China Business Weekly

16 July 2019

ACTIVITIES SUPPORTED BY FCCC

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.

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FOREIGN TRADE

Trade talks resume by phone

Top trade negotiators from the U.S. and China spoke by phone, after an agreement to resume negotiations by Presidents Donald Trump and Xi Jinping at the Group of 20 summit in Osaka in late June, but so far no new date has been set for a resumption of face-to-face talks. White House Economic Adviser **Larry Kudlow** said the phone conversation was “constructive”, but **warned that negotiations would be tough**. The United States will allow American companies to sell technology to blacklisted Huawei where there is no threat to U.S. national security, but China is expected “to move immediately, quickly, while the talks are going on, on promised agricultural purchases, he added.

At the meeting on the sidelines of the G20 summit in Osaka, Trump pushed for a Chinese commitment to make large-scale purchases of U.S. agricultural products, but Chinese President Xi Jinping made no specific commitment during the meeting. Agricultural products, such as soybeans, are a key battlefield in the trade war. China has traditionally been a large buyer of U.S. soybeans and the trade war has damaged the trade. Moreover, even if China significantly boosted its purchases of U.S. soybeans and corn, the amount would only reduce the trade deficit marginally. **China has not yet resumed buying additional U.S. agricultural products**, and Chinese media warned that China would not buy more American products if the U.S. “flip-flopped” on its promises.

The U.S. administration announced it would exempt 110 Chinese products, including medical equipment and electronic devices, from a 25% tariff it imposed on USD34 billion worth of Chinese goods in July 2018. But this is still far from what Chinese officials have demanded – that all additional U.S. tariffs on Chinese goods must be lifted and Huawei must be removed from the blacklist – Chinese analysts pointed out.

Huawei would remain on the U.S. Entity List but U.S. companies would receive licenses from the U.S. government to sell certain products Huawei. But the Chinese company said that it has yet to see any benefit from the U.S. government's promise to relax restrictions on it and called for a direct removal of the company from a security blacklist. In mid-October, the U.S. Commerce Department plans to issue regulations aimed at safeguarding the U.S. telecom supply chain. The Chinese side publicly named three "bottom lines" on which it has no intention of giving in: the U.S. should lift all punitive duties on Chinese imports; China's purchases of U.S. goods must be decided by real Chinese domestic demand; and the wording of a deal should respect China's sovereignty – that is, the U.S. should not demand that every single item in the deal be codified into Chinese law, nor should it demand a unilateral enforcement mechanism.

Chinese Vice President Wang Qishan has said Beijing should remain committed to economic globalization despite the challenges posed by the trade war with the United States. "China's development can't be separated from the world, and the world's development cannot be separated from China. Major nations have to shoulder more responsibility and make greater contributions to the stability and peace of the world," he said. "They should promote common security through seeking common interest, and we oppose the practice of protectionism in the name of national security," he added.

Meanwhile, **the Trump administration criticized a telecom project implemented by ZTE in Argentina**. "U.S. words and deeds are totally irrational and irresponsible," said Geng Shuang, Chinese Foreign Ministry Spokesperson about Washington's "concern" that China was "exploiting data collected by surveillance systems" in other countries. The U.S. uses video surveillance systems and so could Argentina. It should not be politicized by the U.S. with ulterior motives, he added. Chinese companies cooperate with countries like Argentina to help them improve public security and urban management and such moves are welcomed and recognized by local society, Geng said. In March, ZTE signed a nearly USD30 million contract to install monitoring devices with Jujuy, a northern province in Argentina, which has crime rates slightly above the national average. The U.S. warnings for such a low-profile project show its relentless throwing of mud at Chinese technologies amid the China-U.S. tech race, Bai Ming, Deputy Director of the Ministry of Commerce's International Market Research Institute said.

BlackRock, the world's largest asset manager, **downgraded emerging market equities linked to China for the second half of the year**, saying markets were "overly optimistic" about China's ability to boost its economic growth amid the trade war with the United States. The firm, which manages more than USD6.5 trillion in assets, said it now sees "trade and geopolitical frictions as the principal driver of the global economy and markets" and expects China's economy to experience "a lull" from the effect of U.S. tariffs. As recently as a month ago, New York-based BlackRock had a positive view of emerging market equities, saying "economic reforms and policy stimulus" could support the stocks. It had argued that "improved consumption and economic activity from Chinese stimulus could help offset any trade-related weakness". But the firm has now changed its viewpoint largely because the year-old U.S.-China trade war has become the single most important factor in the global economy and marketplace, it said in its Midyear 2019 Global Investment Outlook. The U.S. and China are now locked in a strategic competition that is structural and persistent, BlackRock's researchers said.

Former U..S. Ambassador to China Max Baucus has said the tariff war had become the "new normal" in the countries' relationship despite the resumption of trade talks. He said that it would be difficult for the world's two largest economies to cancel their existing tariffs on each other's products. "We have a new normal that the tariffs will continue in the indefinite future," Baucus told the South China Morning Post. "It's very hard to roll back tariffs once they're imposed. Both countries' tariffs that exist today will continue for some time. China will also have to wait to see if the U.S. actually allows U.S. hi-tech sales to Huawei. Consequently, further progress will be difficult. The status quo is likely for the rest of the year," Baucus said.

David Lampton, Professor Emeritus of China Studies at the Johns Hopkins School of Advanced International Studies, agreed that the existing tariffs would not easily be removed. "Trump believes in tariffs. Therefore he will be very reluctant to give up tariffs unless he sees a big gain, which he can sell for his election," Lampton added.

Zeng Peiyan, who was Vice Premier from 2003 to 2008, said the U.S. should not complain about its trade deficit with China because it was a result of the U.S. dollar's role as an international currency, domestic consumption in America and its industrial structure. Zeng, who is now Chairman of the China Center for International Economic Exchanges, said it was Washington that had continued to escalate trade frictions with Beijing and it had seriously undermined the growth prospects of the two countries and the world. Zeng said if Washington would ease the curbs on technology exports to China to the level of restrictions placed on France, it would essentially cut down the trade deficit with China by 35%.

Meanwhile, **China's DJI Technologies**, the world's largest manufacturer of drones, announced that its high-security **drones**, intended for government use and known as Government Edition, **had received clearance from the U.S. authorities**. The approval was a rare example of a Chinese technology company winning U.S. government clearance in a climate recently defined by suspicion and restrictions. In May, the U.S. Department of Homeland Security alerted U.S. companies to "be aware" of whether their "unmanned aerial systems" (UAS) data was "being stored by the vendor or other third parties. During 15 months of testing of the two models, U.S. authorities found no indication that data was being transmitted outside the system.

Another issue that could complicate trade negotiations is the sale of U.S. arms to Taiwan. **China said it will place sanctions on U.S. companies involved in the latest planned military sale to Taiwan** worth an estimated USD2.2 billion, which it said has impaired its sovereignty and national security. The U.S. State Department has already approved the sale. China's Foreign Minister Wang Yi warned the U.S. against attempts to create new trouble for Sino-U.S. ties. The Chinese sanctions could also block the targeted U.S. companies' non-military products from entering Chinese markets. The firms include Raytheon, that provides Stinger missiles, General Dynamics, that provides M1A2T tanks, and BAE and Oshkosh that provide tank equipment. China would not only not buy products from these companies, but also freeze the industrial chains related to these companies, and stop providing certain base materials, including rare earths, which are indispensable in making advanced weapons and equipment.

IT & TELECOM

Tech firms from copycats to trailblazers

China's internet companies used to be called copycats for creating clones of Western social media platforms back in their home market – but those days are long gone and that trend is now in reverse. **Today, global internet companies** from the U.S. to Southeast Asia **are looking to replicate Chinese concepts** – from models such as the all-in-one super app, to social commerce as well as short video, according to findings from **the second edition of the China Internet Report 2019**, launched at Hong Kong's RISE conference. The report examines opportunities and challenges facing its technology-led industrial transformation. The report was authored by the South China Morning Post and its sister site Abacus, in conjunction with Edith Yeung, Managing Partner at blockchain venture capital fund Proof of Capital.

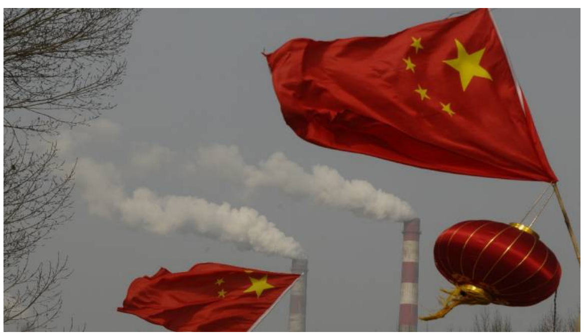
Companies such as Indonesian ride-hailing company Go-jek, Japan's LINE messaging app and even Facebook in the U.S. are now moving towards the super-app model, originally pioneered by Tencent's WeChat, the report found. The WeChat messaging app offers users a range of services from making mobile payments to ordering food deliveries, that can all be accessed without leaving the app. China is also leading the way in social e-commerce as well as short video. The short video craze was popularized by TikTok, an app by Chinese company Bytedance, that allows users to post 15-second video clips. TikTok took the world by storm and became the most downloaded app on the iOS app store for five consecutive quarters.

Another key trend for China technology development is in next-generation 5G technology networks. **China currently holds the most number of 5G patents**, and has 5G pilot projects going in over a dozen cities with a total population of 167 million, according to the report. Artificial intelligence (AI) is also being used on a massive scale in China, with applications ranging from paying one's subway fare or checking into a hotel using facial recognition, to making custom recommendations for online shopping or browsing news online, the report found. The China Internet Report explores 11 key sectors that make up China's technology landscape – including e-commerce, messaging, the sharing economy, 5G, AI, smartphones and smart devices. Expert commentary from industry leaders such as Lee Kai-fu of Sinovation Ventures, Razer Chief Executive Tan Minliang and Eric Xu, Managing Partner of GGV Capital, are included in the report, the South China Morning Post reports.

The China Internet Report 2019 is available free of charge and can be downloaded in full here.

MACRO-ECONOMY

Economic and trade growth dropping



China is facing more and more headwinds in its economic development. **China's economic growth slowed to a record low of 6.2% in the second quarter of 2019** as the shock from the protracted trade war with the United States continued to resonate through the world's second largest economy. Gross domestic product (GDP) growth slid from 6.4% in the first quarter, according to the National Bureau of Statistics (NBS). Even during the global financial crisis in 2009, China's quarterly GDP growth did not dip below 6.4%. The figure, nonetheless, falls within the range of Beijing's target growth rate for the year of between 6.0% and 6.5% and was generally expected. In the first half of the year, China's economy grew by 6.3%.

China's exports and imports both contracted in June, but in the first half, foreign trade increased by 3.9% year-on-year, totaling CNY14.67 trillion, with exports growing by 6.1% year-on-year. Imports rose 1.4%, and the country's trade surplus widened by 41.6% year-on-year to hit CNY1.23 trillion during the same period. Last year, foreign trade in the first half grew by 7.9% year-on-year, with exports rising 4.9% and imports up 11.5%. This shows that the impact of Sino-U.S. trade frictions is "largely controllable", according to the Chinese authorities.

Other economic data turned out better than expected. Industrial production grew by 6.3% from a year earlier, up from 5.0% growth in May, which was the lowest since February 2002. Within industrial production, manufacturing grew by 6.2% year-on-year, up from 5.0% in May. China's private sector provided the main driver of industrial growth in June, expanding by 8.3% in June and 8.7% in the first half of the year, compared with 6.2% and 5.0% for state-owned enterprises (SOEs) over the same periods, respectively.

Fixed asset investment (FAI) grew by 5.8% in the January to June period compared to a year earlier, higher than the 5.6% growth reported in May. Investment in property development grew by 10.9% in the first half of the year, down from 15.8% in the year to May. Retail sales grew by 9.8%, up from May's reading of 8.6% and April's 7.2% growth. Last month, sales of passenger and commercial vehicles were down 9.6% annually, according to the China Association of Automobile Manufactures (CAAM).

Chinese foreign direct investment amounted to USD3.3 billion in North America and USD9 billion in Europe in the first half, down by a fifth from a year ago. Chinese companies invested just USD12.3 billion in the advanced economies of Europe and North America in the first half of the year, the lowest amount since 2014 and almost a fifth less than last year, according to the law firm Baker McKenzie. The decline has been almost entirely attributed to state-owned firms turning their backs on both regions. Private companies accounted for 94% of the total spent in the first six months. China's overseas spending, once rampant, has been curbed drastically by the introduction of strict capital controls intended to stop money leaving the country. At the same time Chinese companies have faced increasingly tough scrutiny abroad, particularly under U.S. President Donald Trump's administration, with many major deals being rejected on national security grounds. China's global outbound investment continued to fall in the first half of the year, with newly announced merger and acquisition transactions down 60% to USD20 billion.

According to Chinese Vice Premier Liu He, China's economic performance in the first half of 2019 is in line with expectations. "Macro-economic indicators of growth, employment and consumer prices are all in normal ranges," said Liu, adding that: "The downward pressure on the economy is the result of cyclical, institutional and structural factors. It's a normal phenomena in the development of the economy. The key to countering a variety of risks and challenges is to do our own things well."

The top 500 Chinese companies posted a record high total revenue of CNY45.5 trillion, up 14.8% from a year earlier, Fortune magazine's Chinese edition reported. Their net profits added up to CNY3.625 trillion, a year-on-year increase of 4.21%, which was slower than the 24.24% surge last year. The annual revenue threshold for companies on China's Fortune 500 list this year rose 17% to CNY16.238 billion. Sinopec, Petrochina and China State Construction Engineering Corp remained unchanged at the top. Ping An Group held the top spot for non-state-owned enterprises this year.

CHINA NEWS ROUND-UP

Expat demand for Beijing's luxury serviced apartments falls as foreign firms scale back their Chinese operations

Beijing's luxury serviced apartments market is set to take a hit from an increase in supply and a drop in demand from expatriates as foreign firms scale back their Chinese operations. Foreign businesses, particularly manufacturers, have been losing market share in China under stiff competition from local companies in recent years. Many have moved their production facilities out of the country because of cost concerns, a trend exacerbated by the threat of higher tariffs under the U.S.-China trade war. As a result, demand for rented accommodation for their senior executives has weakened. "Demand from foreign firms actually fell before the trade war," said Sunny Cai, Associate Director of Savills North China's residential leasing unit. "But the problem is supply shrank by a larger extent, due to the sale of several serviced apartment projects."

On the supply side **between 900 and 1,000 new units are expected to enter the market by the end of next year**, according to JLL. "This amounts to a big surge given less than 200 units were added in the first half of this year," said Ji Ming, Research Manager with JLL North China. "This will undoubtedly add heavy pressure on future rent." Average rent for the 8,347 upscale serviced apartments covered by Savills fell 0.6% in the first quarter of the year to CNY254.1 per square meter. Ji said some major projects – which would usually raise rent by 5% to 10% annually – have hardly increased the rent at all this year, given foreign firms' tighter budgets for living costs.

Not every developer of high-end serviced apartment is feeling the pressure, however. **Youtha Suites, built by state-owned China Resources Land**, filled nearly 90% of its 141 suites which opened in March. Most tenants are top executives from foreign car makers, particularly German ones. Monthly rent for an 84 sq m suite is CNY26,800, about double the rate for an ordinary rental in the same neighborhood. The project, CR Land's first in Beijing, marked its foray into a sector traditionally dominated by foreign brands like Ascott, Frasers and Shama, the South China Morning Post reports.

Chinese companies lose interest in learning from foreign companies

Chinese companies have little interest in learning from overseas businesses, as the domestic market matures and nationalism is gaining in popularity, according to **Scott McDonald, President and CEO of Oliver Wyman Group**. The consultancy entered China 15 years ago and for the first 10 years "most of our work was around best practices, bringing global best practices into the Chinese market," McDonald said. "There was a lot of curiosity about what was going on in other places and how it was done, how firms were run and organized." "Now there is very little interest in that," he said. "There is far more interest in what else is happening in China, and very specific strategic questions, which are more domestically focused."

McDonald, who joined Oliver Wyman 24 years ago and became CEO in 2014, said he has seen this "obvious change" accelerate over the past five years, and throughout all sectors. With a 120-strong team in Beijing and Shanghai, as well as in Hong Kong, the firm consults both domestic and foreign companies in the country, across financial services, retail, manufacturing, aviation and energy. With Chinese firms "growing in success, growing confidence and a certain level of nationalism," they are more focused on turning inward and being competitive domestically. In an interview with the South China Morning Post, McDonald described a recent trip to China when in almost every meeting clients across all sectors the firm works with said they did not want advice about what was happening in Europe or the U.S.

"Companies are becoming less confident that the rest of the world has relevant advice," said the CEO. The size of China's market, he said, is a key factor that makes doing business there not comparable to overseas markets. Total retail sales in China will grow 7.5% to USD5.6 trillion this year, predicts market research firm eMarketer, while those in the U.S. will grow 3.3% to USD5.5 trillion. How Chinese companies operate is also different from foreign firms, noted McDonald, citing speed. "Everyone jokes about this, but the speed at which Chinese companies do deals, the lack of 200-page legal documents backing deals, means you can do something over lunch that would take longer in most parts of the world," he said. But, as companies evolve, he still sees a desire to expand abroad, something Chinese companies have historically tended to struggle with, the South China Morning Post reports.

More patents granted, infringement cases investigated

China investigated 6,529 patent-infringement cases in the first half of 2019, according to the National Intellectual Property Administration (NIPA). **A total of 238,000 invention patents were authorized in China in the first half of 2019, up 9.9% year-on-year.** Huawei Technologies had 2,314 invention patents authorized, ranking first in China. Sinopec ranked second with 1,595 authorized invention patents, and the smartphone maker Oppo ranked third with 1,312. By the end of June, China had 12.5 invention patents per 10,000 people, fulfilling the country's 13th Five-Year Plan (2016-2020) ahead of schedule, said Hu Wenhui, Spokesperson for the NIPA.

In the first half of the year, the number of foreign patent applications for invention in China reached 78,000, up 8.6% year-on-year, with Japan, the United States and Germany ranking in the top three. The number of foreign trademark applications in China reached 127,000, an increase of 15.4% year-on-year, Hu said.

The continued strong growth of foreign intellectual property applications in China shows the firm confidence of global innovation players in China's intellectual property protection and business environment, said Ge Shu, an official with the NIPA. Hu added: "We have always upheld equal protection of intellectual property rights of domestic and foreign enterprises. "We hope the U.S. will also treat Chinese companies equally and fairly and earnestly protect the legitimate rights of patent holders in the U.S."

In the second half of this year, Zhang said the NIPA would facilitate the release of policy documents on IPR protection, provide more guidance on administrative enforcement against patented trademark infringement, step up law-enforcement efforts on patent infringement and create a better innovation and business environment, the Shanghai Daily reports.

Subsidy cuts could finish off China's cheap electric carmakers

Drastic cuts to government subsidies that have propped up China's electric carmakers could create an existential crisis for those at the budget end of the scale. Manufacturers who have been selling their vehicles for CNY60,000 or less will be forced to drastically raise their prices to cope with the withdrawal of financial support, according to Brian Gu, Vice Chairman and President of Xpeng, a company seen by many as a challenger to Tesla. Being unable to absorb cuts of up to 60% in their subsidies as easily as high-end rivals, they will have to push up the price of their electric vehicles beyond the reach of many entry-level buyers, said Gu. At that price consumers are likely to see higher quality cars as better value for money, creating a kind of filter process that weeds out the cheap, entry-level electric vehicles. Local brands have tended to be cheaper, with a much shorter range and less features than those offered by foreign automakers such as Tesla and Nissan.

"Being unable to absorb some of these subsidy cuts themselves, low-cost manufacturers would likely have to raise the selling price of electric vehicles to over CNY100,000, a level above which consumers are unlikely to seek entry-level cars, but look for functionality instead," said Gu. Depending on the driving range, subsidies given to makers of new-energy vehicles were cut by 47% to 60% at the end of June. To qualify for any subsidy at all, battery-powered cars now need to have a range of at least 250 km, up from 150 km previously.

China has spent billions of dollars on subsidies to help companies like BYD and BAIC Motor achieve large-scale production of battery-powered vehicles. They were aimed at encouraging wider use of green cars to reduce pollution and helping local manufacturers catch up with global leaders in the field in terms of technological standards. Now, by scaling back the subsidies, the government is hoping to spur more competitive innovation in the sector.

China's overall car sales rose for the first time since May 2018 last month, according to the China Passenger Car

Association (CPCA). German luxury carmaker Porsche saw its sales in China grow by 28% in the first half, compared to a year ago. Sales of new-energy passenger vehicles shot up 38.7% to 134,000 units compared to May, marking a 98.7% increase from the same period last year. In the first half, sales rose 65.9%, to 577,000 units, the South China Morning Post reports.

DHL says freight volumes between the U.S. and China are dropping

As the United States and China sink deeper into their year-long tariff battle, they face a downturn in trade that suggests the dispute is continuing to weaken their economies. Quarterly data from logistics company DHL, taken from sea and air cargo figures between March and June, found that Chinese trade was expected to contract slightly as a result of smaller sea freight volumes. Within that, **imports were "losing significant momentum", especially imports of basic raw materials, equipment and machinery, and fashion goods.** China's industrial production grew by 5.0% in May from a year earlier, the lowest reading since 2002. DHL data also showed a slump in Chinese consumption.

The U.S. trade outlook is worse: DHL expected a "significant downturn, driven by heavy losses in exports outlook". Both air and ocean freight have fallen into negative territory over the past quarter, according to the study which found extreme weakness in basic raw materials, chemicals and high technology. "The declining outlook for U.S. exports indicates that, so far, the U.S. is missing its goal of strengthening its export economy with a harsher trade course against China," the report said. The company's Global Trade Barometer analyzed the air and sea container freight for seven countries, which together accounted for more than 75% of global trade. DHL's focus fell on early-cycle commodities that can act as warning signs for downturns – goods such as bumpers for cars, touch screens for mobile devices and brand labels for clothes. If sales of early-cycle commodities are down, it is likely to mean there will be lower demand for finished items.

The data is expressed as a figure, with a reading above 50 indicating a positive outlook over the three month period, and below 50 a negative. For the U.S., air trade fell from 53 in March to 45 in June, while sea trade fell from 57 to 43. In the case of China, air trade fell from 57 to 51 over the same period, while sea trade fell from 55 to 47. The period studied covered May's escalation of the trade war. **The figures suggested that neither side was "winning" the trade war**, which was having a broadly negative effect on world trade, the South China Morning Post reports.

China's loans to rest of the world worth USD5 trillion, 6% of global economy

The world's debt to China grew tenfold between 2000 and 2017, according to new estimates from German think tank Kiel Institute for the World Economy. **As of 2018, the world owed more than USD5 trillion worth of debt to the government of China**, or around 6% of global economic output. This is a huge increase from the USD500 billion owed in the early 2000s, which was around 1% of global economic output. Analysts have long argued that China has not been consistently transparent with its lending to foreign countries, in particular, low income countries with little economic clout.

Many Chinese loans are disbursed outside the international banking system. While 85% are denominated in U.S. dollars, the loans are often issued by Chinese banks to Chinese contractors overseas to avoid direct loan disbursement to debtor country governments, which are considered to have high default risks. This means there is no cross-border bank claim to report to the Bank of International Settlements (BIS), which acts as the key counterparty to central banks in financial transactions. As a result, many Chinese loans to foreign countries are not wholly captured by official debt statistics tracked by the International Monetary Fund (IMF) and the World Bank. The Kiel Institute, therefore, estimated that the IMF and World Bank were only capturing half of China's total foreign lending. "Around 50% of China's international lending to developing and emerging countries is not included in official statistics. They are not recorded by multilateral surveillance institutions such as the IMF or the Paris Club, by rating agencies, nor by private data providers," read the report.

Alongside the opacity of China's lending, the Kiel institute also said that its overseas lending has been growing exponentially. The research shows that 80% of emerging and developing countries had received official Chinese grants or loans by 2017. Djibouti, Tonga, the Maldives, the Republic of Congo and Kyrgyzstan are the top five borrowers of Chinese state funds as a share of GDP, said Kiel Institute analysts. The report estimated that developing and emerging market nations owe a total of USD380 billion to China. By contrast, they owe USD246 billion to the Paris Club, a group of 22 mostly Western developed countries that includes Germany, Japan, Russia and the United States, the South China Morning Post reports. China has not yet officially published any data on its overseas lending.

People's Bank of China preparing to launch digital currency

The People's Bank of China (PBOC) is accelerating its efforts to introduce a government-backed digital currency, aiming at securing a cutting-edge position in the global cryptocurrency race, Wang Xin, Director of the PBOC Research Bureau said. The PBOC is organizing market-oriented institutions to jointly research and develop a central bank digital currency, a project approved by the central government. Wang said the central bank was closely following the news of a new global digital currency called Libra, to be introduced by Facebook. Unlike other cryptocurrencies, Libra would be "fully backed by a reserve of real assets" and MasterCard and Visa have joined the group of companies preparing its launch.

Wang said that if **Libra** can be successfully launched, it **may challenge the existing United States dollar-centered international monetary system**, a possibility that must be closely monitored. Huang Yiping, Director of the Digital Finance Research Center of Peking University and a former Member of the PBOC Monetary Committee, said the birth of Libra serves as an "alert" for China's digital currency innovators and regulators. The world's economies have yet to decide how to cope with the challenge by the Libra system, though accelerating the launch of their own digital currencies could be a counterbalance, according to Wang of the PBOC. He also said that the central bank digital currency could be a new monetary policy tool, or an investment asset that carries an interest rate to satisfy investors' demand for value. For now, "everything is just under discussion", the PBOC's Wang told China Daily.

Li Zhenhua, Executive Director of the Ant Financial Research Institute, part of the Alibaba Group, said the market is worried about whether Libra will develop into a type of credit money. If that were to happen, it would challenge central banks' monetary sovereignty, Li said. Credit money is a future monetary claim, like an IOU. The PBOC was one of the earliest central banks to start digital currency innovation. The program began in 2014, led by former Governor Zhou Xiaochuan. China's monetary authority identifies the nature of digital currency as "a substitute for cash", rather than a speculative instrument.

Research work is led by the PBOC's Currency Gold and Silver Bureau, which was primarily in charge of traditional currency management, and is shifting to digital currency innovation because the use of cash is declining in China amid booming digital payment systems. Peking University launched a new program "Open Research Initiative of Digital Finance" to provide a research platform for innovation in digital financial products, the China Daily reports.

Chinese excavator firm Sany extends U.S.-based production to avoid U.S. tariffs

Sany Heavy Industry, China's biggest heavy machines manufacturer by sales, has started assembling from scratch hydraulic excavators at its U.S. headquarters in suburban Atlanta, Georgia. The company is putting together its SY215 and SY265 models from parts sourced from China, as well as the United States, Japan and South Korea, in what is known as completely knocked-down (CKD) production. Until October 2018, it was importing only complete machines from China. "They are in the medium-size excavator class, and they compete head to head with the best of the competition," Doug Friesen, Chief Executive of Sany America, the Shanghai-listed company's U.S. subsidiary, said.

Sany is taking a different approach as it pushes into the competitive U.S. market to take on global leaders such as Caterpillar and John Deere in their own backyard. While many Chinese manufacturers are struggling to export to America because of tariffs imposed by the Trump administration, Sany has moved production to the U.S. The company will add two more models to its completely knocked-down production line next year, and build another for smaller excavators, according to Friesen, as it shifts away from imports. It aims to add another 300 jobs locally to the current 70, and grow its dealer network to 100 by mid-2020 from the current 36. Depending on market share, the company will consider building two more manufacturing facilities and a research and development (R&D) center on its current 228-acre site. The 25% U.S. tariffs that hit Chinese machinery imports in July 2018 accelerated the expansion of Sany's U.S. production.

"The U.S. is the second-largest construction economy in the world, this particular market is extremely important," Friesen said. China surpassed the U.S. to become the largest construction market in 2010. A total of USD34 billion was spent on construction and heavy equipment in the U.S. last year, compared with USD25 billion in China, according to industry consultancy Off-Highway Research. In little more than three decades since its founding, **Sany's revenue reached CNY56 billion last year, eclipsing domestic peers such as XCMG and Zoomlion.** Domestically, it has beaten rivals such as Japan's Komatsu and Hitachi, as well as Caterpillar, to become the top player since 2012, according to Off-Highway Research. It enjoyed a market share of 23% last year, according to the China Construction Machinery Association. Sany's Founder and Chairman Liang Wengen was China's richest man in 2011, the South China Morning Post reports.

ANNOUNCEMENT

Weihai International Sister Cities Scholarship

I. About Weihai International Sister Cities Scholarship

1. Introduction

Weihai starts to recruit a person from each of the international sister cities to study Chinese language and culture in the local university from this year on. The candidate must be recommended by the sister city's council, and enjoy the scholarship. The study period lasts two school terms (each term is five months, the winter and summer vacations are not included). The scholarship is 20,000 RMB yuan which is used to cover tuition, lodging, board, and training fees. The costs of international travels, winter and summer vacations and etc. are at his/her own expense.

2. The Entry Requirements

(1) Age ranges from 25-45 years old (Age can be relaxed if it is necessary).
(2) The candidate must be recommended by the International sister city council and is enthusiastic about exchanges with China.
(3) The candidate needs to fill out the Application Form of Weihai International Sister Cities Scholarship and submit it to the Weihai Foreign Affairs Office with the letter of recommendation from his/her city council.
(4) The duration of study in Weihai is usually two terms which is 10 months, at least no less than one term. It can be extended for two terms after mutual consultation and agreement.
(5) The candidate who has already received government scholarships or corporate funding from various levels in China will no longer enjoy this scholarship.

3. Student Management

(1) All the students study Chinese language and culture in the university designated by Weihai Foreign Affairs Office.
(2) All the students should participate in the activities organized by the Weihai government or Foreign Affairs Office. If the student fails to attend the activities twice within a term, the scholarship will be suspended.

We are expecting that your city will soon start to look for the right person for this program. We strongly suggest that you could send a person who is in charge of international relations for the council, or a staff who works for some local organization engaged in promoting international friendly exchanges, or other person whom your council believe will help to promote exchanges between our two cities. The application form, letter of recommendation and passport scans need to be send as soon as possible.

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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.

For more information:
Sandrine Barbeaux, Executive Producer
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Your banner at the FCCC website or newsletter

Companies interested in posting a banner/an advertisement on the FCCC website or FCCC weekly newsletter are kindly invited to contact the FCCC at: info@flanders-china.be

Organisation and founding members of the Flanders-China Chamber of Commerce

Chairman: Mr. Stefaan Vanhooren, President Agfa Graphics, Member of the Executive Committee of the Agfa Gevaert Group, NV THE AGFA-GEVAERT GROUP SA
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Mr. Philippe Van der Donckt, Director Government Affairs Asia, NV UMICORE SA

Membership rates for 2019 (excl. VAT)

- SMEs: €405 (€490.05 incl. VAT)
- Large enterprises: €1,025 (€1,240.25 incl. VAT)

Contact

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The FCCC Newsletters are edited by Michel Lens, who is based in Beijing and can be contacted by e-mail michel.jc.lens@gmail.com . Disclaimer: the views expressed in this newsletter are not necessarily those of the FCCC or its Board of Directors.