法兰德斯中国商会 FCCC VCKK
FLANDERS-CHINA CHAMBER OF COMMERCE
VLAAMS-CHINESE KAMER VAN KOOPHANDEL

NEWSLETTER | 20 FEBRUARY 2017

Quotes of the week — Eduardo Vargas

Announcements — EY Global Tax Alert: China issues guidance to encourage foreign investments

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FCCC/EUCBA ACTIVITIES

Getting Your Food & Beverages into China – What it Takes – 22 February 2017 – Ghent

The Flanders-China Chamber of Commerce (FCCC) and the EU SME Center in Beijing are organizing a seminar on 'Getting Your Food & Beverages into China – What it Takes' on 22 February 2017 from 09h00 to 12h00 at Het Pand, Onderbergen 1, 9000 Ghent.

Get to grips with what it takes to prepare your market approach and start selling your food and beverage (F&B) products in China. Learn how to navigate China's import regulations and how to build and maintain a strong distribution network. Understand the regulations governing the food and drink market in China and the impact of the new Food Safety Law. Put into practice useful tips and work out your own cross-border strategy for China.

This half-day workshop will focus on:

- Consumer behaviour, trends in the F&B market.
- Distribution channels.
- How to develop a business plan to get your F&B products onto Chinese shelves.
- The New Food Safety Law – what this means for your business.

Tentative Agenda

08:30 – 09:00 Registration
09:00 – 09:10 Opening remarks by Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce
09:10 – 09:30 Insights into the world's largest F&B market
- Chinese consumers and tastes
- Growing trends

09:30 – 10:20 Getting ready for export
- Preparing your market approach – the 10 steps you should follow
- Understanding the registration process
- On-trade vs. Off-trade
- Cross-border commerce

10:20 – 10:50 Coffee Break
10:50 – 11:15 How to find the right importer and distributor?
- The role of each player in the supply chain
- Expanding distribution networks in China

11:15 – 11:45 Food safety in China
- The new food safety law – status update
- The real impact for exporters

11:45 – 12:00 Case studies showing the do's and don'ts of selling F&B in China
- Q&A + wrap up

Registration fee
Members of the Flanders-China Chamber of Commerce: 180 € (excl. VAT)
Non-members: 240 € (excl. VAT)

Click here to sign up for this event.

About the Speaker

Rafael Jimenez, Business Development Advisor
China expertise: market entry strategy, start-ups, SME business planning, streamlining costs, new business channels and local partners. With more than six years' hands-on experience in managing businesses in China, Rafael offers advice for European SMEs in developing practical market entry strategies in the country. Following a career at a senior level within the F&B and ICT industry, he arrived

in China in 2009 as Director of a Spanish F&B company involved in the restaurant and trade business. He helped the company set up a Wholly Foreign Owned Enterprise (WFOE) in China, ran operations for three years and led a team of more than 100 employees. More recently he was Shanghai Office Director at a Management Consultancy Firm. Born in Spain, Rafael holds a Bachelor of Physics and has three sons.

"Understanding China's Next Move" – One Day China Immersion Programme – Wednesday, 22 March 2017, 09h00 – 17h00 – Ghent

The Flanders-China Chamber of Commerce, the Cheung Kong Graduate School of Business and the Province of East Flanders are organizing the One Day China Immersion Programme: "Understanding China's Next Move". This programme will take place on Wednesday March 22, 2017 at the Provincial House, Gouvernementstraat 1, Ghent.

Understanding China's Next Move will give European executives the latest China market insights and explain how to do business with a changing China. The course contains the following 5 modules:

- Win in China - Formulas and Business Models (with case studies and group discussions): Analysis of multiple business models across a variety of industries will demonstrate exactly what it takes to establish your brand, grow your consumer base and 'win in China'
- Chinese Consumer Behaviour and Digital Marketing in China: This session will analyse the latest trend of Chinese consumer behaviours in the mobile internet era and how it differs from Western consumers. We will also study how to capitalise on the business opportunities that are presented by the unique consumer behaviours in China
- Cross-cultural Management under Chinese Context: It is essential to understand how to work with and manage a cross-cultural team that do business with China to ensure effectiveness and results
- Negotiation with the Chinese: Often viewed as difficult, mystical and unpredictable, with an in-depth understanding of Chinese negotiating philosophy, culture and tactics, Western executives could develop a complementary strategy to win

Schedule

08:30 - 09:00 Introduction by Gwenn Sonck, Executive Director
Flanders-China Chamber of Commerce
09:00 - 10:15 Win in China: Formulas and Business Models
10:30 - 12:00 Chinese Consumer Behaviour and Digital Marketing in China
12:00 - 13:00 Networking Lunch
13:00 - 14:30 Cross-Cultural Management under Chinese Context
14:45 - 16:15 Negotiation with the Chinese
16:30 - 17:00 Award certificate from CKGSB, Flanders-China Chamber of Commerce & Province of East Flanders

Register here

About the speaker

Bo Ji, Chief Representative of Europe & Assistant Dean of Global Executive Education

Bo is currently the Assistant Dean & Chief Representative for Europe at Cheung Kong Graduate School of Business (CKGSB), a top business school with more than 10,000 chairman/CEO level alumni in China. Bo had an over-20-year successful business career in Global Business Development, Innovation, Strategy, Supply Chain Management, M&A, etc. He served as the senior executive at the headquarters of many Fortune 500 companies such as Monsanto, Cargill, Pfizer, Wrigley and Mars. He is also a well sought conference speaker.

Combining his extensive business experiences and in-depth knowledge, Bo has been teaching EMBA/MBA at some of the world's most prestigious business schools such as INSEAD, Esade, MIT, New York University, Hong Kong University of Science and Technology, Technology University of Munich, Tsinghua University, CKGSB, Zhejiang University, Sun Yat-Sen University, Shanghai Jiaotong University and Taiwan's National Chengchi University etc. In addition, Bo also offers advice to Chairmen and CEOs. He is also a frequent speaker at renowned international conferences, forums, TV media and annual corporate meetings.

For more information, contact
Liping Wan, CKGSB: lpwan@ckgsb.edu.cn
Gwenn Sonck, Flanders-China Chamber of Commerce: gwenn.sonck@flanders-china.be

Member price: €450/ticket
Non-member price: €500/ticket

ADVERTISEMENT AND SPONSORSHIP

Advertisement and sponsorship opportunities 2017

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

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- Your logo on the electronic newsletter and a 200-word profile of China activities

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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

PAST EVENTS

China Seminar: Update on the Economic & Financial Landscape and the Internationalization of the RMB – 14 February 2017 – Ghent

The Flanders-China Chamber of Commerce (FCCC) and the Province of East-Flanders organized a seminar focusing on 'An Update on the Economic & Financial Landscape and the Internationalization of the RMB'. This seminar took place on 14 February 2017 in Ghent.

Speakers were Jason Lee, General Manager KBC Bank NV Shanghai Branch, and Bernard Van Hees, General Manager KBC Bank NV Hong Kong Branch. In recent months, the growth of the Chinese economy appears to have stabilized, albeit that growth is not even across all sectors. Jason Lee provided his views regarding the outlook for the China economy and how various sectors are affected differently. He also provided an update of the financial landscape and the related impact for foreign companies active in China. To conclude, Bernard Van Hees provided an update on the internationalization of the RMB and the related opportunities or threats. A question and answer session concluded the event.

FCCC Chinese New Year Reception – 6 February 2017 – Brussels

On 6 February 2017, the Flanders-China Chamber of Commerce celebrated Chinese New Year at KBC Bank in Brussels. Speakers at the reception included:

- Mr Stefaan Vanhooren, Chairman, Flanders-China Chamber of Commerce
- His Excellency Mr Qu Xing, Ambassador of the People's Republic of China in Belgium
- Mr Jochum Haakma, Chairman, EU-China Business Association
- Mr Philippe Muyters, Flemish Minister for Work, Economy, Innovation and Sport

Special thanks to KBC Bank and Golden Sponsors: ZTE, Maasmechelen Village.

The reception was attended by more than 200 officials, businessmen and press.

Pictures of the event will soon be available at the FCCC website: www.flanders-china.be

Exclusive Dialogue with European Commissioner Malmström – 6 February 2017 – Brussels

BUSINESSEUROPE, the European Union Chamber of Commerce in China and the EU-China Business Association organized an exclusive dialogue with the European Commissioner for Trade Cecilia Malmström and the European Chamber of Commerce in China President Jörg Wuttke on 6 February 2017 at BusinessEurope in Brussels.

The purpose of this event was to take stock of the most important developments in the EU-China relations and how this affects EU businesses. Concurrently, this event served as an opportunity for the Chamber to present its annual position paper on China.

Following an introduction by Mr Markus J. Beyrer, Director General, BUSINESSEUROPE, Ms Cecilia Malmström, European Commissioner for Trade delivered a speech on EU-China trade and investment relations. Mr Jörg Wuttke, President, European Union Chamber of Commerce in China spoke about the Chamber’s annual position paper. The speeches were followed by a moderated panel and Q&A session. Mr. Jochum Haakma, Chairman of the EU-China Business Association presented the conclusions of the event.

“China can demonstrate leadership when needed. We saw this during its G20 chairmanship, in China’s support for the Paris Climate Agreement, and in President Xi’s speech at Davos. Now we ask China to take charge of rebalancing its relationship with the EU, to reciprocate on market access and investment facilitation, and to play its part to uphold the multilateral trading system”, Markus J. Beyrer, Director General of BusinessEurope, said. He welcomed Commissioner Malmström, who highlighted that Europe’s offer to China is one of open trade, but free and fair trade based on values and reciprocal market access. She set out the opportunities from strengthening trade and investment relations with China, a market that accounts for one-fifth of EU goods imports and one-tenth of its exports. The Commissioner quoted with approval recent statements by President Xi of China – to develop free trade and investment, promote liberalization and facilitation, and say “no” to protectionism. However, she noted, the challenge for the year ahead will be to ensure that “the country walks the talk”, with “rhetoric matched by reform”. The Commissioner noted the opportunities for both sides of the bilateral investment agreement currently under negotiation; but also set out the importance of rule of law.

Mr Jörg Wuttke said that hopes for further opening up were not met by reality as according to AmCham, 81% of American companies in China feel less welcome. The good news is that China has a big potential for reform as it is lagging in openness compared to all other major economies.The EUCCC President mentioned that at Davos Chinese President Xi Jinping reaffirmed the importance of globalization, which was beneficial to China. The State Council again emphasized that China has to open up more in 20 areas. Mr Wuttke joked that if this plan would be implemented, there wouldn’t be any need anymore for a chamber of commerce. He further warned that China’s economic development was adding to the debt burden, which has reached 270% of GDP. Chinese investment into Europe could have been much higher, but the Chinese government worried about capital flight and falling foreign exchange reserves, he added. The European Chamber plans to publish a new paper in March about China wanting to become a global champion in several sectors. Finally, Mr. Wuttke called on the European Commission and the member states to emphasize reciprocity in dealing with China.

Mr Jochum Haakma, Chairman of the EU-China Business Association (EUCBA) also emphasized the opportunities for European and Chinese companies offered by the One Belt One Road (OBOR) initiative and the EU-China investment agreement. He mentioned that China – although it has a challenging business environment – offers significant potential to European companies. One example is the infrastructure projects to be constructed in the framework of the Belt and Road initiative. “One Belt One Road” is linking China with Europe, facilitating and promoting trade and investment.

“The ongoing negotiations for an EU-China Comprehensive Agreement on Investment will liberalize investments and eliminate restrictions for investors in each other’s markets,” Mr. Haakma said. Like Mr. Wuttke, he emphasized that reciprocity is very important.

The EU-China Business Association is the EU-wide federation of business organisations in the EU promoting business relations with China. The Flanders-China Chamber of Commerce holds the secretariat-general and vice-chairmanship of the EUCBA.

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AUTOMOTIVE

Germany urges China to give fair foreign access to its car market

Germany wants China to create a fairer business environment for foreign companies, especially German carmakers seeking to tap into Beijing's drive for greener cars, Foreign Minister Sigmar Gabriel told his Chinese counterpart Wang Yi. German companies have long complained of obstacles to investment and acquiring local firms in China. "China has again promised that it wants to proceed on the path of market liberalization and reforms," Gabriel said after talks with Wang in Bonn, where foreign ministers from the G20 top economies were meeting. China surpassed the United States last year to become the largest maker of pure electric cars thanks to government incentives to promote the switch from petrol to electricity as the country battles heavy pollution. Sales of battery electric and plug-in hybrids increased 60% from January to November to 402,000 vehicles. By 2020, China wants five million plug-in cars on its roads. Volkswagen signed a deal with China's Anhui Jianghuai Automobile (JAC Motor) in September to explore making electric vehicles in a new joint venture.

- Passenger car sales fell 1.1% in January from a year earlier to 2.2 million, compared with December's 9.1% growth, according to the China Association of Automobile Manufacturers (CAAM). Total vehicle sales, including trucks and buses, rose 0.2% from a year earlier to 2.5 million. SUV sales rose 10.5% in January to 881,000, while sedan sales shrank 3% to 1.1 million. Sales of lower-priced Chinese-brand SUVs rose 15.2% to 543,000. The earlier timing of the Chinese New Year holiday distorted the figures compared to last year.
- Beijing banned high-emission vehicles within the Fifth Ring Road on workdays starting from February 15, aiming to cut pollution and improve air quality. High-emission vehicles fall under the National I and II emission standards, most of which have been on the road for 10 to 13 years. Such cars accounted for less than 10% of all cars in Beijing, but their emissions account for more than 30%. There are 5.7 million cars in Beijing.
- Great Wall Motor, one of the major sport utility vehicle (SUV) manufacturers in China, plans to launch its first high-end SUV brand in May. Great Wall Motor's Chairman Wei Jianjun said the Wey model will be priced between CNY150,000 and CNY200,000, about CNY60,000 more than its popular Haval models. Sales of its star product, the Haval H6, have ranked first in the domestic SUV market for four consecutive years, with sales of 580,700 vehicles last year.

FINANCE

China and U.S. try to avoid confrontation over the yuan

China hopes that other nations will see the renminbi's exchange rate "in a right manner", Foreign Ministry Spokesman Feng Shuang said, in response to news that Washington may be exploring ways to avoid a confrontation with Beijing over currency, and Steven Mnuchin was sworn in as U.S. Treasury Secretary. Analysts said dialogue between China and the U.S. will be of vital importance during the next two months, given that Washington is set to issue its next report evaluating the foreign exchange practices of major trading partners on April 15. China has never undervalued its currency to get an export advantage, China's Foreign Ministry said. The Washington Post speculated that the U.S. administration would avoid, at least for now, accusing China of manipulating its currency. U.S. President Donald Trump had threatened during his election campaign to label China a currency manipulator, but he has softened his tone since then. Labeling China a currency manipulator could lead to trade conflicts, hurting everyone. Li Haidong, Professor of U.S. studies at the China Foreign Affairs University, said that Beijing and Washington are likely to engage in tough negotiations in coming months, given that the label of currency manipulator would harm China's trade interests. Trump may still label China a currency manipulator if negotiations break down, he added, as reported by the China Daily.

- China will not block money flows out of the country as authorities vow to open further the financial sector. “Once opened, the window won’t be shut again,” Pan Gongsheng, Director of the State Administration of Foreign Exchange (SAFE) and Deputy Governor of the People’s Bank of China (PBOC) said. The priorities are continuing financial reforms and opening up while preventing risks and maintaining stability of markets, he added.
- While fluctuations will continue, China's yuan will stabilize around the current level as China's economy improves, and the country's relations with the United States advance, said Stephen Simonis, Chief Currency Consultant at FXDD Global.
- China’s direct investment in fintech in 2016 tripled from the previous year to GBP6.5 billion, pointing to a huge market potential in new technologies in online finance, blockchain and other applications, EY said in a report. The UK plans to strengthen cooperation with China, especially Shanghai, as one of the international financial centers, on fintech covering new business models and cross-border investment to establish a “UK-China Fintech Bridge,” said John Edwards, British Consul General in Shanghai.
- Key credit figures released by the People’s Bank of China (PBOC) reflect Beijing's intention to keep the prudent monetary policy, with little likelihood of further easing. Total social financing registered a record high CNY3.74 trillion in January, up from CNY1.63 trillion the previous month. Chinese banks issued CNY2.03 trillion in new yuan loans in January, compared with CNY2.5 trillion in the same period last year. Medium to long term loans to individuals issued by Chinese banks, mostly mortgages, reached CNY629.3 billion in January, making up only about 30% of total new yuan loans, compared with 41% the previous month.
- Nearly a million individuals and companies blacklisted for ignoring civil court rulings, including paying fines, have resolved their cases in the face of travel and business restrictions since mid-2013, the Supreme People's Court said. Defaulters were blocked from purchasing flight or high speed rail tickets and loan applications. 6.15 million attempts to purchase flight tickets, along with 2.22 million attempts to buy seats on the high-speed rail network, were blocked.
- The premium growth of insurers is set to slow this year. Total insurance premiums reached CNY3.1 trillion last year, up by 27.5% from the previous year, according to the China Insurance Regulatory Commission (CIRC). “The growth will get slower this year as deleveraging will be a main theme and regulation will be tighter,” Duan Haizhou, a statistics official with the CIRC, said. The total profits of Chinese insurers were about CNY200 billion last year, down 33% year-on-year. The rate of investment returns by insurance funds was 5.66% last year, down from 7.56% in 2015. The volatility of the stock market resulted in a decline of about CNY200 billion in equity investment gains.
- China’s central bank sold the least amount of foreign exchange in five months in January, reinforcing views that capital outflows have eased. Net forex sales by the People’s Bank of China (PBOC) amounted to USD208.8 billion last month. The State Administration of Foreign Exchange (SAFE) said commercial banks’ sales of foreign currencies fell to a three-month low of USD19.2 billion. China’s forex reserves fell to below the USD3 trillion level in January for the first time in nearly six years, but the drop eased from recent months, suggesting capital flight is slowing.

FOREIGN INVESTMENT

Shanghai eases rules on foreign companies’ regional headquarters

Shanghai has further eased the rules to help foreign-invested companies set up regional headquarters to transform the city into an economic and technological innovator. The city government said the new rules aim to enhance Shanghai’s status as an international financial and trade center, and boost the city’s technological innovation capability. The new rules will help more organizations to set up regional headquarters and centralized functions in Shanghai, which will allow them to facilitate their money management, entry and exit, and recruitment of talented personnel. Branches of a foreign-invested company will be able to apply for benefits, and capital requirement of the parent company will be cut to USD200 million from USD400 million. The registered capital of the branch and the working capital allocated by the parent company should both exceed USD2 million. Employees of headquarters can enjoy easier entry-exit procedure for business trips, assistance in education for their children and medical services. At the end of 2016, Shanghai had 580 regional headquarters, 330 investment firms and 411 R&D centers set up by foreign-invested companies, the Shanghai Daily reports.

- China's foreign direct investment (FDI) and outbound direct investment (ODI) both fell in January due to a high comparison base and the holiday effect, the Ministry of Commerce (MOFCOM) said. China's FDI dropped 9.2% year-on-year in January to CNY80.1 billion. Last month, 2,010 new foreign companies were established, slightly up by 0.1% from a year earlier. Non-financial ODI dived 35.7% to CNY53.3 billion largely due to an 84.3% fall in property purchases.

FOREIGN TRADE

China exports more to markets along Belt and Road

China's exports to markets along the Belt and Road Initiative (OBOR), including Russia, Malaysia and India, surged in January. Exports to the three countries grew 39.1%, 22.8% and 18.1%, respectively, on a year-on-year basis, according to the Ministry of Commerce (MOFCOM). Upgraded consumption, manufacturing capacity and infrastructure cooperation have become the biggest highlights of projects related to the trading route initiative. Exports to the European Union climbed 13.6% in January, while exports to the United States and Japan rose 17.2% and 18%, respectively. China's foreign trade rose 19.6% year-on-year to CNY2.18 trillion in January. Wang Dongtang, Deputy Director General of the Ministry of Commerce's Department of Foreign Trade, said: "Uncertain and unstable factors are increasing. Difficulties facing China's foreign trade are not short term." The rise of trade protectionism and sluggish overseas demand are potential curbs on China's future export growth, he added. However, Wang said, China's foreign trade fundamentals have not changed and the country still retains advantages in this regard, the China Daily reports.

HEALTH

Superbugs rampant in China's poultry products

Drug-resistant bacteria can be found easily in China's poultry production chain – from hatcheries to supermarkets – according to recent research by scientists from China, the U.S. and Europe, underscoring the need for Beijing to control the use of antibiotics. Superbugs are bacteria that are resistant to antibiotic drugs. A British government report last year estimated that antibiotic resistance would kill 10 million people yearly around the globe by 2050, more than cancer. More than 87% of the chicken meat sold in supermarkets in Shandong province was contaminated by a superbug gene called mcr-1, according to a paper published in the journal Nature Microbiology. Bacteria carrying the mcr-1 gene was resistant to colistin, one of the "last-resort" antibiotics used only after the failure of other drugs. The researchers also detected the gene of another superbug strain, ndm-1, which originates in India and was rarely reported in poultry in China before. The findings suggested that "the level of environmental contamination is underestimated", the South China Morning Post reports.

- Up to 79 people died from H7N9 bird flu in China last month, stoking fears that the spread of the virus this season could be the worst on record. January's fatalities were up to four times higher than the same month in past years, and brought the total H7N9 death toll from the virus to 100 since October, according to the National Health and Family Planning Commission. Chinese chicken prices sank to their lowest levels in more than a decade. Meanwhile, Chinese authorities have approved human trials of four vaccines for the H7N9 bird flu virus.

IPR PROTECTION

IP judicial innovation forges ahead

A growing number of lawsuits, as well as a reformed judicial system and enhanced protections, are some of the leading features of China's current intellectual property business, said officials, scholars and company executives at a recent forum in Beijing. Fan Liming, Vice President of Shanghai-based IP service provider Sinofaith, said IP judicial innovation in China has seen some “exciting signals” in recent years, such as the establishment of three dedicated IP courts and the promotion of a mechanism in which criminal, civil and administrative IP cases are heard at a unified division in court. IP rights infringement is also being punished more, he added. A guideline issued by the Supreme People's Court in November 2016 called for increased compensation from rights violators as a means of enhancing protection. In a patent ruling made by the Beijing Intellectual Property Court in December, a defendant was ordered to pay a total of CNY50 million in damages to the patent right owner, the highest damages amount in the history of the court. The compensation included CNY1 million in litigation costs, and it was the first time that a Chinese IP court had ruled on hourly attorney fees in a judgment. The Beijing IP court received 10,638 lawsuits in 2016, an increase of 11.7% from a year before, and it adjudicated on more than 8,000 cases, a rise of 49.3%.

- Alibaba Group has filed a lawsuit against Hangzhou Wangwei Technology Co, a domestic intellectual property right agency, in the Beijing Dongcheng District People’s Court. Alibaba alleges the company made malicious or false IPR complaints against Alibaba vendors, such as providing fake IPR documents or trademark proofs. Alibaba is asking for CNY1.1 million in compensation and an apology from Wangwei Technology.
- Police in eastern China have seized more than CNY800 million worth of counterfeit cosmetics, including popular high-end brand names like Chanel, Christian Dior, Lancôme and Estée Lauder. Fifteen suspects have been arrested in Taizhou, Zhejiang province. The goods seized had a street value of around CNY827 million.
- U.S. President Donald Trump has won the right to use his name as the trademark of building construction services in China, a move which experts said was in line with relevant Chinese laws and should not be interpreted as an indication of improved bilateral relations. The 10-year right to use the trademark took effect on February 14, three months after the State Administration of Industry and Commerce (SAIC) announced on November 13 that Trump's application for the "TRUMP" trademark had passed a preliminary review.

MACRO-ECONOMY

Steel industry capacity increases despite cuts

China’s steel industry saw an increase in operating capacity last year despite a government push to tackle excess production, Greenpeace and Chinese consultancy Custeel said, adding that most steel mills shut down during the drive last year were already idle. The cuts were offset by resumed production and newly added output, leading to a net increase of 36.5 million tons in operating capacity. The National Development and Reform Commission (NDRC) announced crude steel production increased 1.2% to 808.37 million tons last year, against a 2.3% drop in 2015. China, which accounts for about half of global steel output, has pledged to cut annual production by 100 million to 150 million tons by 2020. Steel exports have also become a source of friction with some of China’s biggest trade partners, who accuse it of dumping cheap products in their markets, threatening local jobs. The central government said it cut 85 million tons of capacity last year, nearly double its original target, but the report added that 74% of the retired plants were no longer active. Some 23 million tons of operating capacity was cut, but the reduction was dwarfed by the 54 million tons of resumed production and 12 million tons of new capacity that came online, the report said. “Impressive as they seem, China’s current steel capacity reduction targets won’t suffice to limit oversupply, as local governments maneuver to shield zombie steel mills and minimize the impact of the policies,” Lauri Myllyvirta, an expert on energy and pollution at Greenpeace, said, as reported by the South China Morning Post.

- China's Consumer Price Index (CPI) rose 2.5% in January, the fastest year-on-year increase since May 2014. It was higher than December's 2.1% and market expectations of 2.4%. The Producer Price Index (PPI) surged by 6.9%, the most since August 2011. Sheng Guoying, National Bureau of Statistics Analyst, attributed both increases to a low base last year, with the Lunar New Year further driving up consumer prices. Food prices rose by 2.7% year-on-year in January. However, on a month-on-month basis, PPI growth moderated in January, suggesting the inflation momentum may not be as strong.
- China's machinery industry is likely to see stable but slower growth in 2017 due to weak demand amid downward economic pressure. The annual growth of the sector's value-added industrial output may slow to 7% in 2017 from 9.6% in 2016, while the business revenue increase would slow to 6% from 7.44% last year, according to the China Machinery Industry Federation.
- China is capable of achieving steady GDP growth this year despite global uncertainties, according to Standard Chartered Bank. "We expect China to continue to set its GDP growth target at about 6.5% for 2017, and the world's second-largest economy could grow by 6.6% this year," said Ding Shuang, Chief Greater China Economist at Standard Chartered.
- China will develop 10 new state-level high-tech industrial development zones, the Ministry of Science and Technology said. The majority are upgrades from provincial ones in central and western China, some of which will focus on specific industries and integrate with the Belt and Road Initiative. China's high-tech industrial development zones were first launched in 1988 to promote the development of high-tech industries. China now has 146 State-level high-tech zones. From 2011 to 2015, average revenue for all state-level zones combined grew 17.4% a year. Last year, projected revenue was CNY28.3 trillion, an 11.5% increase over the previous year.
- China must fight against data fraud and improve the quality of the country's economic data, Ning Jizhe, Director of the National Bureau of Statistics (NBS) said. His comments echoed Vice Premier Zhang Gaoli's call to improve the quality and reliability of economic data and to recognize the "great harm" that comes from fraudulent statistics.
- China has no plans to launch new policies for the manufacturing industry, despite U.S. President Donald Trump's pledge to boost America's domestic manufacturing capabilities and encourage companies to bring overseas production back. "About Trump's plan to revitalize U.S. manufacturing and tell U.S. companies to move back to the country in order to create more jobs, we will keep a close eye on it. However, that will not have any impact on China's plan to develop the manufacturing industry," Miao Wei, Minister of Industry and Information Technology, said in Beijing.

MERGERS & ACQUISITIONS

M&As on the rise in 66 economies in Belt and Road Initiative

The value of capital projects and M&A deals in seven core infrastructure sectors across the 66 economies in the Belt and Road Initiative reached nearly USD494 billion in 2016, and China contributed one-third of the total value in the period, according to PricewaterhouseCoopers (PwC). In its first report regarding investment across seven core infrastructure sectors in Belt and Road countries, PwC said the total capital project value had increased by 2.1% to USD401.3 billion last year while the total M&A deal value plunged by 48.7% to USD92.5 billion in the same period. These infrastructure sectors involve utilities, transport, telecoms, social, construction, energy and the environment. Since 2013, the value of invested projects across the region had registered a compound annual growth rate of 33%, PwC data revealed. Unveiled by President Xi Jinping in 2013, the Belt and Road Initiative aims to connect China with more than 65 economies through unimpeded trade and financial integration. The total investment amount envisaged in the first phase of the Belt and Road Initiative is estimated to be roughly USD240 billion, the China Daily reports.

- China will give the green light soon to a Chinese consortium's acquisition of a LED lighting unit of Osram Licht, after the German company gained approval from the anti-monopoly authorities in all other related countries. The Chinese consortium was formed by Sanan Optoelectronics Co, IDG Capital Partners and Yiwu State-Owned Assets Operation Center.

REAL ESTATE

Less property sales due to government measures and Chinese New Year

The China Index Academy said property sales in China dropped 36.7% month-on-month in January, in terms of floor space. On a yearly basis, sales fell by 27.3% in January, with Beijing and Shenzhen declining by nearly 50%. From January 1, banks in Beijing raised mortgage rates for first-time home buyers. On January 19, Shenzhen tied new home prices to the average price of houses on sale in the neighborhood. On February 6, Chongqing also tightened its policy. Besides measures taken since October last year, dozens of cities have announced purchase limits and tightened mortgage restrictions after two years of easing, starting with the relaxation of purchase restrictions in 2014. Policymakers are trying to reduce credit flowing into speculative buying to curb asset bubbles in 2017, calling for a long-term market mechanism that prevents bubbles and reduces the need for big changes in investment, law, and fiscal tools. In cities where prices are rising fast, more land should be made available for building residential housing, while de-stocking must continue in smaller cities. Chinese New Year, which fell on January 28 this year, also led to less property sales. If the government continues its tight monetary policy, the real estate market may cool even further. January's figures for large and medium-sized cities will be released this week.

- London's commercial property sector witnessed a sharp surge in Chinese investment in 2016, driven by the weaker pound resulting from uncertainties over Brexit. Chinese investors bought more than GBP3.15 billion worth of central London commercial assets in 2016, accounting for 22.5% of total central London transaction volumes, compared with their purchase of less than 1% in 2006, according to property broker JLL. Commercial property, mostly office buildings, can generate more than 4% net returns for investors, according to estimates by Eric Zhao, Associate Director and Chinese capital markets specialist at estate agent Savills.

RETAIL

Hejun files complaint against sale of McDonald's franchises

Beijing-based Hejun Vanguard Group has filed a complaint against McDonald's with the Ministry of Commerce's Anti-monopoly Bureau and its franchise office, alleging that the sale of many McDonald's franchises to CITIC and Carlyle Group may hurt Chinese workers and consumers. The complaint could delay regulatory approval of the deal. While Hejun has stopped short of asking the Ministry to block the deal, it has called on the regulator to closely scrutinize the transaction and take measures to prevent McDonald's "abusing" what it claims is the company's dominant position in the fast-food burger market in China. It has also called for the Ministry to investigate alleged violations of China's franchise law by McDonald's, which it claims has failed to properly register all of its outlets in China. The Service Employees International Union, a U.S. labor body, in January raised concerns over McDonald's China deal, saying previous such transactions in markets including Brazil and Puerto Rico had put enormous pressure on franchisees, making it harder for them to provide adequate pay and conditions for their workers, the Shanghai Daily reports.

- Shanghai's retail sales are expected to rise 7% and e-commerce to jump 20% this year, the Shanghai Commission of Commerce said. E-commerce transactions grew rapidly by 21.9% to exceed CNY2 trillion last year. B2B online transactions added 17.3% to CNY1.45 trillion, and online shopping jumped 35.4% to CNY560 million. The city's retail sales grew 8% year-on-year to CNY1.09 trillion last year.

SCIENCE & TECHNOLOGY

New satellite to allow internet access on planes and trains

China will launch its most advanced communications satellite in April as it builds a large capacity network that will enable passengers on jetliners and high-speed trains to use the internet. Shijian 13, developed by the China Academy of Space Technology, will be lifted on a Long March 3B carrier rocket from Xichang Satellite Launch Center in Sichuan province. The satellite, which weighs 4.6 metric tons, will stay for 15 years in a geostationary orbit about 36,000 kilometers above Earth. The satellite features a Ka-band broadband communications system capable of transmitting 20 gigabytes of data per second, making it the most powerful communications satellite China has ever developed. Shijian 13 will use electric propulsion after it enters orbit, which will extensively reduce the chemical fuel the satellite carries. Moreover, it will conduct space-to-ground laser communications experiments, the Academy said. In June, the Shijian 18 communications satellite, the first developed based on China's new-generation DFH 5 satellite platform, will be launched by a Long March 5 rocket at the Wenchang Space Launch Center in Hainan province. China plans to establish a constellation of advanced communications satellites based on the DFH 4 and DFH 5 platforms by 2025.

- Ren Xinmin, a scientist who propelled China's aerospace industry onto the world stage, has died in Beijing at the age of 102. He helped build China's first artificial satellite, and was regarded as one of the “Four Elders of China's Aerospace”, only exceeded by the founder of China's aerospace industry, Qian Xuesen.
- China will continue to be open and active in its technological cooperation on the world stage, the Ministry of Science and Technology said. In June, Beijing will host the Eighth Clean Energy Ministerial, followed by the Fifth BRICS Science and Innovation Ministerial in July, said Ye Dongbai, Director of International Cooperation at the Ministry. In addition, dialogue on innovation and technology will be held with Russia, Germany, France, Italy, Israel and other countries this year to facilitate practical cooperation.
- Tsinghua University in Beijing has for the first time allowed international students to apply without taking a written test, causing concerns that it would create a loophole for abuse. The University, named the 57th best worldwide and 4th best in Asia by the U.S. News and World Report Best Global University Rankings in 2017, recently changed its admission rules to allow international students to apply as long as they obtained level 5 in the HSK Putonghua proficiency test.

STOCK MARKETS

CSRC tightens regulations on private placements

The China Securities Regulatory Commission (CSRC) tightened the regulations on private placements by listed companies, aiming to curb their excessive fundraising. The CSRC capped the maximum shares that listed companies can sell through private placements at no more than 20% of their total capitalization. The new rules also require a time gap of at least 18 months from the previous share issuance by listed companies if they plan to refinance. In addition, listed companies, excluding financial companies, cannot hold long-term and high-value financial assets for trading and investment purposes when they apply for refinancing. CSRC Spokesman Deng Geng said that the regulation is intended to address some of the serious problems with the existing system for refinancing, including the excessive financing by listed companies and using the proceeds for speculative trading. “It has led to a short-term chase of profits and hurts the effective resource allocation and the formation of long-term capital in the market,” Deng said. Wang Jianhui, Director of the Research Center at Capital Securities Co, said the restriction on refinancing underscored the regulator's intention to channel more capital into the real economy and to curb speculation that could lead to greater financial bubbles, the China Daily reports. Listed companies raised a total of CNY1.5 trillion through private placements last year, nearly 10 times the value of capital raised by companies through IPOs, according to data from Wind Info.

- China's securities regulator has approved the nation's first IPO by a trust company in more than two decades. Shandong International Trust Co won approval from the China Securities Regulatory Commission (CSRC) to sell as many as 676.5 million shares in a Hong Kong IPO, aiming to raise USD300 million. The most recent listings from a Chinese trust company were in 1994, when Shaanxi International Trust Co and Anxin Trust Co sold shares in the domestic market.

- Wuhan Iron and Steel Co formally withdrew from the capital market as the company and Baosteel have entered the stock swap stage. One share of Wuhan Iron and Steel can be swapped for a 0.56 share of Baosteel. The two stocks were suspended on January 24, with Baosteel's share price at CNY6.8 and Wuhan Iron and Steel at CNY3.71. The total number of shares of the new Baosteel will increase to 22.1 billion, of which Baowu Iron and Steel Group holds 52.14%, while Wuhan Iron and Steel Group holds 13.49%, and the remaining 34.37% is owned by external shareholders.
- Hong Kong stocks jumped sharply to break the 24,000 threshold for the first time in five months, thanks to the rally by the mainland banking sector. Mainland stock markets extended their rising streak for six days in a row, led by both banking and utility stocks.
- Pine Care Group, Hong Kong's first listed elderly nursing home operator, rallied 42.03% on its trading debut in Hong Kong to HKD0.98.
- The likelihood of a new bull run in China's A-share market has increased as the country is believed to be capable of managing its debt problem and avoiding financial shocks, U.S. investment bank Morgan Stanley said in a report. The bullish sentiment was based on its positive views about China's ability to rebalance its economy, address the issue of the rapid debt buildup, and promote key reforms to ensure the country achieves high-income status by 2027.
- Jiangsu Zhangjiagang Rural Commercial Bank (JZRCB), a small Chinese rural bank that suffered profit declines for three years, has soared by the 10% limit for four straight days, making it the country's most expensive bank stock with an astounding price to earnings ratio of 40 times, almost seven times the banking sector's average P/E of 6.4. Jiangsu Jiangyin Rural Commercial Bank (JJRCB), the second most expensive stock in the banking sector, is also a small rural lender in Jiangsu province.
- China's securities regulator has relaxed the trading rules for stock index futures, signaling a gradual end to the harsh restrictions imposed during the market rout in 2015. The measures include lowering trading fees and raising the maximum daily trading cap from 10 contracts to 20 per investor. The minimum margin requirement for trading on the CSI 300 and SSE 50 index futures was also reduced from 40% to 20% of the contract value.
- New Times Securities, a brokerage house controlled by China's missing tycoon Xiao Jianhua, the CEO and founder of the investment firm Tomorrow Group, is under investigation by the China Securities Regulatory Commission (CSRC) for possible violations of laws and regulations". The investigation is related to the initial public offering (IPO) of Huaiji Dengyun Auto-Parts Holding, which was sponsored by New Times Securities.
- Guotai Junan International, the Hong Kong-based arm of China's state-owned brokerage Guotai Junan Securities, reported annual profit increased 1% year-on-year to HKD1.01 billion, citing frustrating market conditions and an exceptionally high base in the previous year as key reasons for the lackluster performance. Revenue increased 10.7% to HKD2.52 billion. The company's core brokerage revenue decreased 45.4% to HKD393 million.
- Sinopec Oilfield Service Corp, a Shanghai-listed unit of state-owned Sinopec, the top Asian crude refiner, is expected to post a loss of CNY16 billion. It would be the greatest financial loss among China's nearly 2,800 A-share listed firms in 2016.

TRAVEL

Chinese passenger drones to be used in Dubai

Chinese pilotless craft capable of carrying a passenger are expected to be put into use as early as this summer in Dubai (United Arab Emirates), according to Guangzhou-based drone manufacturer Ehang. The company has announced a partnership with Dubai's government to use its Ehang 184 passenger-carrying drone in the city's smart transportation system. Dubai's Roads and Transportation Authority said the Chinese passenger drone will begin regular operations around the city in July. Dubai officials said they have already made their first test flight in a drone. Because of the high safety and reliability standards that must be met, the passenger drone will still be subject to strict trials before large-scale commercial operations can start, said Pan Xuefei, Senior Analyst at IDC. The electric-powered passenger drone made its debut at the Consumer Electronics Show in Las Vegas in the United States last year. It can fly for up to 30 minutes at a maximum cruising speed of 160 km/h, and has an average cruise speed of 100 km/h. Once the destination is entered, the automatic flight control system chooses the fastest, safest route, the China Daily reports.

- The world's largest amphibious aircraft, the AG-600, will carry out its debut flight in the first half of the year and is due to begin delivery in 2021. Huang Lingcai of China Aviation Industry General Aircraft Co, the seaplane's developer based in Zhuhai, Guangdong province, said that engineers are carrying out final tests on the AG-600 that will conduct the first flight. Certification procedures are expected to be finished around 2020.
- The International Air Transport Association (IATA) said that it is bullish on the growth potential of China's aviation market and believed the new airport in Beijing, which will start operations in 2019, would ensure sufficient airport capacity to meet expected traffic growth. By 2024, China will overtake the United States as the world's biggest passenger market, and in 2035, China will be a market of 1.3 billion passengers, IATA forecast.
- Didi Chuxing, China's dominant ride-hailing company, has restructured its business to include an international business unit as it eyes further overseas expansion this year. Prior to merging with Uber China, Didi formed an alliance with ride-sharing companies in other regions, including Southeast Asia's Grab, India's Ola, as well as Uber's main U.S. rival Lyft, in which all members agreed to share technology, local knowledge and business resources to battle Uber.

VIP VISITS

FM Wang Yi attends G20 summit

China's Foreign Minister Wang Yi called on Germany to prompt the EU to grant China market economy status. Wang met German Vice Chancellor and Foreign Minister Sigmar Gabriel in Germany on the sidelines of the G20 Foreign Ministers meeting. Minister Wang also had his first meeting with the incoming U.S. Secretary of State Rex Tillerson. It was the highest-level contact between the two countries since the inauguration of U.S. President Donald Trump on January 20. Ruan Zongze, Vice President of the China Institute of International Studies, said "the talks further clarified the new U.S. administration's China policies", and Tillerson's reaffirming the one-China policy helps dismiss widespread doubts over bilateral ties. Wu Xinbo, Director of the Center for American Studies at Fudan University in Shanghai, said the meeting was pragmatic and indicates that key mechanisms, such as the China-U.S. Strategic and Economic Dialogue (SED), will continue in previous or similar forms. Incoming U.S. Treasury Secretary Steven Mnuchin has highlighted the need of a strong but balanced economic relationship between both countries in phone calls with Vice Premier Wang Yang, Liu He, Director of the office of the Central Leading Group on Financial and Economic Affairs, Zhou Xiaochuan, Governor of the People's Bank of China (PBOC), and Finance Minister Xiao Jie.

ONE-LINE NEWS

- Thousands of residents in Daqing, Heilongjiang province, rallied at city hall, demanding that construction of an aluminum plant being built by a subsidiary of China Zhongwang be stopped. Protesters chanted "reject pollution, resist Zhongwang" during the rally. The plant's location is less than 1 km from a major reservoir, and three major universities are also in the vicinity.
- Chinese President Xi Jinping has ordered leading cadres to guard against the influence of interest groups and "eliminate special privileges". "We must insist that interactions have principles, boundaries and rules," Xi said, as he was addressing hundreds of ministerial-level cadres at the Central Party School.
- Lenovo Group, the world's largest supplier of personal computers, posted weaker-than-expected earnings in the three months ended December 31, as the company's three main lines of business recorded slow to no growth at all. Lenovo's net profit fell

67% to USD98 million, compared with USD300 million in the same period in 2015. Revenue declined 3% to USD12.17 billion.

QUOTES OF THE WEEK

“If you come with your foreign mentality, thinking, ‘I’m going to do it my way,’ you’re going to screw up big time. You have to come to this country and see that it works differently than anywhere else. You can’t change a place, you have to adapt. You have to change yourself.”

Eduardo Vargas, owner and chef at Azul restaurant, quoted in the South China Morning Post, February 16, 2017.

ANNOUNCEMENTS

EY Global Tax Alert: China issues guidance to encourage foreign investments

Ernst & Young (EY) has issued a global tax alert on foreign investments in China.

On 12 January 2017, China’s State Council released Guofa [2017] No. 5 (Circular 5) to provide additional guidance on market access and utilization of foreign capital. Circular 5 contains 20 actions related to active utilization of foreign capital, creation of an excellent business environment and optimization of government services.

Some of the key favorable actions include:

- Opening additional market access to selected service industries (such as financial institutions, telecommunications, internet, and education), manufacturing of rail transit equipment, motor, ethanol fuel and oil processing and mining of unconventional oil-and-gas resources.
- Encouraging foreign investors to invest in infrastructure development, research and development (R&D), high-end manufacturing, intelligent manufacturing, green manufacturing and production support services.
- Allowing local governments to specify supporting policies to attract investments, e.g., local financial subsidies.
- Revising the current Catalogue of Priority Industries for Foreign Investments in the Midwest region by expanding the scope of encouraged industries in the Midwest and Northeast regions.
- Allowing foreign multinational corporations to carry out centralized foreign exchange fund management function.
- Prioritizing substantial land use by offering lands to encourage foreign investment industrial projects.

Circular 5 serves as official guidance and detailed implementation measures will be released by the government authorities. Circular 5 clearly indicates China’s determination of moving up in the supply chain and its objective of encouraging high value-add services, R&D and high-end manufacturing. Companies in the encouraged industries may consider expanding investments into China. Local incentives may be available since local governments are now authorized to provide their own incentive policy.

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