Newsletter

21 May 2019

FCCC/EUCBA ACTIVITIES

Seminar: Win in China – E-commerce in China: The most important routes and strategies towards success and meeting with Flemish trade representatives
18 June 2019 – 11:30 – Kortrijk

With over 1.3 billion inhabitants – of whom 1 billion are cyber active – China can no longer be ignored as the cornerstone of your international strategy. Big data, analytics, cloud and mobile solutions, AI and social media are constantly changing business dynamics across all continents and industries. Especially e-commerce has turned out to be one of the largest game changers of the last decennia. Through this seminar the Flanders-China Chamber of Commerce and VOKA West-Flanders want to help companies with ambition on the Chinese market in developing their e-commerce strategy.

We help you to fine tune your strategy using the most valuable and successful e-commerce models which are applicable in China. We also give you a thorough picture of the Chinese e-commerce landscape and the ecosystem in which you will operate.

Of course, we also do not forget the practical side of things. Several business cases will be examined, illustrating the most important “do's-and-don'ts” and they will inspire you to develop a successful e-commerce strategy for your company on the China market. There will also be a discussion moment to help you learn from other companies in the audience.

After this seminar:

- You will have a solid understanding of the e-commerce landscape in China, which no doubt will offer you a competitive advantage.
- You will have gotten in touch with the latest and most relevant technologies and business models which can be used to fine tune your Chinese strategy.
- You will have an understanding of new concepts which will make your e-commerce business in China boom.

Register for this seminar through this link To get more information you can contact tom.vermeersch@voka.be

Guest speaker
Guest speaker is Mr. Bo Ji, Chief Representative of Europe & Assistant Dean of Global Executive Education at the Cheung Kong Graduate School of Business (CKGSB). Mr. Bo Ji has been working at senior executive level at Fortune 500 companies such as Monsanto, Cargill, Pfizer and Mars.

Target group
Entrepreneurs, CEOs, COOs, purchasing managers… of companies desiring to fine tune or develop their e-commerce strategy for China.

Extra: Contact day East-Asia (in cooperation with Flanders Investment & Trade)
Voka – Chamber of Commerce West-Flanders is once again organizing contact days with the Flemish economic representatives of Flanders Investment & Trade.

On Thursday 18 June 2019 we receive during the whole day the following representatives: Tony Zhang (Guangzhou, China), Bart Boschmans (Shanghai, China), Doris Wu (Taipei, Taiwan) and Katrien Leinders (Hong Kong, China).

This contact day offers an ideal opportunity for entrepreneurs and professionals to have a free-of-charge face-to-face consultation with one of the Vlev's. You can discuss with them, before or after the seminar “e-commerce in China”, your project, situation and opportunities in the region or country. You can register for this contact day via west-vlaanderen@fitagency.be

Practical information:
Location: Voka – Chamber of Commerce West-Flanders, President Kennedylaan 9A, 8500 Kortrijk
Price: for Members of the Flanders-China Chamber of Commerce (FCCC) and VOKA: €190
Price for Non-members: €290
Ambassadors: free of charge

Contact
FCCC: info@flanders-china.be

ACTIVITIES SUPPORTED BY FCCC

Hainan Airlines Shanghai Event – 20 June 2019 Antwerp

Hainan Airlines is organizing an event to celebrate the 35th anniversary of friendship between Shanghai and Antwerp.

Members of the Flanders-China Chamber of Commerce are welcome to participate in this event specially dedicated to Shanghai.

Venue: Spiegelzaal, Paleis De Meir, Antwerpen
Date: 20 June 2019
Time: 19:00 to 22:00

Confirm your attendance latest on 15 June 2019.
e-mail: chenj.yang@hnair.com
Tel.: 02-7533026

FIT: Princely mission to China 16 to 22 November 2019

China is one of the largest economies in the world and the second-largest importer. It is also one of the biggest countries with an enormous consumer market: the number of people in China's middle class is increasing yearly. It is Flanders' 10th export destination and the third outside Europe.
China's economic development involves technical-scientific progress and innovations. At the same time, China faces

big challenges in the fields of environment, energy, transport, health and foodstuffs.
Discover this exiting market during an economic mission from 16 to 22 November 2019, headed by HRH Princess Astrid.

On the program:

- **Beijing**: the political center of China and **Shanghai**, China's commercial heart.
- As an option, Flanders Investment & Trade is offering a third destination: a program in Guangzhou or Hong Kong.
- During this multi-sectoral mission, Flanders will focus on **cleantech, life sciences** and **sports & entertainment technology**.
- Other key sectors which will be covered include: diamonds, agro-food, smart economy, artificial intelligence, robotics, space, transport and logistics, e-commerce, architecture, sustainability and tourism.

What to expect:

- Establish useful high-level contacts in one week.
- FIT will prepare a tailor-made program in Beijing, Shanghai and optionally in Guangzhou or Hong Kong, irrespective of the sector in which you are active.
- During seminars, visits and numerous networking moments, you will acquire a lot of information from your colleagues-entrepreneurs.

Registration is open till 19 August 2019.
Organization: Flanders Investment & Trade in cooperation with the Agency for Foreign Trade, AWEX and hub Brussels Invest & Export.

More information (in Dutch) is available on [the FIT website].

Contact: Michèle Surinx, Area Manager East Asia
T: 02 504 87 91 - E: michele.surinx@fitagency.be

B2B cleantech program in China – November 2019

From 17 till 22 November I²PCC is organizing a B2B-program for cleantech companies in China. An extraordinary opportunity to get to know the Chinese market and to network with Chinese companies.

I²PCC? The inter-provincial international project Cleantech China. Four Flemish provinces are cooperating to help Flemish cleantech-SMEs to extend their activities to our partner regions in China. China is facing today (and in the coming years) big challenges in the environmental field. Companies are looking for solutions. Our Flemish cleantech companies are No 1 in Europe and can show their services (and products) in China. It's time to prospect.

Participate in the B2B program and meet in a short time period several Chinese companies interested in cleantech solutions. Company visits are also possible.

Participation in the program is free of charge. You only pay fees for transport, accommodation and individual translator (if required).

This B2B cleantech program of I²PCC is linked to the economic mission of Belgium to China, presided over by HRH Princess Astrid. Participation in both programs is possible.

For more info and registration, click here.

PAST EVENTS

Seminar: China-U.S. Trade Tensions also Affect European Companies. What about Yours?
16 May 2019 – Ghent

The **Flanders China Chamber of Commerce** and **KBC Bank** organized a briefing focused on "China-U.S. Trade tensions also affect European companies. What about yours?". This event took place on **16 May** 2019 at KBC Bank in Ghent. Following an introduction by Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce, two bankers from KBC Bank discussed the following topics.

- China Economic Update Post-Trade War - Mr. P.C. Leung, General Manager, KBC Bank N.V. Shanghai Branch
- Is Fortress Europe ready for the Chinese Dragon? - Mr. Jan Van Hove, KBC Group's Chief Economist, and General Manager of KBC's international economic research activities

A Q & A discussion concluded the event.

FOREIGN TRADE

President Trump considering to impose tariffs on all Chinese imports

The trade war between the U.S. and China escalated earlier this month as they raised tariffs on each others imports. The U.S. increased tariffs on USD200 billion worth of Chinese goods to 25% from 10%, while China has raised tariffs on a target list of USD60 billion in U.S. imports, ranging from 5% to 25%. Now the U.S. is considering to expand the tariffs to all Chinese imports and there are doubts whether China will honor agreements to purchase American products such as soybeans. U.S. President Donald Trump has also signed an order to prohibit U.S. companies from buying products sold by China's Huawei Technologies (see next item below).

U.S. President Donald Trump said that he had not decided whether to follow through with threats to impose tariffs on all imports coming from China. "I haven't made that decision yet," Trump said. "We have the right to do another CNY325 billion at 25%. That is a tremendous amount of money that would come into our country." Though Trump has repeatedly used the figure USD325 billion, the Office of the U.S. Trade Representative (USTR) estimates that the value of all remaining imports from China is closer to USD300 billion. Trump's comments came as the USTR released details about the public comment period that will precede any further tariff action, during which companies are invited to testify and seek exclusions from the taxes. The final deadline for testimonies and rebuttals will be in late June, around the same time that Trump is expected to meet his Chinese counterpart, President Xi Jinping, during the G20 summit in Japan.

Goldman Sachs warned that a 25% tax on all remaining goods from China would have a 0.5 percentage point effect on core inflation in the U.S., mainly because of the large share of consumer goods included in the proposed new tariffs. "Further escalation of the trade war could result in a hit to GDP as large as 0.4%," Goldman Sachs added, which estimated the likelihood that the U.S. would follow through with plans to tax the remaining USD300 billion of goods had risen to 30%.

A front-page editorial in the People's Daily warned the United States not to miscalculate in the current trade dispute, saying it risks making "mistake after mistake". It added that the U.S. could not "control" China, which would be able to weather a protracted dispute. It also said that China has no intention of replacing and changing the U.S., but that Washington should not try to alter and block China's development. Former Vice Minister of Commerce Wei Jianguo said China had the "willingness to act to fight a prolonged war". "If the U.S. does not realize its mistake, it will create problems of a historic nature," he added.

As the U.S.-China trade war escalates, **there is speculation over whether China will honor purchases of American products** including soybeans and cotton that are still on ships traveling to China. Early last week, at least 10 bulk carrier cargoes were still in transit. China has bought about 7.4 million tons of U.S. soybeans that have not been shipped yet. Another 468,000 tons of American corn, 103,000 tons of pork and 704,000 bales of cotton also have been sold but not yet shipped to China, according to the USDA.

Meanwhile, **the U.S. Commerce Department banned six Chinese tech firms from exporting sensitive U.S. goods**. Four companies attempted to procure goods that would have supported Iran's military programs in violation of U.S. export controls, while two other firms were banned for taking part in export of controlled technology later supplied to organizations affiliated with People's Liberation Army (PLA). The banned Chinese entities are Avin Electronics Technology, based in Shenzhen; Longkui Qu of Linhai, Zhejiang province; Multi-Mart Electronics Technology of Nanhai, Guangdong province; Taizhou CBM-Future New Material Science and Technology of Linhai, Zhejiang province; Tenco Technology, Shenzhen; and Yutron Technology of Shenzhen.

The U.S. and China both reiterated that they intended to continue further discussions", but neither side has announced dates for the next round of talks. U.S. Treasury Secretary Steven Mnuchin said he expects to visit Beijing "in the near future", probably ahead of a meeting of the U.S. and Chinese Presidents on the margins of the G20 summit in late June in Osaka. But **the Chinese government said further negotiations were meaningless until the U.S. is prepared to give some ground**. Peking University International Relations Professor Jia Qingguo agreed that Mnuchin's visit would only be possible if the U.S. was prepared to be "realistic".

The International Monetary Fund (IMF) reported in April that the U.S. economy could lose between 0.3% and 0.6% and the Chinese economy between 0.5% and 1.5% if the two sides raised tariffs to 25% on all goods traded between them, in addition to the global fallout. In the latest sign that the trade war is causing countries to slowly move away from dependence on the U.S. dollar, the leaders of ASEAN+3 (the 10 ASEAN members plus China, Japan and South Korea) are considering to add the Chinese and Japanese currencies to the Chiang Mai Initiative Multilateralization (CMIM) scheme, a regional foreign reserves buffer fund. The USD240 billion CMIM scheme was established in response to the 1997 Asian financial crisis to serve as a safety net that provides U.S. dollar support to any one of the countries in the event of a liquidity crisis. The U.S. dollar remains the global reserve currency, accounting for 63% of global reserves. By comparison, the yuan accounts for about 1.9% of global reserves, and a 1.2% share of international payments.

Meanwhile, t**he value of China's yuan dropped to a four-month low against the U.S. dollar** last week, raising fears that Beijing might let the exchange rate weaken as part of its retaliation against higher U.S. tariffs and to spur exports to arrest an already slowing economy. China also hit back at claims by U.S. President Donald Trump that America had the upper hand in the trade war, with the Foreign Ministry accusing him of using "false information" to support his argument. "They are not the economic authorities of China," Spokesman Geng Shuang said. "Why are they saying this and that about the Chinese economy? Their information is all false and fake." Geng said that despite the U.S. tariff increases, China's total exports in the January to April period rose 4.3% year-on-year, thanks to big jumps in trade with Europe and Southeast Asia. "Our partners are all over the world," he said. "If someone doesn't want to do business with China, there will surely be others to fill this gap."

China Central TV remarked on its news broadcast: "For the Chinese nation that has experienced various storms in the past 5,000 years, is there any situation that we haven't seen before? In the progress of the great rejuvenation of the nation, there must be difficulties and even terrific waves. The trade war provoked by the U.S. is just a barrier in the path of China's development, and it's not a big deal at all."

Diao Daming, Assistant Professor at Renmin University of China in Beijing, told the Global Times that "this kind of warning, directly talking about a 'fight' and clearly pointing at the U.S., is very unusual in recent history after China and the U.S. built formal diplomatic ties." Even after the 1999 NATO airstrike on the Chinese Embassy in Belgrade and the 2001 South China Sea aircraft collision, China didn't release words as tough as this, Lü Xiang, Research Fellow of China-U.S. relations at the Chinese Academy of Social Sciences (CASS) in Beijing, told the Global Times. "This proves that **the China-U.S. relationship is probably facing the most serious and unprecedented challenge**."

IT & TELECOM

U.S. President declares information security emergency, targeting Huawei

U.S. President Donald Trump signed an executive order last week, **declaring a national emergency,** and barring the use of telecommunications equipment made by companies that are deemed a threat to national security, clearing the way for an outright ban on products made by Huawei. The Executive Order did not name China or Chinese companies specifically. However, soon after, the **U.S. Commerce Department added Huawei and 70 of its affiliates to its "Entity List"** after it concluded that the Chinese company was engaged in activities "contrary to U.S. national security or foreign policy interests". Inclusion in the list means that a U.S. company, person or government agency purchasing Huawei equipment now requires a specific license "to export, reexport and/or transfer in-country."

The decision prohibits Huawei from buying parts and components from U.S. companies without U.S. government approval and also makes it difficult if not impossible for Huawei to sell some products because of its reliance on U.S. suppliers. Republican Senator Ben Sasse said: “Huawei’s supply chain depends on contracts with American companies” and he urged the Commerce Department to look “at how we can effectively disrupt our adversary”.

Google immediately suspended doing business with Huawei, including the transfer of hardware, software and technical services except those publicly available via open source licensing. The move could hobble Huawei’s smartphone business outside China as it will immediately **lose access to updates to Google’s Android operating system**. The Google app store will continue to function for existing Huawei device users, but the next version of Huawei’s Android smartphones will lose access to popular services, including the **Google Play Store, Gmail, the Chrome browser and YouTube**. Those services are not covered by the open source license and require a commercial agreement with Google. Huawei will continue to have access to the version of the Android operating system available through the open source license, known as Android Open Source Project (AOSP), that is available for free to anyone who wishes to use it. Lenovo denied rumors that it has stopped the sale of PCs and servers to Huawei due to the latest U.S. ban. Taiwan Semiconductor Manufacturing said it will maintain supplies for the time being even though it was assessing the impact of Washington’s decision.

Huawei Founder Ren Zhengfei said he expects U.S. restrictions won’t hurt the Chinese company’s growth much, Nikkei reported. “**Huawei’s growth may slow, but only slightly**,” Ren told Japanese reporters. “We will not change our management at the request of the U.S. or accept monitoring, as ZTE has done,” he added. Huawei will be “fine” even if it cannot buy chips from U.S. suppliers, as “we have already been preparing for this,” Ren said. He ruled out the possibility of producing 5G equipment in the U.S. “Even if the U.S. asks us to manufacture over there, we will not go,” he said.

The U.S. government claims Huawei’s equipment poses a security risk because the company might allow the government to access networks and private user data – claims that the company and Chief Executive Ren have repeatedly denied. The Commerce Department will spend the next 150 days writing the rules to back up the order, issued under the 1977 International Emergency Economic Powers Act, which will cover any transaction pending or completed as of the order’s signing. The U.S. government has already prohibited its agencies from using devices made either by Huawei or ZTE. Inclusion on the Entity List broadens this prohibition. Huawei unveiled its 92 core suppliers in 2018, of which 33 were from the U.S., including Intel, Oracle, Microsoft and Qualcomm.

China’s Ministry of Foreign Affairs Spokesman Geng Shuang said that the U.S. was “abusing its power to maliciously smear and beat down on certain Chinese companies”. “We urge the U.S. to stop using the pretense of national security to carry out its unreasonable suppression of Chinese companies, and to provide a fair and just environment for Chinese companies investing and operating normally in the U.S. that is free of prejudice.” The latest ban on Huawei reflects Washington's dangerous Cold War mentality that will lead to further U.S.-China decoupling, which is also casting a shadow over stalled trade talks between the two countries and will hurt the global tech industry, the Global Times newspaper quoted Chinese analysts. **China will take necessary measures to safeguard the legitimate interests of Chinese companies, the Foreign Ministry said.**

While competitor ZTE was forced to stop most of its business between April and July last year due to U.S. sanctions and paid a USD1.4 billion fine to lift the sanctions, Huawei is in a better position to counter U.S. sanctions. With more than USD15 billion in research and development (R&D) every year, Huawei is ranked among the top five tech firms worldwide in R&D spending, and it has been working to develop its own components from core server chipsets to operating systems. Following Trump’s executive order, Germany and the Netherlands have indicated that they don’t plan to change their stance on Huawei. French President Emmanuel Macron has also cautioned against freezing out Huawei or escalating trade tensions with China. He said that “launching a technology war or a trade war toward any country” is not the best way to defend national interests.

Asked whether China will target U.S. companies, Lu Kang, Spokesperson of the Chinese Foreign Ministry, said that foreign companies should not worry as long as they abide by the law. "But there is something I must emphasize: trade and investment must be based on equality, mutual benefit and mutual respect."

Three Chinese CCTV camera makers profit from surveillance demands after 9/11

Increased emphasis on security and surveillance after the attacks in the U.S. on September 11, 2001, have mainly profited three Chinese CCTV makers – Hikvision, Dahua and Uniview – all based in the Binjiang district of Hangzhou, capital of Zhejiang province. Once mostly farmland, the district is also home to Zhejiang Geely Holding, the owner of Sweden's Volvo Cars. The three companies account for about 30% of global video surveillance revenue. Hikvision and Dahua together have more than half of China's video camera market. China's surveillance camera makers have long kept a low profile. Each year, they manufacture millions of cameras used to power surveillance systems both in China and abroad that watch over public and private areas such as prisons, railway stations and airports, and scan roads for vehicular breakdowns.

Hikvision and Dahua came under the spotlight when they were named in **the U.S. 2019 National Defense Authorization Act**, which **banned U.S. federal agencies from purchasing cameras from the two companies** on concerns that they pose a risk to national security. Both Hikvision and Dahua have said the ban is not expected to have a substantial impact on their business.

"The increasing demand for safety and security globally after 9/11 is one of the factors driving the growth of the security industry worldwide," a Hikvision spokeswoman said in a written response to the South China Morning Post. "But the fundamental reasons for the industry's development are the low police-civilian ratio based on the large population in China, and the challenging situation for public security management in China." The global market for security cameras has expanded 10% to USD18.5 billion, driven by increased government spending on equipment to fight crime and terrorism, according to IHS Markit. China's professional video surveillance equipment market grew by 14.7%, faster than the 5.5% growth for the rest of the world, IHS said.

China had about 176 million surveillance cameras in operation as of 2016. By 2022, the number is expected to reach 2.76 billion, in a country with a population of 1.4 billion, according to IDC. One particular growth driver is the Sharp Eyes project, part of China's Skynet national security network, which raised spending on both urban and rural surveillance systems, the South China Morning Post reports.

CHINA NEWS ROUND-UP

Sequoia, Tencent and IDG are the top investors in Chinese unicorns

Sequoia Capital China, Tencent Holdings and IDG Capital are the three top ranking investors in Chinese unicorns, according to **The Hurun Report**. It lists 202 unicorns, start-ups valued at more than USD1 billion, in China as of the first quarter of 2019. Sequoia China has invested in 53 of them, Tencent has put money into 31 and IDG has invested in 25. "China has the largest number of unicorns in the world," said Rupert Hoogewerf, Chairman and Chief Researcher at Hurun.

More than 70%, or 146, were in sectors such as internet services, e-commerce, internet finance, health care, culture and entertainment, artificial intelligence (AI), and logistics, according to the report. The 202 unicorns have a combined valuation of more than CNY5 trillion. Separately, a Credit Suisse report released at the end of March said that although China accounted for nearly one-third of the world's 326 unicorn start-ups, it lags behind the U.S. in producing hi-tech unicorns in fields such as AI, robotics and biotech, and is still playing catch-up in scientific research.

The Hurun Report found that Beijing was home to 82 unicorns, 41% of the total in China, followed by Shanghai with 45, Hangzhou with 19 and Shenzhen with 16. Alibaba's financial arm Ant Financial, TikTok owner Bytedance and ride hailing firm Didi Chuxing topped the Hurun unicorn list. Sequoia China has invested in Ant Financial, Bytedance, drone maker DJI, short video app Kuaishou, JD Logistics, and education start-up VIPKID, while Didi Chuxing, Kuaishou, JD Logistics and health platform WeDoctor are in Tencent's portfolio.

The report also included a list of **70 "future unicorns" that have potential to become USD1 billion start-ups** in the future, including gay dating app Blued, e-commerce company Club Factory and fitness app Keep. Shanghai's new tech board would be an attractive listing option for Chinese unicorns, said Hoogewerf. He added that while 20% of unicorns might fail, and less than 10% would be acquired, most would go on to a public listing, the South China Morning Post reports.

Trade war to hit high-end U.S. fashion brands dependent on Chinese manufacturing

High-end U.S. fashion brands have become more reliant on China for manufacturing, **making them more vulnerable** to an increase in trade war tariffs, a new study shows. While imports of basic apparel items such as T-shirts and underwear can easily be shifted to lower-cost production hubs such as Vietnam, Cambodia or Bangladesh, China has become so specialized in the manufacturing of higher-value goods such as accessories and coats, that U.S. brands will suffer from the tariff hike. **Countries further down the value chain than China cannot compete on quality on high-end items**, despite the fact many areas of the textiles industry are engaged in a race to the bottom in terms of costs.

Other countries cannot yet produce in the same quantity or with the same quality as China due to technological constraints. China's stranglehold on the garment supply chain continues, despite its price advantage being eroded rapidly, due in part to increasing labor costs and the early rounds of U.S. tariffs. The average retail price of clothing manufactured in China was USD25.7 per unit back in the second quarter of 2018, only slightly higher than clothing from Vietnam. A year later, China's cost more than doubled to USD69.5 per unit. By the end of the first quarter of 2019, the number of apparel items made in China that were held in U.S. clothing retailers' inventories were down more than two-thirds to 8,352 stock-keeping-units (SKUs).

China still dominated the U.S. retail market as the largest supplier of new clothing items (193,774 SKUs) from the beginning of 2016 to late-April 2019. Vietnam, considered to be China's main challenger on the cost and quality of garment manufacturing, contributed a third of China's level to the U.S. market during the same period. "I don't think U.S. retailers choose to source from China simply because of cost," said Sheng Lu, Associate Professor of fashion and apparel studies at the University of Delaware and author of the new study. "Rather, China is regarded as a 'balanced supplier' with regard to primary sourcing factors, which range from cost, reliability, speed to market, to compliance risk. "Even though the tariff war will further reduce the price competitiveness of goods made in China, it will not fundamentally shift China's overall competitiveness as a sourcing base, especially in the short-term," Lu said.

The latest proposal to impose tariffs of up to 25% on almost all remaining Chinese exports to the U.S. includes many garment items that were not included in earlier tariff rounds. "U.S. retailers may quickly move sourcing orders from China to other suppliers for basic fashion items, such as tops, bottoms, and underwear. However, there seems to be **much fewer alternative sourcing destinations for more sophisticated product categories**, such as accessories and outerwear," Lu said. He analyzed real-time pricing and inventory data for more than 300 million items from 90,000 U.S. fashion retailers in a fashion industry database used by brands to adjust their inventory levels and sourcing strategies, as means of maximizing sales and profits, the South China Morning Post reports.

Trade war could revive China's automobile sector

China's embattled automobiles sector is banking on Beijing to rescue it with the introduction of strong incentives as the trade war with the U.S. escalates. Last month, passenger car sales stood at 1.51 million units, a decline of 16.9% from the same period in 2018, according to the China Passenger Car Association (CPCA). More importantly, April was also the eleventh consecutive month of sales declines for an industry that represents about 6% of China's economic output.

Industry officials now expect the central as well as local governments to implement new policies to support the sector. These policies could range from cash subsidies, tax reductions and incentives, to boosting second-hand car sales. "It is pointless to be over pessimistic about the industry, since the government's bolstering measures will effectively fire up sales again," said Tian Maowei, Sales Manager at Shanghai-based Yiyou Auto Service. "To a certain extent, worries about the trade war's damage to the economy could prompt the governments to launch incentives sooner rather than later." The once-buoyant sector reported its first contraction in sales since 1992 last year, as consumers tightened their belts amid mounting concern about a slowing economy and an escalating trade war.

"**We see a good chance for the market to recover in the second half of 2019**, given the low base last year and potential stimulus policy," Kelvin Lau, head of auto, transport and industrial research at Daiwa Capital Markets, said in a recent research report. "In addition, if the current trade tensions escalate further, we see a higher chance for China to implement the stimulus policy to boost social consumption." Total sales by major China-based carmakers topped CNY8 trillion last year, representing about 9% of the country's GDP. Makoto Uchida, Senior Vice President at Nissan, said at Auto Shanghai 2019 that Beijing's efforts to buoy the industry, such as subsidies and tax incentives, will effectively result in a turnaround in the second half this year. In April, Beijing slashed the value-added tax on manufacturers from 16% to 13%, a move that helped carmakers cut prices by 2%, boosting sales, the South China Morning Post reports.

Foreigners said to boost long-term home rental market

For China's long-term home rental market, the increasing number of foreigners working or studying in the country are like a "gold ore", analysts told the China Daily. **The market will likely grow rapidly from now on as online rental platforms providing customized services to foreigner tenants are expected to increase** in the future. "China's long-term home rental market for foreigners is developing rapidly as an increasing number of foreigners choose to work or study in China due to the nation's economic rise," said Neil Wang, President of market consultancy Frost & Sullivan. He noted that as of last year, over 950,000 foreigners were working in China. The Ministry of Education said that more than 492,000 foreign students came to China. The figure is expected to exceed 500,000 by 2020.

"The home rental market for foreigners is expected to increase steadily. Most of the foreigners in China, be they students or employees, choose to rent a home instead of buying one," Wang said. But finding an ideal apartment through the traditional offline rental agencies is not easy. "For foreigners in China, the language barrier is the very first bottleneck. Also, foreigners have a different definition of an ideal home and prefer high-quality houses equipped with furniture," said Chen Tao, Senior Analyst from market consultancy Analysys. Now **online home rental platforms are injecting new impetus into the market** by offering foreigner-specific services, Chen said.

Ziroom, an app that helps arrange long-term rentals of furnished apartments, launched its English version recently to serve foreign tenants better. Ziroom's Jin Hu said: "We have trained a group of agents who can speak English fluently to serve foreigners. They help foreigners in finding suitable homes and also offer timely furniture repair services during their entire tenancy." The Beijing-based platform has served more than 20,000 foreigners from over 86 countries and regions, the China Daily reports.

New home prices rise in almost all Chinese cities

New home prices rose in almost all of the 70 Chinese cities monitored by the government in April, amid upbeat sentiment. The average cost of a new house increased by 0.62%, about the same as the rise in March and higher than the 0.53% gain in February, according to Bloomberg calculations based on National Bureau of Statistics (NBS) data. Prices climbed in 67 out of the 70 cities tracked by the Bureau, a jump from 65 and 57 cities in March and February respectively. Bucking the trend were Ganzhou in Jiangxi and Shaoguan in Guangdong, where prices dipped 0.1%. Guilin, a tourist city in Guangxi, saw flat home prices in April.

Home price growth ended a four-month deceleration in March, as lower mortgage rates, an easing of home purchase restrictions and price-control regulations encouraged buyers. "Home prices are entering an upward trajectory, enabled by an easing in mortgage policy and the unleashing of previously pent-up demand," said Yan Yuejin, Director with the E-house China R&D Institute. "If this trend continues, more cities may upgrade their curbing measures." China's property sales volume increased 1.3% in April year-on-year in terms of floor space, after a 1.8% gain in March and a 3.6% decline in the first two months of 2019. Sales by value jumped 13.9% from a year ago, a much faster pace of growth than the 2.8% seen in the first two months of 2019.

"We expect developers' contracted sales to rebound for the rest of the year. Policies could be relaxed further to support

China's GDP target given the ongoing U.S.-China trade war," said Raymond Cheng, head of Hong Kong and China property research at CGS-CIMB Securities. "China property and related sectors account for about 40% of GDP. Relaxing sector policies is an easy way to achieve its GDP target," the South China Morning Post reports.

Based on the sales performance of 28 major property developers during the first four months of this year, total sales reached CNY1,542.6 billion, up 9.2% year-on-year, according to the China Daily. The paper added that there will be measures to stabilize the market very soon. Suzhou in Jiangsu province, for example, tightened housing policies further on May 11. The down payment ratio for a family's first home purchase has been raised from 20% to 30%. Newly built property in certain parts of the city cannot be traded for a three-year period after purchase, and for five years in the case of pre-owned property.

Chinese breakthrough makes lithium production considerably cheaper

The production of lithium – an essential ingredient in batteries for electric cars – **has become** easier and **significantly cheaper, thanks to a technological breakthrough**, just as U.S. concerns about China's dominance in the supply chain are on the rise. The cost of extracting the mineral has been slashed to a "record low" of CNY15,000 per ton by the new process, compared to an international price for lithium ranging from USD12,000 to USD20,000 per ton – and a long-term contract price of about USD17,000 – over the past year. The precise production costs of lithium are a closely guarded business secret, but industry insiders interviewed by the South China Morning Post agreed that the rate quoted in a Chinese government report could be considered one of, if not the lowest, around.

While China's lithium output is still relatively low, it dominates supply of the end product, producing nearly two-thirds of the world's lithium-ion batteries, compared with 5% for the United States, and it also controls most of the world's lithium processing facilities, according to Benchmark Minerals Intelligence. Republican Senator Lisa Murkowski, who introduced the Minerals Security Act alongside Democratic Senator Joe Manchin at the beginning of May, said China's lead in the electric car supply chain sector gave it an edge in the ongoing trade dispute.
The U.S. is not the only country playing catch-up with China. France and Germany have also asked the European Commission to support a €1.7 billion battery cell consortium, aimed at reducing China's dominance. The scientific breakthrough could change the amount of lithium China is able to produce in the future. State-owned company Qinghai Lithium Industry – which has been taking advantage of the new process – has enjoyed an average profit margin of more than 50% over the past three years, with total revenues exceeding CNY3 billion, the South China Morning Post reports.

Cheaper lithium batteries will reduce the prices of electric vehicles (EVs) as about 30% to 50% of the cost of an electric car can be attributed to the battery.

ANNOUNCEMENTS

WIELS to organize first major exhibition of Belgian contemporary art in Shanghai

From October 2019 to January 2020, WIELS contemporary art centre of Brussels, will present in TANK Shanghai Museum the first major exhibition of Belgian contemporary art in China. Bluechip artists such as Luc Tuymans, Michael Borremans, Mark Manders, Berlinde de Bruyckere and Francis Alÿs will take part alongside emerging artists illustrating the rich Belgian art scene.

TANK, Shanghai's most upscale new museum, is located in the heart of the West Bund, the hub for technology, innovation and creativity. The museum itself has been recently founded by one of the leading Chinese collectors of contemporary art, who is a fan and regular visitor of Belgium but also a businessman willing to facilitate spaces to welcome corporate activities in an outstanding environment.

The exhibition coincides early November with the China International Import Expo launched in 2018 by Xi Jinping, and with two major international art fairs, one of them (Shanghai West Bund Art Fair) being held across the avenue from TANK. A Belgian economic mission to China will also be presided by Her Royal Highness Princess Astrid (November 16-22) for which one official activity will certainly be held on the premises within the framework of the show.

To carry out this project, WIELS is looking for Belgian and Chinese corporate partners willing to benefit from this exceptional moment to enhance their visibility.
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Baker McKenzie Alert: China Retaliatory Tariffs – Product Exclusion Process

According to a Circular [2019] No. 2 (the "**Circular**") released by the Tariff Commission of the State Council (the "**Tariff Commission**"), which is a multi-ministerial board led by the Ministry of Finance ("**MoF**"), on May 13, 2019, China has introduced a product exclusion process, expected to be officially launched on June 3, 2019. This is the equivalent of the product exclusion process already put in place by the U.S. Trade Representative's office, aiming to provide exemption from the Chinese retaliatory tariffs applicable to the U.S. origin goods based on particular products.

We set forth in the below alert an overview of this exclusion process and our recommended strategies and immediate next steps for multinational corporations that sell U.S. origin products to China. Please feel free to share the alert with your colleagues who might also be interested in the topics raised in this alert.

If you have any questions on the topics covered or need further clarification on any particular issue, please do not hesitate to get in touch with your usual contact at Baker McKenzie, or any of the lawyers listed below.

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