banking sector higher, as its quarterly results surprised many on the upside. "The U.S. stock market bull run boosted the Hong Kong market," said Louis Tse, Director of VC Brokerage. "The Bank of England decided not to cut interest rates to help support the pound, which also benefited Hong Kong stocks that have strong exposure in Britain," he added. Despite the gains in Hong Kong stocks, China's Shanghai Composite Index closed virtually flat on July 15 at 3,054.30, but was still up 2.2% for the week. The index has risen for three consecutive weeks for a combined 7%. The Shenzhen Composite Index dropped 0.3% or 6.2 points to 2,038.73, however, while the startup board ChiNext Index retreated 1.3% or 29.3 points to 2,263.78.

- ZTO Express Co, one of Alibaba Group's logistic partners, is aiming to list as early as September, in what will be the second-biggest initial public offering (IPO) by a Chinese firm on New York's NYSE or Nasdaq. The Shanghai-based logistics company aims to raise up to USD2 billion. ZTO Express had opted for a U.S. flotation for a faster listing than would be possible in China.
- Shares of Bank of Communications (BoCom) rose in Shanghai after reports suggested that its overseas advisory arm in Hong Kong may launch an initial public offering (IPO). BoCom International Holdings Co is considering listing by the first quarter of next year to raise about USD200 million.
- The China Securities Regulatory Commission (CSRC) has downgraded the rating of several major securities brokerages including CITIC Securities, Haitong Securities,

Guosen Securities and Huatai Securities. Their ratings were downgraded to BBB. Some industry experts warned that the rating downgrade would affect the liquidity of the securities firms as it may increase their financing costs. It could also restrain them from conducting riskier and innovative businesses, as they will face stricter inspections.The CSRC evaluated a total of 95 securities firms. 54% were given B-class ratings while 38% of them were granted the A-class rating.

## TRAVEL

### Performance of China's bullet trains tested

Two bullet trains designed by Chinese engineers passed in opposite directions at 420 km/h, in an experiment carried out by China Railway Corp that set a world record. "The success of the experiment demonstrates that China has mastered comprehensive knowledge of the bullet train's core technologies," said Zhou Li, Director of the Science and Technology Administration Department. The tests measured the performance of China's bullet trains, particularly the traction, brakes and software, which now uses Chinese technologies.

- By 2020 Beijing plans to almost double its 554-kilometer metro and urban rail network. Buses will run faster thanks to a bus lane network, and the proportion of new energy buses will exceed 65%. The city will also encourage cycling with 3,200 kilometers of bike lanes and at least 100,000 bicycles for rent. There are also plans to move 15% of the population out of the city center and keep the total population below 23 million.
- China's domestic air traffic will become the world's largest within 10 years, according to the Global Market Forecast from Airbus. Passenger traffic will grow at an average 4.5% a year over the next two decades, driving a need for over 33,000 new aircraft of more than 100 seats, Airbus forecast.
- Nasdaq-listed Tuniu Corp has started selling air tickets and hotel rooms directly online, making it a direct rival of market leader Ctrip in the CNY400 billion Chinese online tourism market. China's online outbound market revenue is set to hit CNY49.5 billion this year, up 75% year-on-year and above the growth rate of the domestic travel market, said Analysys International.
- Chinese and foreign airlines operating in China must pay compensation to passengers whose flights have been delayed or cancelled. In addition, passengers who are forced to sit and wait on the plane on the tarmac for three hours or more should be allowed to get off the plane, according to the draft regulation on air traffic, which will come into effect next year. The average Chinese flight delay is now up to 21 minutes.

## ONE-LINE NEWS

- Lenovo Group saw its global personal computer shipments decline for the fifth consecutive quarter in the three months to June, as total industry demand remained weak in all geographic markets. Preliminary market estimates showed Lenovo posting a 2% year-on-year decrease in shipments in the second quarter. Lenovo still remained the industry leader with shipments of 13.2 million personal computers and a 21.2% market share, according to IDC.
- Former China Telecom Chairman Chang Xiaobing will face prosecution after the Central Commission for Discipline Inspection (CCDI) wrapped up an anti-graft investigation. Chang, who was on the management of state-owned China Unicom for 14 years before heading China Telecom in August, was detained as part of a graft probe in late December.
- Four high-ranking officials are being prosecuted on corruption charges: Su Rong, a former Party Secretary of Jiangxi, Qinghai and Gansu provinces; Du Shanxue, former Vice Governor of Shanxi province; Zhao Shaolin, former Secretary General of the Jiangsu Provincial Party Committee; and Sun Zhaoxue, former General Manager of the state-owned Aluminum Corporation of China.
- The first joint venture between law firms from Hong Kong, Macao and mainland China officially opened its doors on Hengqin island, a free trade zone (FTZ) in Zhuhai. The new ZLF Law Firm received a license to operate in January, but the official opening of

its office was only held on July 8.

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