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

NEWSLETTER | 5 DECEMBER 2016

	satellite launches
Stock markets	Chinese bid for Chicago exchange hits roadblock
	Shenzhen-Hong Kong stock connect debuts
Travel	China approves Beijing-Tianjin-Hebei railway plan
VIP visits	President Xi meets Henry Kissinger in Beijing
One-line news	

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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

ACTIVITIES SUPPORTED BY FCCC

"China Day" Event – 10th Anniversary of the China Platform in Ghent University – Monday 12 December 2016 – Het Pand, Ghent

Ghent University is organizing a China Day Event on the occasion of the 10th anniversary of the China Platform.

Programme

08:00 – 09:00 Registration
09:00 – 09:15 Welcome by Prof. Dr. Guido Van Huylenbroeck, Academic Director of Internationalization, Ghent University. "History of the cooperation between Ghent University and China"
9:15 – 10:45 Panel session - chaired by Prof. dr. Luc Taerwe, Director China Platform
Topic: "Trade and Technology Transfer with China – the increasing importance of innovation through the triple helix concept."

- Mr. Shen Long, Department of Science and Technology, Embassy of the People's Republic of China to the Kingdom of Belgium
- Mr. Pedro Ferreira, CEO of Huawei Belgium
- Dr. He Weidong, Project Manager, Juxing International and Chairman of the Association of Chinese Professionals in Belgium (ACPB)
- Prof. Dr. Philippe De Maeyer, Department of Geography, Head of Department of Geography, Faculty of Sciences
- Prof. Dr. Sarah De Saeger, Department of Bio-analysis, Faculty of Pharmaceutical Sciences
- Mr. Johan Bil, Business Development Manager, Tech Transfer Office
- Mr. Paul Van Hooghten, Partner Corporate M&A/Private Equity, Lawyer, Member of Brussels Bar, Linklaters LLP
- Mrs. Christine Van Velthoven, Managing Director, CPM and CEO of the International CFR Consulting Group

10:45 – 11:15 Coffee break with poster session / networking - Venue: Kapittelzaal
11:15 – 12:30 Panel session - chaired by Mr. Frederik De Decker, Head International Relations Office, Ghent University
Topic: "Benefits and challenges of studying abroad"

- Mr Ma Kai, Third Secretary, Education Section, Embassy of the People's Republic of China to the Kingdom of Belgium
- Mr. Ma Lingshan, former Chairman of the Chinese Students Association in Ghent (ChiSAG)
- Ms. Charlotte Martens, Master student, Department of Eastern Languages and Cultures, Faculty of Arts and Philosophy, China Semester 2016 in Liaoning University

- Mr. Jing Liu, Doctoral researcher, lab of Prof. Braeckmans, Department of Pharmaceutics, Faculty of Pharmaceutical Sciences
- Dr. ir. Didier Snoeck, Scientific staff FWO, Faculty of Engineering and Architecture
- Mr. Tao Fang, Doctoral Researcher, Department of Plant Biotechnology and Bioinformatics, Faculty of Sciences
- Dr. Natalia Beloglazova, Scientific staff, Department of Bio-analysis, Faculty of Pharmaceutical Sciences

12:30 – 14:00 Walking lunch and poster session - Venue: Kapittelzaal

14:00 – 15.00 Debate "Strategic Approach on China and Investment in China"
Chaired by Mr. Geert Moerman, Chief Executive Officer, VOKA

- Mr Geert Versnick, Vice-Governor of the Province of East-Flanders
- Mr. Stefaan Vanhooren, Chairman, Flanders–China Chamber of Commerce
- Mr John Verzeele, Director Inward Investment, Flanders Investment & Trade
- Mr Frédéric De Vreese, Head of Investment and Traffic, Port of Ghent
- Mr. Geert Roelens, General Manager, ViuMore and former CEO of Beaulieu International Group (BIG)
- Mr. Eric Uyttendaele, Senior Director - Material Planning & Logistics at Volvo Cars Gent

15:00 – 15:30 Coffee break with poster session / networking - Venue: Kapittelzaal

15:30 – 16:30 Official part:

- Words of welcome and strategy for the future by Prof. Dr. Anne De Paepe, Rector Ghent University
- Speech by H.E. Alexander De Croo, Deputy Prime Minister and Minister of Development Cooperation, Digital Agenda, Telecom and Postal Services
- Speech and summary of the cooperation between Ghent University and China by H.E. Qu Xing, Ambassador of the People's Republic of China to the Kingdom of Belgium (TBC)
- Speech by H.E. Jan Briers, Governor of the Province of East-Flanders
- Speech by H.E. Daniel Termont, Mayor of the City of Ghent

16:30 – 16:45 Presentation of a publication "From Rabbit to Monkey – Further developments since the 5th Anniversary Celebration of the China Platform" on the occasion of the 10th Anniversary of the China Platform by Prof. Dr. Luc Taerwe, Director China Platform, Ghent University

16:45 – 17:00 Musical performance

17:00 – 18:00 Reception - Venue: Kapittelzaal

18:30 Dinner (upon invitation only)

Location: Het Pand, Onderbergen 1, B-9000 Ghent.

For more information: Mrs Inge Mangelschots, Coordinator China Platform
T +32 9 264 70 26 e-mail: Inge.Mangelschots@ugent.be

Group business trip 'E-commerce China' – 12-17 March 2017 – Hangzhou and Shanghai

Flanders Investment & Trade (FIT) is organizing a group business trip focused on e-commerce to Hangzhou and Shanghai on 12-17 March 2017. Discover the possibilities of your company in China through the e-commerce platform of Alibaba.

What: Group business trip
Target sectors: all sectors
Target market: China
When: From Sunday 12 March 2017 till Friday 17 March 2017
Where: Hangzhou and Shanghai, China
Who can join: companies and organizations having a Belgian enterprise number
Organization: Flanders Investment & Trade, together with AWEX, Brussels Invest & Export and Alibaba.

E-commerce is booming in China. Discover the advantages of exporting to China through Alibaba as supplementary or only distribution channel. Selected companies are invited to B2B-meetings with Alibaba's sourcing team at its headquarters in Hangzhou. The FIT office will provide tailor-made programs for all participants joining the trip to Shanghai.

Prices: €600 for the first participant of your company; additional representatives €300.
If you are only joining the trip to one location: first representative of your company: €300; additional representatives: €150.

Joining the trip to Hangzhou is only possible for those participants accepted by Alibaba to join the meeting. Non-selected participants can join the Shanghai part of the trip at a cost of €300. Selection by Alibaba will take place in December – early January. Flemish SMEs may apply for a subsidy at FIT.

Additional information: Programme website.docx

Contact: Michèle Surinx, e-mail: michele.surinx@fitagency.be tel.: 02-5048791.

Register as soon as possible as the number of participants is limited.

For other activities supported by FCCC, see the FCCC website: www.flanders-china.be

PAST EVENTS

Circular Economy Mission to China – November 22-25, 2016 – Beijing

The European Union organized a trade mission to Beijing from November 23 till 25 for companies in the circular economy. The mission was organized concurrently with the China International Circular Economy Exhibition (http://en.chinacace.org – www.chinacace.org). The EU-China Business Association took part in this mission and was represented by Mr Philippe Van der Donckt, Vice-Chairman EUCBA, and Ms Gwenn Sonck, Secretary General, EUCBA.

The participants received an introductory briefing on doing business in China, including a keynote speech by the EU Director-General for Environment Daniel Calleja. EU Commissioner Karmenu Vella attended a networking cocktail on the first day of the mission and met with the members of the delegation. The China Association for Circular Economy (CACE) organized a visit for the participants to the China International Circular Economy Exhibition 2016 at the China National Convention Center, where Commissioner Vella delivered the opening speech. At the EU-China Forum towards a circular economy, Ms Ma Rong, Deputy Director General of the Department of Resource Conservation and Environmental Protection at the National Development and Reform Commission (NDRC) gave a speech on the achievements of China's circular economy development. Director General Daniel Calleja talked about the EU's circular economy package and implementation. During the seminar, Mr Philippe Van der Donckt, Business Development Umicore, also shared the experiences and expectations of Umicore on circular economy.

A Forum on circular economy technology innovation, investment and financing was also organized with speeches by Xin Guobin, Vice Minister of the Ministry of Industry and Information Technology (MIIT), Fan Hengshan, Deputy Secretary of the National Development and Reform Commission (NDRC), and Liao Xiaoqi, former Vice Minister of Commerce. A number of memorandums of understanding (MOUs) were singed. Finally, a visit was organized to Tus-Sound company at the State Green Industries Zone in Beijing.

During this mission, the EUCBA organized a seminar focused on Opportunities for Business – Green Technologies and Green Business Perspectives. Following an introduction by Gwenn Sonck, Secretary General of the EU-China Business Association (EUCBA), Bo Ji, Assistant Dean of Global Executive Education, Chief Representative for Europe Cheung Kong Graduate School of Business (CKGSB), delivered a very interesting keynote speech entitled "China: From Red to Green", on the development of China's greentech market and the opportunities for Chinese businesses. Philip Bartley, Director of Development Solutions (Consortium Lead) and Reinout van Malenstein, China IPR SME Helpdesk gave presentations at the event on the protection of intellectual property rights (IPRs).

The Circular Economy Mission to Beijing was a real success in terms of number of participants: 79 representatives of 34 companies; 15 European business associations; 6 national business associations; 2 national research institutes; 4 national governmental organisations and 1 foundation. The EU-China Business Association (EUCBA), the EU Chamber of Commerce in China, the EU SME Centre in China, the Enterprise Europe Network partner in China (EU Project Innovation Centre – EUPIC) and the EU IPR Helpdesk were also part of the delegation.

The delegation comprised CEOs and industry representatives who between them represented 14 different nationalities (namely Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Poland, Romania, Spain, Sweden and UK). Various sectors of the environmental industry were represented, including agro-biotechnology, chemicals, crop sciences, food and medical, luxury, sustainable construction, packaging, plastics, recycling, renewable energy, water and related services, waste management, IT, telecom, etc. There were also companies that offer engineering, urban planning or consultancy services.

The European companies present in the delegation employ more than 1.3 million employees and reach more than €535 billion in turnover. The combined turnover of the companies taking part is greater than the GDP of Sweden.

The European companies present in the delegation together with the European business associations, national business associations, national research institutes, national governmental organisations and foundations employ more than 6.3 million employees and reach €1315 billion in turnover. The combined turnover of the companies and business associations taking part is almost as large as the GDP of Spain.

Seminar: “Update on the Legal Foreign Investment Regime in China and Chinese Investment Abroad” – November 8, 2016 – Brussels – organized in partnership with Linklaters

The legal environment for foreign companies in China has been undergoing some important changes in recent years. Most of these evolutions are directly linked to the implementation of China’s economic reform plan and of the rule of law, which is being promoted as an essential element thereof.

The Flanders-China Chamber of Commerce (FCCC) organized a seminar to discuss how these reforms affect daily operations of foreign companies in China.

Paul Van Hooghten, Partner and Head of the Corporate Practice at Linklaters, briefly discussed the recent challenges faced by Chinese companies when doing acquisitions in Europe.

Eric Liu, Senior Consultant of the Corporate/Mergers & Acquisitions Practice, based in Linklaters’ Beijing office, gave an update on the recent regulatory developments in Chinese investors’ outbound investment and the foreign investment regime in China.
Tom Vandebosch, Legal Counsel at Umicore, joined the panel discussion and shared the experiences of Umicore.

The seminar was presented by Eric Liu, who has been advising clients on their inbound and outbound M&A transactions in relation to China and their operations in China for more than 13 years.

His presentation dealt with the foreign exchange obstacles of Chinese investors when making outbound investments and the recent reform of the foreign investment laws in China.

The lunch-seminar took place on 8 November 2016 in the offices of Linklaters in Brussels, where a buffet lunch was also served..

For previous past events, see FCCC website.

AUTOMOTIVE

Tax raised on high-end cars

China has imposed an extra 10% tax on ultra high-end cars costing over CNY1.3 million, such as Lamborghini and Ferrari. The new tax was intended to "guide rational consumption" and promote energy-efficient vehicles, the Ministry of Finance said in a statement. Cui Dongshu, Secretary General of the China Passenger Car Association (CPCA), said: "The tax increase is a display of the government's attitude of advocating frugality." China already taxes imported vehicles at a high rate, slapping a 25% tax on all foreign cars shipped to China. The duties have driven overall car imports down two years in a row, with 850,000 vehicles imported in the first 10 months of the year, down 6.4% from 2015. But ultra high-end brands such as Ferrari have done well, with the Italian sports-car maker seeing a 26% surge in its second-quarter sales this year, with 160 units delivered. The new tax will potentially affect pricing for top of the range models from carmakers like BMW, Mercedes-Benz and Audi, as well as super high-end brands like Ferrari, Aston Martin and Rolls-Royce. Car company executives said wealthy

Chinese buyers were unlikely to be put off by a relatively marginal price hike on already costly cars. “The majority of our business will not be impacted,” a Beijing-based BMW Spokesman said.

- China began a pilot program to issue special license plates for new energy vehicles (NEVs) in five cities in an effort to promote such vehicles and relieve pressure on energy use and the environment. In addition to Shanghai, Nanjing and Wuxi in Jiangsu province, and Jinan in Shandong province, as well as Shenzhen in Guangdong province, have been chosen as pilot regions where people can apply for license plates exclusively for their NEVs. By October, the number of battery-electric vehicles in China had reached 555,000, of which more than 100,000 were in Shanghai.

FINANCE

Guidelines issued for overseas yuan loans

The People’s Bank of China (PBOC) has drawn up new guidelines to strengthen inspections of domestic companies that make yuan loans overseas. Lenders must register with local foreign exchange regulatory bodies in China before issuing loans overseas, and the amount of the loans should not exceed 30% of the net assets of the lender. It is the first time that the central bank has set up a ceiling amount for yuan-denominated loans that lenders are allowed to issue overseas. Issuing loans overseas is a rather simple way to move money out of the country. A Morgan Stanley report said that cross-border yuan flows picked up strongly to an average of USD28 billion per month through October this year, accounting for half of the total outflows, in contrast with declining offshore yuan deposits. That means that yuan flowing to foreign countries have been converted to foreign currencies rather than promoting the use of yuan offshore, the report said. Robin Xing, Chief China Economist with Morgan Stanley, said he foresees regulatory bodies introducing more measures to regulate capital outflows if the United States Federal Reserve (FED) increases rates, keeping up capital outflow pressures.

- The renminbi will stabilize against the U.S. dollar because the Chinese economy may have reached its bottom, Cao Yuanzheng, Chairman of BOCI Research and former Chief Economist of the Bank of China said. Although China experienced a continuous economic slowdown for 24 quarters, the growth of the Producer Price Index (PPI) has recently turned from negative to positive, showing an increase in Chinese companies' sales revenues and their ability to pay interest on loans. The possibility that the central bank will cut interest rates and reduce reserve requirements is significantly reduced.
- To ease market concerns over the weakening of the yuan and capital flight from China, Yi Gang, Vice Governor of the People’s Bank of China (PBOC), said in an interview with Xinhua that prospects for the U.S. dollar are uncertain but the yuan is a “stable and strong” currency and its depreciation against the dollar was less than that of the Japanese yen or the euro.
- China has spent more than USD800 billion of forex reserves in the past two years to prevent a free fall of the yuan exchange rate.
- ChIna will continue to improve its value-added tax (VAT) policies to further ease the tax burden of companies, the Chinese government said. The VAT system was rolled out nationwide in May to replace business tax after successful pilot projects. By the end of October, firms had saved CNY96.5 billion, according to a statement released after a central government meeting chaired by Premier Li Keqiang. All 26 economic sectors covered by the VAT program have seen their taxes reduced.
- The Ministry of Finance issued a guideline to regulate local government debt levels. It requires local governments to set their own limits to avoid breaking the debt ceiling approved by the National People’s Congress (NPC). The Ministry of Finance set this year's debt financing limit at CNY1.18 trillion – CNY780 billion worth of municipal bonds and CNY400 billion in construction bonds.
- China’s 133 city commercial banks recorded CNY26.28 trillion in total assets at the end of September, according to the China Banking Regulatory Commission (CVRC). The figure marks a rise of 4.29% from the second quarter. The banks’ outstanding loans totaled CNY9.83 trillion while deposits were CNY16.28 trillion. China’s city

commercial banks' combined assets now account for 12.09% of the banking system's total. Bank of Beijing, Bank of Shanghai, and Bank of Jiangsu were among the front runners in terms of assets.

- HSBC began issuing credit cards in China on December 5, the first time that the bank has done so on its own. HSBC had previously run a joint venture card business with Shanghai-headquartered Bank of Communications (BoCom), in which it holds a 19% stake, but stopped the venture to focus on its own activities. The bank has set itself a short- to medium-term target of three million credit card users.
- S&P Global Ratings says a financial crisis is unlikely in China within the next three years. China's total debt has quadrupled since 2007 to a record 250% of gross domestic product (GDP) by the end of last year. However, Christopher Lee, Credit Analyst at S&P Global Ratings, says: "The majority of those we polled believe China is unlikely to face a financial crisis over the next three years. They say there is still enough room to maneuver on policy, as the government tries to buy time between balancing the opposing priorities of growth against rising financial risks". The ratings agency defines a "financial crisis" as non-performing loans (NPL) exceeding 15% of total bank lending.

FOREIGN INVESTMENT

German companies in China say 2016 was difficult year

German companies in China are less confident about their performance this year but most remain optimistic in the future, a survey by the German Chamber of Commerce in China showed. This year is evaluated as "the most economically difficult year" in recent years, the Chamber said in its Business Confidence Survey, for which it interviewed 426 German companies in China. A record one in four respondents expect falling profits in 2016, while 39% forecast improved performance, the survey revealed. For next year, 46% of respondents said they are more optimistic and expect their company's turnover and profit to grow strongly, and 36% said they are neutral. "The optimism reflects the belief of German companies in the Chinese market and its recovery," said Bettina Schoen, Chairwoman of the Chamber's board. The survey also found that 54% of respondents said they are very positive or positive about the "Made in China 2025" strategy, similar to German Industry 4.0, with 32% being neutral. Some German businesses "consider the Made in China 2025 strategy to help improve their performance here." Rising labor costs and shortage of qualified staff are the main woes for most German firms in China, the Shanghai Daily reports.

Screening of overseas investment projects planned

China will tighten screening of overseas investment projects amid growing concern about capital outflows and acquisition risks, officials from the People's Bank of China (PBOC), the National Development and Reform Commission (NDRC), and two other government departments said. They reiterated China will stick to its strategy of "going out", which has been boosted by changing from an approval system to one of collecting records from companies investing overseas. Now, checks are being introduced in the push to combine high-quality offshore assets with precautions against risks. The country's investments in global markets in the non-financial sector surged by 53.3% year-on-year to reach USD145.96 billion between January and October, already surpassing the total for 2015 of about USD121.4 billion, data from the Ministry of Commerce show. But there are concerns about money outflows as China tries to keep money from illegally leaving the country, given the current global business atmosphere. "We have found certain companies and individuals transferred their assets illegally through investment activities in overseas markets in the past 12 months," Guo Song, Director General of the Capital Account Management Department of the State Administration of Foreign Exchange (SAFE) said. The Administration conducted special checks for illegal capital outflows in the first six months of the year and found 2,335 leads involving a total of USD8.4 billion. The focus will be on state-owned enterprises (SOEs), as companies from the private sector have more independence to make their investment decisions in global markets, the China Daily reports. Shanghai's municipal foreign exchange authority told bank managers in the city that all overseas payments under the capital account of more than USD5 million would have to be submitted to Beijing for special clearance before proceeding. A separate document seen by the South China Morning Post said to be the minutes of a central bank meeting on cross-border capital controls, said that from now until September of next year, Beijing would ban deals involving investment of more than USD10 billion; mergers and acquisitions (M&As) valued at more than USD1 billion outside a Chinese investor's core business; and foreign real estate deals by state-owned enterprises (SOEs) involving more than USD1 billion.

- The United States remained the top destination for China's overseas portfolio investment at the end of the second quarter, the State Administration of Foreign Exchange (SAFE) showed. China made about USD312 billion of portfolio investment, including investment in equities and bonds in overseas markets by June, with USD116.6 billion invested in the U.S., SAFE said. Hong Kong was second, attracting USD72.4 billion, followed by the Cayman Islands with USD20.3 billion. Total overseas portfolio investment was 11.11% higher from last year.

FOREIGN TRADE

China urges U.S. to abandon surrogate country approach in anti-dumping cases

China urged the United States to abandon a surrogate country approach it uses to calculate anti-dumping measures against Chinese exports. When China joined the WTO in 2001, it agreed to let WTO members treat it as a non-market economy when assessing dumping duties for 15 years. That gave trade partners the advantage of using a third country's prices to gauge whether China was selling its goods below market value. But that clause is due to expire on December 11, and China has demanded that countries abide by the agreement.

- China's foreign service trade deficit narrowed in October while the trade volume dropped, data from the State Administration of Foreign Exchange (SAFE) showed. The deficit stood at USD20.9 billion last month, down from USD23.3 billion in September and USD25.4 billion in August. Income from trade in services stood at USD22.3 billion last month, down from USD23 billion in September. China's service trade volume grew from USD362.4 billion in 2010 to USD713 billion in 2015. The country is aiming to increase its service trade volume to more than USD1 trillion by 2020.
- Walt Disney Co has ceased doing business with Dongguan Qing Xi Juantiway Plastic Factory and put Lam Sun Toy on notice following reports of labor violations. A staff of 120 people in 12 countries helps improve working conditions in over 30,000 factories, according to a company website. About 28% of those plants were located in China.
- The Chinese business community has called on the European Union to eliminate trade barriers against Chinese companies – and to fully recognize its international commitments under the World Trade Organization (WTO). "In order to maintain the two parties' healthy economic and trade relations, we hope that the European Union will uphold WTO principles and recognize its international commitments," said Wang Jinzhen, Vice Chairman of the China Council for the Promotion of International Trade (CCPIT), at a seminar.
- China's exports to the European Union were CNY1.82 trillion between January and October 2016, up 1% from the same period last year, according to the General Administration of Customs. Some 28 European countries invested USD8.36 billion in China in the first 10 months of this year, a 41.5% increase year-on-year. China's investment in the EU rose 0.03% year-on-year to USD5.58 billion between January and September in 2016.

HEALTH

Increase in hand, foot and mouth disease cases in Shanghai

An uncommon virus has caused a 74% increase in hand, foot and mouth disease (HFMD) cases in the past three months, health officials in Shanghai said. The main cause of this year's HFMD cases has been the Cox-sackievirus A6, which is different from the usual Cox-sackievirus A16 and enterovirus 71 strains, according to the Shanghai Center for Disease Control and Prevention. Shanghai reported a total of 21,782 HFMD cases in June and July this year, a 67.8% increase from last year. The number for November has not been released, but the SCDC estimates it could be double that of November last year.

IPR PROTECTION

China leading the world in innovation and IPR

China continues to drive the world's development of innovation and intellectual property in various sectors, according to the World Intellectual Property Indicators 2016, unveiled by the World Intellectual Property Organization (SIPO) in Geneva. Innovators around the world lodged some 2.9 million patent applications in 2015, representing a 7.8% increase over 2014 and the sixth consecutive year of rising demand for patent protection. Individuals and organizations in China filed more than 1.1 million patent applications last year, making China's State Intellectual Property Office (SIPO) the first to receive more than 1 million applications in a single year – including filings both from residents in China and from overseas innovators seeking patent protection in China. Computer technology took the largest share of published patent applications worldwide, accounting for 7.9%, followed by electrical machinery and digital communications. China's IP authority also received applications containing 569,059 designs, accounting for half of the world's total.

MACRO-ECONOMY

China's economy doing better than expected

China's economy continued to show signs of stabilization in November with two separate manufacturing surveys pointing to growth that was better than expected. The official Purchasing Managers' Index (PMI) stood at 51.7 last month, matching a previous high in July 2014 as the highest reading since April 2012, according to the National Bureau of Statistics (NBS). That compared to October's 51.2. The 50-point mark separates growth from contraction. The Caixin Manufacturing PMI, which focuses on medium-size companies not included in the official index, beat analysts' forecasts of 50.8, although it fell to 50.9 from October's 51.2. China's manufacturing sector has shown signs of picking up in recent months, buoyed by government spending on infrastructure and the housing boom. The purchasing price sub-index continued to increase by 5.7 points to 68.3, an indication of rising inflationary pressures on the supply side. Zhao Yang, Chief Strategist with Nomura Securities, said: "We think the improvement in new export orders might have been helped by yuan depreciation. As we expect the currency to continue depreciating, this bodes well for China's export outlook next year." Factory output quickened in November to 53.9 from 53.3 in the previous month. Total new orders rose to 53.2 from October's 52.8, while new export orders also increased to hit a 12-month high of 50.3, the Shanghai Daily reports.

- "With its huge consumption potential, China needs to improve the institutional environment to increase the flow of non-government capital to help upgrade consumer goods and increase supply," Zhao Lidong, an official of the National Development and Reform Commission (NDRC), said. The central government has issued guidelines to boost consumption of services to help improve people's lives, and contribute to economic restructuring and new growth. Tourism, elderly care, and the cultural, sports and health industries were earmarked as areas to benefit from investment, as well as education and training.
- Commodity prices in China plunged as the government imposed stricter rules to dampen speculation. Coking coal prices slumped 8% on the Dalian Commodity Exchange, as did iron ore prices. On the Shanghai Futures Exchange, steel rebar and zinc prices lost 7%. The plunge came as the Shanghai exchange set the daily trading limit of zinc to 1,500 deals and lead to 1,000 deals for non-clearing members. The bourse penalized seven investors speculating in coking coal and coke by barring them from trading.
- China Baowu Steel Group Corp, formed from the merger of Shanghai Baosteel Group Corp and Wuhan Iron & Steel Group, was launched in Shanghai on December 1, becoming the world's second-largest steelmaker, behind ArcelorMittal. Chairman Ma Guoqiang said the new group will lead in industrial growth and technological innovation through cutting overcapacity, structural reform, technological upgrading and green development.

- Beijing outstripped its closest economic competitor Shanghai to rank at the top of 295 cities nationwide in the China Integrated City Index, co-compiled by the National Development and Reform Commission (NDRC) and the Cloud River Urban Research Institute. Shenzhen, which ranked top in the environment category, was No 3 overall in the index, following Beijing and Shanghai.

MERGERS & ACQUISITIONS

Chinese companies complete 170 European acquisitions

Chinese dealmakers have completed 170 European acquisitions worth USD90 billion so far this year, according to analysis by UK business advisory firm Deloitte. That is 40% up on 2015 when 122 deals were finalized. Deloitte's analysis, which covers the period to November 22, did not include last month's announcement that Chinese online travel company Ctrip is buying UK-based travel search company Skyscanner for USD1.75 billion. Including the Skyscanner deal, acquisitions in 2016 were worth USD90.35 billion. “I think there's a strong view from Chinese business that they need to internationalize, with less reliance purely on domestic markets,” said Angus Knowles-Cutler, China Services Group Chairman for Deloitte. Deloitte found that Germany attracted the biggest number of acquisitions by Chinese companies, with 34 deals. The UK was second with 32, then France with 21. The average disclosed deal value was USD900 million, or USD350 million if the mega-deal involving ChemChina's USD43 billion takeover of Swiss pesticides and seeds group Syngenta, which is still subject to regulatory approval, is excluded. Chinese companies looked mainly to the UK to acquire stakes in financial services and the leisure industry, in particular hotels and football clubs, while they looked to Germany to invest in high-tech manufacturing. Knowles-Cutler predicted a strong 2017 in terms of investment, with increased emphasis on e-commerce. The number of Chinese deals in Europe this year greatly surpasses the 52 deals with disclosed deal value of USD8.2 billion which were achieved by European acquirers in China, the China Daily reports.

Obama blocks Chinese take-over of Aixtron subsidiary

Citing a national security risk, U.S. President Barack Obama has blocked a Chinese investor’s proposed take-over of an Aixtron subsidiary, a rare move that drew objections from Beijing. Obama ordered Fujian Grand Chip to “fully and permanently abandon” its proposed acquisition of Aixtron’s California-based subsidiary, Aixtron Inc. The decision upheld a recommendation from the Committee on Foreign Investment in the U.S. (CFIUS), which reviews foreign purchases of U.S. companies. It is only the third time Washington has blocked a Chinese corporate takeover on security grounds. The decision threatens to jeopardize the larger deal, which is under scrutiny by Berlin and is valued at USD740 million. The German government is reconsidering whether to allow the take-over of parent company Aixtron. “Although the U.S. procedure should have been concluded, this will have no effect on the German procedure,” said Korbinian Wagner, Spokesperson for Germany’s Federal Ministry for Economic Affairs and Energy (BMWi).

- GNC Holdings' talks on a potential sale have stalled following disagreements over the structure of a deal for the U.S. vitamin and supplement brand. The Pittsburgh-based retailer had held discussions with several Chinese suitors about a sale of the entire company. The Chinese firms expressed interest only in buying GNC's Asian business and did not want to take over its network of more than 6,700 retail outlets in the United States.
- A consortium led by private-equity firm Carlyle Group and Chinese conglomerate CITIC Group Corp has neared a deal to buy McDonald's Corp's stores in the Chinese mainland and Hong Kong for up to USD3 billion. The deal is likely to be signed before Christmas. McDonald's in March said it was reorganizing operations in Asia, bringing in partners as it switches to a less capital-intensive franchise model.

REAL ESTATE

China’s housing market expected to remain stable next year

China’s housing market is expected to be stable next year although regulatory risks remain high amid rapidly rising home and land prices, Moody's said in its latest forecast. "We expect the growth in nationwide contracted sales by value to be flat or slightly negative in 2017, against a high base of contracted sales for 2016," said Kaven Tsang, Vice President at Moody's. "We estimate sales growth of around 25% year-on-year for 2016." Tsang predicted that sales volume to fall by 5% to 10% next year as major cities in September and October imposed tightening measures, turning the sector outlook negative. But the drop will be partly offset by a modest rise in prices. If sales volume rises by above 10% annually on a sustained basis and in a low regulatory risk environment, the outlook could shift to positive, Moody's said. A sharp price decline seems unlikely in the next six to 12 months, given the relatively low inventory levels in high-tier cities, Moody's said. Developers' gross margin will stabilize next year due to reduced destocking pressure and improved selling prices, amid the strong contracted sales registered in the past 12 to 18 months, said Moody's, which rated 50 developers in China. Shanghai announced the downpayment for first-time home buyers would be raised to 35% from 30%. People who now don't own a house but have applied for mortgages from either commercial banks or public housing funds anywhere in the country will have to pay a minimum 50% downpayment as they are considered second-home buyers in the city from now on, the Shanghai Daily reports.

Better protection of home ownership under consideration

The Chinese government is studying new regulations to automatically extend "the term of the right to use land for the construction of houses upon expiration". Chinese citizens can own houses and apartments but the land on which they are build is usually leased for a period of 70 years. In Wenzhou, Zhejiang province, some residential land use rights will expire after 20 years. The Wenzhou government has asked homeowners to pay up to a third of their homes' value to renew land use rights to apartments they bought 20 years ago, triggering public concern across China. Courts across the country will retry controversial cases that might involve improper expropriation of land and houses in an effort to better protect property rights. "For wrongful cases in which governments failed to provide statutory or reasonable compensation for individuals whose property was expropriated, courts should start the retrial procedure after a review," said Teng Wei, Deputy Chief Judge of the Trial Supervision Tribunal at the Supreme People's Court (SPC). Teng said courts will carefully review important verdicts about property rights since the country's reform and opening-up in the late 1970s. "For wrongful ones, we'll correct and disclose them to the public as soon as possible," she said, without revealing how many cases, or which cases, will be reviewed. The guideline also calls for caution as judicial authorities freeze, auction or use other ways to handle property when illegal actions are suspected.

Evergrande raises stake in Vanke to 14%

Shares of China Vanke jumped to a record high at the start of trading on December 1 after rival China Evergrande Group raised its stake again, this time to 14%. The move reflects efforts by Guangzhou-based Evergrande to overtake state conglomerate China Resources as the second-largest shareholder of Vanke. Evergrande has become eligible to call for a meeting of Vanke shareholders thanks to a 10% stake it accumulated over August and September. Shenzhen-based Baoneng owns 25.4% of Vanke, while state-owned investment conglomerate China Resources holds 15.3%. Evergrande, controlled by China's ninth richest man, Hui Ka-yan, first began accumulating Vanke shares in July, displacing Anbang Insurance as Vanke's third largest shareholder after snapping up a 6.82% stake a month later. Wang Shi, Chairman of China Vanke, believes China Evergrande Group's recent purchases of his company' shares are not purely for investment. Analysts believe Evergrande's aggressive buying has been an effort to secure a seat on Vanke's board, which will give it a degree of control over the business.

- Shenzhen, Xiamen and Shanghai top the "most risky" list of 35 large and medium-sized Chinese cities whose real estate markets are said to be inflated, the Chinese Academy of Social Sciences (CASS) said in an annual report. Beijing, Nanjing, Tianjin, Zhengzhou, Hefei, Shijiazhuang and Fuzhou are also among the top-10 list. "The domestic housing market will in general cool and stabilize in 2017 accompanied by a new round of short-term correction," said Ni Pengfei, Director of the City and Competitiveness Research Center of CASS.

- Dalian Wanda Chairman Wang Jianlin said China's real estate market has bubbles but will not collapse, underlining that people migrating to cities will support demand and recent government moves to squeeze bubbles are taking effect. Wang had previously said that China was seeing the “biggest bubble in history”.
- Shanghai’s new housing market fell for the third straight month amid a wait-and-see attitude among buyers, although the average price again broke records. The area of new homes sold, excluding government-funded affordable housing, plunged 30.6% from October to 603,000 square meters – a 21-month low for Shanghai – in November, Shanghai Centaline Property Consultants Co said in a report. On an annual basis, the drop is 59.7%. The transaction volume fell to a 21-month low for Shanghai. New homes sold for an average CNY46,423 per sq m in November, an all-time monthly high for Shanghai.
- Hong Kong-listed developer China Evergrande Group agreed to sell its Qingdao project to Sunac Group for CNY3.66 billion. Shenzhen-listed Calxon Group, an indirect subsidiary 52.78% owned by Evergrande, had agreed to sell its entire stake in Qingdao Calxon Real Estate Development that is principally engaged in the development of the Qingdao Shidai City project. The project has a total site area of 1.06 million square meters and a total gross floor area of 1.79 million sq m for residential and commercial purposes.
- China’s property market continued to cool as total floor space of sold apartments in major Chinese cities in November suffered the first year-on-year decline in 21 months. Last month, some 19.9 million square meters were sold in 30 major cities, a 4.2% drop from the same period last year, according to the E-house China R&D Institute. On a monthly basis, the fall was 10.5%, with Beijing shedding 7.9% and Shanghai dropping 24.6%.

RETAIL

P&G, Yili and Mengniu top brands in FMCG

Procter & Gamble, Inner Mongolia Yili and China Mengniu Dairy topped the ranks of fast moving consumer goods (FMCG) companies that reached the most Chinese households in 2016, a survey found. The country’s two biggest dairy giants – Yili and Mengniu – each reached 146 million urban Chinese families in the 52 weeks ended October 7, meaning 88% of households in Chinese cities had purchased at least one item from the two brands, according to Kantar China. They were only second to Cincinnati-based P&G, the world’s largest consumer multinational that achieved a penetration rate of 93.4% with dozens of brands, including Crest, Head & Shoulders and Oral B. Swiss-based food manufacturer Nestlé was fourth, followed by Tinyi Holding’s Master Kong – the top selling instant noodle brand in China. Among the top 10 companies, Cola Cola and Master Kong were the only two whose market penetration had diminished in 2016, each dipping 0.9%. Chinese consumers yearning for a healthier lifestyle bolstered demand for premium dairy products, but reduced demand for instant noodles and beer.

SCIENCE & TECHNOLOGY

China’s largest missile maker aims for 20% of world’s small satellite launches

China Aerospace Science and Industry Corp (CASIC), the largest missile maker in the country, is taking aim at 20% or more of the small-satellite launch contracts in the world by 2020. “We estimate that from 2017 to 2020, we will launch at least 10 solid-fuel carrier rockets each year to send about 50 small satellites into orbit,” said Guo Yong, President of the CASIC Fourth Academy. That, he said, would account for “about one-fifth of the estimated total annual missions of solid-fuel rockets around the world in that period”. China’s other launch services provider, Great Wall Industry, has done 54 commercial launches for over 20 overseas clients since 1990, when it launched its first foreign-made satellite. All of those commercial missions used Long March rockets developed by Great Wall's parent company. Zhang Di, Vice President of the CASIC Fourth Academy and Chairman of Expace, said Expace plans its first commercial space launch early in 2017, using a Kuaizhou 1 to put three earth observation satellites made by state-owned Changguang Satellite Technology Co in orbit. More than 10 other Changguang satellites are in their storehouse waiting to be launched by Kuaizhou rockets. Expace charges around USD10,000 for each kilogram of payload, much lower than the average international rate of USD25,000 to USD30,000.

STOCK MARKETS

Chinese bid for Chicago exchange hits roadblock

A bid led by private Chinese company Chongqing Casin Enterprise Group to take a 49.5% stake in the parent of the Chicago Stock Exchange (CHX) is now unlikely to go ahead given stricter capital controls implemented by Beijing and existing strong opposition from U.S. lawmakers, analysts said. The proposed deal comes at an uneasy time as Beijing moves to tighten capital controls to curb the scale of overseas investments in order to cushion the sharp depreciation of the yuan. "My guess is it will be very difficult for them to get approval. The Chinese government is cracking down on capital outflow, particularly on companies that are buying assets offshore that are not in their core areas of expertise," said Shaun Rein, Managing Director of China Market Research. "Too many real estate and other firms are buying assets that they know nothing about and clearly this is viewed as a way to transfer yuan out and evade capital controls," he added. Zheng Zhigang, Professor of Finance with Renmin University of China in Beijing, said; "Taking up a U.S. stock exchange is in accordance with the national strategy that encourages companies to go global, but controversially, it is indeed capital outflow, furthermore, the bourse business is not related to the core business of the acquirer." Chongqing Casin Enterprise Group is a privately-held holding company, based in Chongqing, with investments in real estate, environmental protection and financial firms. It controls Shenzhen listed Casin Guoxing Property Development Co, the South China Morning Post reports. As of January, the Chicago Stock Exchange handled just 0.5% of U.S. trading, according to market researcher TABB Group. CHX's management would remain in place following completion of the deal. CHX hopes the acquisition will help it lure Chinese companies looking to list in the United States.

Shenzhen-Hong Kong stock connect debuts

The Shenzhen-Hong Kong stock connect was launched on December 5. Konka Group and HSBC shares became the first to be exchange through the connect scheme. It allows for foreigners to buy stocks on the Shenzhen exchange and Chinese to buy stocks in Hong Kong. The Shenzhen Stock Exchange has 385 consumption-related companies, accounting for 57% of the listed companies in this industry, and 196 information technology (IT) firms, comprising 78% of the industry. The 73 high-end manufacturing companies also take up 70% of the total listed companies in the industry. Of the 1,795 A-share stocks on the exchange, 881 – which span 109 sub-industries – will be included in the Shenzhen-Hong Kong Stock Connect.

The new economy is the key value proposition of Shenzhen stocks for global investors. According to HSBC Research, the IT sector's representative stocks include iFlytech, China's biggest speech-recognition technology provider, Hangzhou Hikvision, the country's leading video surveillance product supplier, Shunwang Technology, an internet café and online entertainment platform, Wangsu Science & Technology, a leading provider of content distribution network services (CDN), radio and satellite communication service provider Guangzhou Haige Communication, financial information platform Eastmoney, online travel service supplier Shenzhen Tempus, and Goertech, China's largest bluetooth earphones and 3D glass manufacturer, among others. Morgan Stanley gave five technology stocks "overweight" ratings. They are Wangsu Science & Technology, Goertech, Guangzhou Haige Communication, China Aviation Optical-Electrical Technology, which makes optical components and electrical connectors, and Shenzhen O-film Tech, a manufacturer of precision photo electricity thin film components.

Consumption-related industries are a bigger investing group, with typical stocks such as liquor producer Wuliangye Yibin, leading meat processor Shuanghui Group, Guangdong Wen's Foodstuffs, retailing giant Suning Commerce, home appliance supplier Midea Group, car maker Chongqing Changan Automobile, and Gree, the world's largest air conditioning manufacturer. Goldman Sachs Research picked Wuliangye Yibin and rival Jiangsu Yanghe Brewery as their favorites. Sectors that offer scarcity value, such as national defense, medical and health care, may also look appealing to global investors. AVIC Aircraft, China's leading military and commercial aircraft manufacturer, and Aerospace Hi-Tech, which owns independent intellectual property rights in several strategic high-tech fields, are representative of the high-end manufacturing sector, HSBC analysts said. Chinese pharmaceutical companies appear attractive too, such as Yunnan Baiyao Group, one of the country's largest traditional Chinese medicine manufacturers, and Dong-E-E-Jiao, the biggest producer of donkey-hide gelatin, the South China Morning Post reports.

Profits made by individual investors from the link between the Shenzhen and Hong Kong stock exchanges will be exempted from personal income tax for three years, but will still be liable for tax on dividends, according to a Ministry of Finance statement.

- China's most popular selfie application maker Meitu, which aimed to raise as much as USD710 million in what could be Hong Kong's largest technology initial public offering (IPO) since 2007, plans to list its shares on December 15. Meitu, a startup founded in 2008 by entrepreneur Cai Wensheng, has 450 million monthly active users. It also sells smartphones under the Meitu brand.
- Wu Jianguo, 48, a former stockbroker accused of fleeing Shanghai 14 years ago and leaving behind more than CNY70 million in debts has been charged with embezzlement. The client manager of a China Eagle Securities' outlet made counterfeit versions of his employer's official seals in late 1997 and used them to fool clients into thinking their money had gone into the company's accounts.
- State-owned telecommunications company China Unicom's shares rose over 7% at the market close on November 30 despite the company refuting media reports that the major Chinese internet companies Baidu, Alibaba and Tencent – collectively known as "BAT" – would invest as part of a mixed ownership reform. China's mixed ownership reform is targeted at state-owned enterprises in a bid to encourage competition, increase operating efficiency, and inject private capital into the enterprises. Unicom's total net profit in the past three quarters of this year fell 80.6% to CNY1.59 billion.
- Liu Shiyu, Chairman of the China Securities Regulatory Commission (CSRC), strongly rebuked some asset managers for their "barbaric" leveraged company buyouts by using illegal funds. "You have been barbarians and ultimately become robbers in the industry, and that is unacceptable," he said at a meeting of the Asset Management Association of China in Beijing.

TRAVEL

China approves Beijing-Tianjin-Hebei railway plan

China has approved a CNY247 billion railway plan to improve transport links between the capital Beijing, the port city of Tianjin, and the neighboring province of Hebei, part of plans to integrate the three areas into a mega-city. The plan will span nine projects that total 1,100 kilometers in length, the National Development and Reform Commission (NDRC) said. The projects will be built over the years to 2020, and are part of a wider plan that will stretch to 2030. The current population of the three areas is estimated at around 110 million, and by the time the plan is complete, the so-called Jing-Jin-Ji project will span 212,000 square kilometers, or more than twice the size of South Korea. The expanding railway networks have cut commute times in the region significantly, said Steven McCord, Research Director at real estate service firm Jones Lang LaSalle. "It was not possible to go all the way from Beijing to Binghai, and that's a one-hour trip now. It's now also possible to go between Tianjin and Tangshan in less than 30 minutes, which was previously a several hours' drive," he said. "I think there are few places in the world that have that kind of integration. It has made it much easier to do business".

- China Railway Rolling Stock Corp (CRRSC), the country's largest railway vehicle and equipment manufacturer, is in talks to take over Czechia's Skoda Transportation. The Czech company mainly produces trams, electric locomotives, carriages and electric buses, as well as traction motors or complete drives for traffic systems. If the deal is sealed, this will be the first time the Chinese group has taken over a full-set rail transit equipment manufacturer. This move will further extend CRRC's presence in European markets. The global railway market is now valued at €162 billion, of which CRRC accounts for 15%.

VIP VISITS

President Xi meets Henry Kissinger in Beijing

China hopes its relations with the United States will "move ahead in a sustainable and stable manner", President Xi Jinping said while meeting with Henry Kissinger. The former U.S. Secretary of State came to Beijing amid uncertainties over U.S. President-elect Donald Trump's China policy. Kissinger, 93, who helped arrange the groundbreaking visit to China in 1972 by U.S. President Richard Nixon, is believed to be playing a key role in mapping out Trump's foreign policy. Noting that he had met with U.S. President Barack Obama in Lima, Peru, and talked with Trump by phone last month, Xi said that the two countries now face a key moment. Xi said that the common interests of China and the U.S. far outweigh their disagreements, and the two countries should handle their disputes properly in a constructive way.

- Hungary has decided to speed up the visa procedure for Chinese travelers to attract more Chinese investment and tourists. Foreign Minister Wang Yi, during a joint news conference with visiting Hungarian counterpart Peter Szijjarto in Beijing, announced that Chinese business travelers will be able to get a two-year, multiple-entry visa within 24 hours after applying. Chinese tourists will be able to get a visa within 72 hours. China and Hungary were holding the first meeting of the bilateral work group on the Belt and Road Initiative in Beijing. Infrastructure interconnectivity, trade and financing were among the key topics.

ONE-LINE NEWS

- Chinese companies have seen a 969% increase in cybersecurity incidents since 2014, following the country's rapid adoption of connected devices and a dip in regional cybersecurity budgets, according to a survey by PricewaterhouseCoopers (PwC). In 2014, only 241 security incidents were reported, compared to 2,577 so far this year.
- The business dealings of all Beijing city officials' spouses and children will be investigated by the end of 2017, the official Xinhua News Agency said, as part of a push to restore party discipline and battle graft.
- Zhou Benshun, former Party Secretary of Hebei province, has pleaded guilty to taking bribes of more than CNY40 million. A sentence is to be handed down later. The case was heard at the Xiamen Intermediate People's Court in Fujian province. The companies accused of bribing Zhou included the Hunan Tongli Real Estate Co and Hunan Tieyin Real Estate Development Co.
- China has launched a pollution permit system. Environmental protection bureaus will issue emission permits to factories detailing the types and amounts of pollutants they are allowed to discharge. The move is aimed at improving overall environmental quality through a targeted approach to managing polluters.
- Fosun Group, China's biggest privately-held conglomerate, has spun off its tourism and entertainment assets into Fosun Tourism and Culture Group, a move that could see the listing of the business. Fosun Tourism and Culture Group, the new unit, will have among its assets French resort operator Club Méditerranée, said Qian Jiannong, Vice President of Fosun Group.
- Local governments in China are moving to stop the tradition of heavy drinking at official functions. Many have banned alcohol, such as the strong spirit baijiu, and expensive drinks at official lunches.
- Construction has started on a new campus for German and French schools in Shanghai's Yangpu district to meet the rising demand of expats for quality education for their children. The 50,000-square-meter Shanghai Eurocampus will open in 2018 to offer education from kindergarten through high school for 2,000 German- and French-speaking children. The annual tuition fee is about CNY140,000.

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Membership rates for September-December 2016 (excl. VAT):

- SMEs: €140
- Large enterprises: €300

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- SMEs: €385
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