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

Newsletter
2 October 2018

FCCC/EUCBA ACTIVITIES

Opportunities to Finance your Business with China – 23 October 2018, 9h30 – Brussels

The Flanders-China Chamber of Commerce is organizing an information session on:

Opportunities to Finance your Business with China
23 October 2018 – Broekstraat 31 1000 Brussels

During this session, experts will present you information on available investment funds and financial support when expanding your business to China.

The programme is as follows:

09h00-09h30: Registration

09h30-09h35: Introduction, **Ms Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce

09h35-09h55: "Different Investment Vehicles for Belgian Companies investing in China and Chinese Companies investing in Belgium or in Europe", **Mr Rik Daems**, Chairman, China-Belgium-Direct Equity Investment Fund

09h55-10h15: "Capricorn-Scorpio: Equity & Support for China roll-out" , **Mr Jos B. Peeters**, Managing Partner, Capricorn Venture Partners

10h15-10h30: "Support from the SME Growth Portfolio", **Mrs Benedicte De Buck**, SME Growth Portfolio, Project Adviser, Agency Innovation and Entrepreneurship, VLAIO

10h30-10h45: "Securing/Financing your exports to China", **Mr Frank Haak**, Head GTS Sales Belgium, BNP Paribas Fortis

10h45-11u00: Coffee-break

11h00-11h15: “Exporting to China? Investing in China? Support by Credendo", **Mr Wim Bosman**, Business Development Specialist, Marketing and Communication from Credendo, Export Credit Agency

11h15-11h30: “Subsidies to Promote International Business”, **Mr Yves Roekens**, Head Financial Incentives Flanders Investment & Trade

11h30-11h45: “Financing of Sales Offices in China”, **Mr Jan Holthuis**, Lawyer, Buren

11h45-12h00: Question and answer session

12h00-13h00: Networking lunch

Practical information:
Location: Broekstraat 31, 1000 Brussels
Price for members: € 75 (excl. VAT)
Price for non-members: € 110 (excl. VAT)

If you are interested to participate in this session, please subscribe before 18 October 2018 via this link

Contact: FCCC: Info@flanders-china.be

FOREIGN TRADE

Possible sanctions of financial transactions could trigger financial crisis in China

A further escalation of the trade war between Washington and Beijing to include sanctions on financial products or transactions **could trigger a financial crisis in China**, researchers warned in a report. The study by **Renmin University’s National Academy of Development and Strategy** looked at a series of possible additional retaliatory steps the U.S. could take in the trade war to constrain, or even try to directly destroy, China’s financial markets, financial assets and its currency. While some of the scenarios seem fanciful, and would clearly do the world economy great harm if they were ever implemented, the fact that the think tank chose to examine them suggests concern that the U.S. will stop at nothing to win the trade conflict. So far, the tit-for-tat trade war between the world’s two largest economies has focused entirely on commercial goods.

The U.S. is a major source of foreign investment for China. According to China’s Ministry of Commerce (MOFCOM), by the end of 2017, there were approximately **68,000 U.S.-funded enterprises in China with actualized investment of more than USD83 billion**. China and the U.S. have both reaped enormous benefits from trade and economic cooperation. American companies have played an exemplary role in China for their Chinese peers in terms of technological innovation, marketing management, and institutional innovation. They have promoted market competition and motivated Chinese firms to improve their technology and management.

At the same time, **the U.S. has gained access to a wide range of business opportunities** such as cross-border investment and entry into the China market, which have played a big part in driving economic growth, improving consumer welfare, and upgrading the economic structure in the U.S. China respects international business practices, observes the rules of the WTO, and treats all businesses registered in China equally, Chinese analysts said.

U.S. President Donald Trump used the occasion of **his second address to the United Nations to amplify his anger about China's trade and economic policies**, accusing Beijing of "relentless product dumping" and other unfair practices. Singling out China as a rogue nation in terms of trade while discussing his administration's most pressing foreign policy issues at the 73rd annual UN General Assembly in New York, Trump's move signals further escalation in the bilateral trade war that started in July, and his administration's determination to change the course of the Sino-U.S. relationship, analysts said. "I have great respect and affection for my friend President Xi, but I've made clear our trade imbalance is just not acceptable," Trump said.

The United States is putting "a knife to China's neck" on trade issues, China's Vice Minister of Commerce Wang Shouwen said, adding that the resumption of talks on the matter depended on the "will" of the U.S. According to analysts, it is increasingly likely that both sides will not resume negotiations for some time, at least until there is a noticeable shift in the political mood on either side, possibly until Donald Trump leaves the White House. Several rounds of talks in recent months have failed to produce a significant breakthrough and fresh negotiations which had been expected in coming weeks have been cancelled by China. Wang said that not all trade discussions had been useless, but accused the U.S. of abandoning its mutual understanding with China.

Despite the trade war, the **Chinese government decided to cut import tariffs on 1,585 items from November 1**. China's average tariff level will be reduced to 7.5% after the new round of cuts from 9.8% last year. Among the cuts, the average tariff rate on electromechanical equipment imports will be reduced to 8.8% from 12.2% while tariffs on textiles and building materials will be cut to 8.4% from 11.5%.

China publishes White Paper: "Facts about the China-U.S. trade dispute and China's stance"

The Information Office of the State Council (SCIO) has published a white paper of 36,000 words on the trade dispute with the U.S. entitled **"Facts about the China-U.S. trade dispute and China's stance"**, accusing the U.S. of bullying trade tactics and economic intimidation. However, the Chinese government still hopes economic cooperation with the U.S. will resume. Although Washington's "America first" economic policy and punitive tariffs on Chinese products had "greatly undermined" bilateral economic ties and threatened the world's multilateral system of trade. The White Paper is the first comprehensive Chinese government statement on the escalating conflict between the world's two biggest economies. It was published as the Trump administration's tariffs on another USD200 billion in Chinese goods kicked in and China retaliated with its own tariffs on USD60 billion worth of imports.

"Cooperation is the only correct option for China and the United States, and only a win-win approach will lead to a better future. China's position is clear, consistent and firm," the White Paper said. China is firmly committed to safeguarding its national dignity and core interests. "China does not want a trade war, but it is not afraid of one and will fight one if necessary. China has kept the door to negotiations open, but negotiations can only happen when there is mutual respect, equality, good faith and credibility. Negotiations cannot be conducted under the threat of tariffs, or at the cost of China's rights to development."

The main points are:

1. China is firmly committed to the sound development of China-U.S. economic and trade relations. "China would like to work with the U.S. in the same direction, act in a spirit of mutual respect and win-win cooperation, focus on economic and trade ties, and properly manage economic and

trade differences." China is willing to resume negotiations with the U.S. on a bilateral investment treaty, and launch bilateral free trade agreement negotiations when appropriate, the White Paper said.

2. China is firmly committed to the reform and improvement of the multilateral trading system. China is firm in observing and upholding the World Trade Organization (WTO) rules, supports an open, transparent, inclusive and non-discriminatory multilateral trading system and necessary reform of the WTO, and firmly opposes unilateralism and protectionism.
3. China is firmly committed to protecting property rights and intellectual property rights (IPRs). China will keep improving its laws and regulations on IPR protection, and enhance the quality and efficiency of IPR reviews. China protects the lawful IPRs of foreign businesses in strict accordance with the law, and takes stern measures to address all types of IPR infringement cases.
4. China is firmly committed to protecting the lawful rights and interests of foreign businesses in China. "China treats all businesses registered in China equally. China will always protect the lawful rights and interests of foreign investors and foreign-invested businesses, and take firm measures to address violations of their lawful rights and interests in accordance with the law."
5. China is firmly committed to deepening reform and widening opening-up. "China will not reverse its course, but only deepen reform. China will not close its door to the world, but only open wider. The market will play a decisive role in the allocation of resources and the government will play a better role to encourage competition and oppose monopoly."
6. China is firmly committed to mutually beneficial cooperation with other developed and developing countries. China will work with the European Union to expedite the negotiations on the China-EU Investment Agreement, and will accelerate negotiations on the China-Japan-South Korea Free Trade Area.
7. China is committed to building a community with a shared future for humanity.

To compose its White Paper, **the Chinese government mainly relied on foreign sources**. Of the paper's 88 footnotes, only a handful cite China's National Bureau of Statistics (NBS) or the Ministry of Commerce (MOFCOM), with the vast majority referring to overseas research, think tanks and analysts, from former U.S. Treasury Secretary Larry Summers to specialists at the Peterson Institute for International Economics in Washington. Analysts said that using respected U.S. and other foreign sources to make its argument strengthened the intended appeal of the document, which was also released in eight languages.

The White Paper can be downloaded on the website of the State Council Information Office (SCIO) here.

FOREIGN INVESTMENT

Dutch companies grab opportunities of Belt & Road Initiative

DSM's Managing Board, right, Mr. Dimitri De Vreeze

Dutch companies are flexing their muscles **to grab trade and commerce opportunities** in economies within the regions covered by **the Belt and Road Initiative (BRI)** and build upon the country's reputation as a pioneer of links between Europe and Asia, the China Daily reports. The flurry of activity follows the state visit of Dutch King Willem-Alexander to China in February, during which he praised the BRI. The BRI seeks to improve connectivity of infrastructure, trade, ideas and knowledge among participating economies.

"We are enthusiastic about the BRI, as this vision will foster better healthcare for people in all the countries along this trade route, and that is coherent with Philips' vision," said **Frans van Houten, Chief Executive Officer of Philips**. DSM, another Dutch company getting involved, uses its position in the field of life and material sciences to help encourage environmentally sustainable infrastructure. "We want to help to make the BRI green," said **Dimitri de Vreeze, Member of DSM's Managing Board of Directors**. He added that DSM will focus on supplying its clean coating material for the containers used for trade in Belt and Road economies, and supply crucial technology to improve the efficiency of electric cars and solar panels that will be sold in economies involved in the BRI. Last week a delegation from China led by officials from the Chinese People's Association for Friendship with Foreign Countries (CPAFFC) completed a three-day visit to Amsterdam, Maastricht, Eindhoven and Heerlen. The delegation was mainly comprized of Chinese clean energy and technology companies and PhD students.

"We are trying to make a connection, paving the way for future partnerships," said Li Xinyu, Director General of the Research Center for People-to-People Diplomacy of the CPAFFC. Gao Ya, a PhD student of critical care medicine at Xian Jiaotong University, said the visit to Philips opened her eyes to world leading medical technology, which she hopes she can bring back to China's medical industry and hospitals. Luo Shichuan, Co-founder of PopuMusic, a Beijing-based maker of artificial intelligence music instruments, said the visits to Philips and DSM inspired him to consider sourcing environmental-friendly material for the company's music instruments. Currently, the Netherlands is China's third-largest trading partner in the European Union.

CHINA NEWS ROUND-UP

Gowin Semiconductor to challenge its U.S. rivals

As China's use of smart devices and artificial intelligence (AI) surges, **a new generation of domestic chip makers is focusing on specialized semiconductors** to power the technologies of tomorrow. **Guangzhou-based Gowin Semiconductor** – a four-year-old start-up – makes field-programmable gate array (FPGA) chips, challenging U.S. companies Xilinx, Altera and Lattice, which together control 90% of the global market for the special chips. In the past few months, Gowin has begun mass production of its low- and mid-density FPGA chips, for which it holds full intellectual property rights. The chips – which can be configured after manufacturing, and are used in sectors including automotive, video interfaces, electronics, telecommunications, defense and aerospace – are made for the company by the world's biggest contract manufacturer, Taiwan-based TSMC. They are currently for sale in the mainland Chinese market. Gowin expects to sell 10 million FPGA chips this year. That would be a stark contrast to the company's first order for just 10 chips in January 2017.

A ban on American companies selling to ZTE because of its violation of U.S. sanctions on Iran and North Korea was a stark reminder to China of the pressing need to ramp up research and development of high-end semiconductors to reduce reliance on the West. "Chinese companies and authorities are now fully aware of the strategic importance of making high-end chips," said Cyrus Liang, Assistant to Gowin's CEO. The ban also triggered a shift in the long-held perception among Chinese users that foreign chips were better than domestically produced ones.

Gowin – founded by engineers Zhu Jinghui and Ning Song, who had worked at Lattice – recently struck a deal with the Guangzhou Economic and Technological Development Zone, which will provide the company with financial support of up to CNY80 million in tax concessions and subsidies in the next two years. It also said it was close to securing its first round of venture capital financing of at least CNY100 million from domestic investors. According to the company, its existing 55-nanometre (nm) fabrication process means it is already able to compete with existing low- and mid-density FPGA chips made by its U.S. rivals, and it will move to a higher end of the market next year when it launches a 28 nm product. The smaller the size of the chip circuits, the more can be placed on a chip, thus increasing its power while retaining a small size. However, Gowin's R&D relies on hardware architecture from Arm Holdings, a British chip design firm owned by Japan's Softbank, and on circuit-design software from U.S. company Synopsys, the South China Morning Post reports.

"It's still a fact that neither China nor any other countries' chip development can bypass U.S. intellectual property," said Luo Jun, Founder of the International Robotics and Intelligent Equipment Industry Alliance – a China-based agency facilitating cross-border research exchanges in cutting-edge technology.

China pledges to carry on investing globally

China will ensure steady outbound investment flows even as countries in North America, Europe and Asia-Pacific enact restrictions on what Chinese investors can buy in their countries, the government said. The U.S. has singled out China's overseas investment in its trade war complaints, arguing China has used overseas investments to acquire critical technologies. In recent months, Germany, France, Britain, Australia, New Zealand, Japan, and Canada have all joined an unprecedented global backlash against Chinese investment, citing national security concerns.

Speaking at a press conference about a report on China's outbound investment for 2017, Zhang Xingfu, Deputy Director General of the Department of International Trade and Economic Affairs at the Ministry of Commerce (MOFCOM), acknowledged increasing scrutiny of Chinese investments, but warned against government overreach. "We have noted that the practise of strengthening the security review of foreign investment is likely to cause concerns among global investors over a country's investment environment, especially over the abuse of security reviews," said Zhang, without naming any specific country or deal. However, Zhang said China would press on with its "going global" strategy.

"The rapid development of China's foreign investment is an inevitable outcome of China's economic development reaching a certain stage," said Zhang, adding that investing abroad is also an important manifestation of China's pursuit of high-quality development in its domestic economy. Despite the challenge of investing in the U.S. and other countries, **China's outbound investments for the first eight months this year hit USD80.35 billion, rising 2.3% year-on-year**, according to the Ministry of Commerce (MOFCOM). However, **Chinese investment in the U.S. during the first half totaled USD1.8 billion, a decline of more than 90%** from the same period in 2017 and the lowest level in seven years, according to a report by the New York-based Rhodium Group. The consultancy cited constraints from capital controls, tighter financial conditions at home and tighter US restrictions as the main reasons for the fall of Chinese investment, the South China Morning Post reports.

Micro loan industry fuels 'buy now, pay later' mentality

For Chinese millennials these days, installment payments are not just for big purchases. **Feel like eating a hamburger? Want to buy a movie ticket? Buy now and pay later** – much later in some cases. Widely accepted in developed countries, the practice of paying by installments has grown in popularity in China because high property prices mean most people pour all their money into housing and have little left over for discretionary spending. The trend is especially pronounced among millennials, whose earning power is lower, giving a boost to the growth of online micro lenders like **Lexin Fintech**.

Lexin, founded in 2013 by former Tencent Holdings employee Jay Xiao, operates **the online shopping site Fenqile** – which roughly translates as "happy installment" – offering a wide range of products from mobile phones and computers to snacks and cosmetics that can be funded by micro loans. A cake can be had for as low as CNY0.46 per month for three years, or there is lipstick for only CNY1.93 per month for two years. Interest rates differ based on the product price and repayment period but some loans are offered interest free.

"Paying by installment is becoming a habit among young Chinese born after 1990," said Xiao, who took the Shenzhen-based Lexin public on Nasdaq last year. "They prefer installments because they are more **interested in trying innovative things and don't have much money**, but are still very optimistic about the future." The installment trend is a stark contrast to previous generations of Chinese who resisted borrowing money, especially for smaller items, only taking out loans for homes, cars and similar major purchases.

Young people in China, however, are more likely to rely on credit for daily consumption items, made easier by mobile payment apps requiring only a few taps on a smartphone. As of June this year, Fenqile had 29.2 million registered users and 95% of its customers were under 30 years old, the South China Morning Post reports. Although Lexin operates an e-commerce platform, Xiao defines the company as a technology provider, whose core strength is an artificial intelligence-based algorithm that can approve a new user's credit within seconds.

China raises renewable energy target of 35% by 2030

China is stepping up its push into renewable energy, **proposing higher green power consumption targets** and penalizing those who fail to meet goals to help fund government subsidies to producers. The world's biggest energy consumer is aiming for renewables to account for at least 35% of electricity consumption by 2030, according to a revised draft plan from the National Development & Reform Commission (NDRC). Previously, the government had only set a goal for "non-fossil fuels" to make up 20% of energy use by 2030. The new plan, known as the **Renewable Portfolio Standard (RPS)**, is an update of an initial draft published in March.

While helping to boost consumption of renewable energy, the policy also seeks to alleviate the government's subsidy burden by raising revenue through penalties for non-compliance. "We see the new RPS consultation paper as having more implementation details and as more favorable to operators," BOCI Research analysts including Tony Fei wrote in a note. The NDRC also increased 2018 and 2020 non-hydro power consumption targets for some provinces, including requiring Inner Mongolia to increase its use to 18% this year from a previous goal of 13%. Targets for regions such as Yunnan and Xinjiang have also been raised. The latest document also called for non-compliant firms to pay compensation fees to grid companies, which will be used to cover government subsidies for renewable projects.

Still, some researchers warned **power plants run on coal are still being built** and are threatening to "seriously undermine" global climate goals. Satellite photos taken in 2018 of locations in China reveal cooling towers and new buildings that were not present a year earlier at plants that were meant to stop operations or be postponed by orders from Beijing, according to research group CoalSwarm. The projects would boost China's existing coal capacity by 25%. **The total capacity of the planned coal power stations is about 259 gigawatt (GW), "wildly out of line" with the Paris climate agreement**, the group said. China had about half the world's coal power capacity.

Ford to speed up car production in China

Ford is looking at speeding up plans **to build more cars in Chinese plants**, with the growing trade war with the United States making U.S. exports less attractive. Joseph Hinrichs, Ford's Executive Vice President for Global Operations, said that he saw no easy resolution to the U.S.-China trade war, and that the company was planning to launch new vehicles in China – including for its premium Lincoln brand – to halt its recent slide in that market.

"We have long been advocates for balanced and free trade," Hinrichs said. "We continue to encourage both the U.S. administration and the Chinese government that it's in everyone's interest to work out their differences." But he added: "I believe this U.S.-China discussion will go on for a while." The increasing exchange of tariffs makes it difficult to plan for the future and, with tariffs on vehicles exported to China now reaching 40%, **there is no business case for exporting vehicles from the U.S.**, he said. Ford recently announced it was scrapping plans to import the compact Focus model from Chinese plants into the U.S. market, due to the tariffs.

Two commercial courts to judge on on Belt and Road cases

Disputes regarding projects undertaken under the Belt and Road Initiative (BRI) will be handled by two China International Commercial Courts (CICC). Previously known as the Belt and Road Courts, one of these is based in Shenzhen, Guangdong province, and will handle disputes along the maritime "Road". The other, in Xian, capital of Shaanxi province, will handle cases along the overland "Belt". The proposal to establish these courts was announced at the beginning of the year, but details of how they would work only became available this summer. There are just eight judges, ranging in age from 39 to 59 and all but two of them are men.

The group is not very diverse – they are all Supreme People's Court judges and all but one of them are members of the Chinese Communist Party (CCP), went to university in Beijing and studied overseas. The exception is the President, Zhang Yongjia. The most "international" is Sun Xiangzhuang, who did two courses overseas: a year at Warwick and four months at Duke.

The Belt and Road plan will create many disputes. Large projects are usually delayed, are costlier and deliver fewer benefits than expected. When something goes wrong, the aggrieved party sues. Around a third of construction projects end up in dispute, and usually take more than a year to resolve. Even if the Chinese government wanted to handle all Belt and Road cases, there are many other forums for dispute resolution, and there is no way eight judges could possibly handle the thousands of potential cases. Moreover, many lawyers have pointed out that even large Chinese state-owned enterprises are often happy to use English law and foreign arbitration for cross-border transactions.

Some legal commentators believe the Supreme People's Court judges are so skilled that their expertise somehow trumps the highly political nature of the courts, but others disagree, saying there will still be political interference. The rationale for creating the courts is, according to a Spokesman from the China Council for the Promotion of International Trade (CCPIT), that China and many other countries covered by the Belt and Road plan do not adapt well to the current method of dispute settlement, which often is based on U.S. and English common law and conducted in the English language.

China's 'King of IPO' sentenced to 18 years in prison

Yao Gang, former Vice Chairman of the China Securities Regulatory Commission (CSRC), **has been sentenced to 18 years in prison for taking bribes and insider trading**, nearly three years after he was put under investigation in the aftermath of a stock market collapse. Yao was found guilty of taking CNY69 million in bribes and pocketing CNY2.1 million from insider trading, the Handan Intermediate People's Court in Hebei province said. Yao was also fined CNY11 million and all of his "illegal gains" were confiscated, the Court added.

Yao was removed from office in November 2015 having earlier been a central figure in Beijing's efforts to bolster prices during a stock market rout in the summer of that year that wiped about USD5 trillion off the value of shares. He spent about 22 years at the China Securities Regulatory Commission and during his 13 years in charge of approving initial public offering (IPO) applications became known in the industry as "The King of IPO". He was later promoted to the position of Vice Chairman with responsibility for stock and futures markets.

Yao's downfall, like those of other senior financial regulators, including Yang Jiacai, the former Assistant Chairman of the China Banking Regulatory Commission (CBRC), and Xiang Junbo, the ex-Chairman of the China Insurance Regulatory Commission (CIRC), was a result of President Xi Jinping's efforts to curb corruption and risk in China's financial sector, the South China Morning Post reports.

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