China Business Weekly

7 June 2022

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

FCCC/EUCBA ACTIVITIES

Exclusive Dinner with H.E. Mr Cao Zhongming, Ambassador of the People's Republic of China in Belgium – June 16, 2022 – 18h30 – Brussels

After a few years of virtual meetings, we now have the pleasure to invite you to an exclusive dinner with H.E. Mr Cao Zhongming, Ambassador of the People's Republic of China in Belgium. This dinner is organized with the support of Flanders Investment and Trade. It will take place on June 16 at 18h30 at 'De Warande', Zinnerstraat 1, 1000 Brussels.

During this dinner His Excellency Ambassador Cao Zhongming will deliver a speech on China's economic perspectives.

This exclusive event is an excellent opportunity to meet in person with the Ambassador and to introduce your company's activities.

If you are interested in attending, please subscribe via the button below before June 10. The dinner is certain to be well attended, so we strongly recommend you book now to guarantee your place.

The programme is as follows:

Thursday, 16 June, 2022

18h30 – 19h00: Registration and networking

19h00 – 19h05: Introduction by Mr. Kurt Vandeputte, Chairman of the Flanders-China Chamber of Commerce

19h05 – 19h20: Speech by H.E. Mr. Cao Zhongming, Ambassador of the People's Republic of China in Belgium

The speeches will be followed by a walking dinner at 'De Warande'.

Practical information:

Date: June 16, 2022

Time: 18h30

Location: De Warande, Zinnerstraat 1, 1000 Brussels

Price for members: €125 **Price for non-members:** €165

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Webinar: “Experiences of Investing in Weihai, Shandong Province” June 16, 2022 – 09h30 CEST

The Flanders-China Chamber of Commerce and the EU-China Business Association, with the support of Flanders Investment and Trade, are organizing a webinar which focuses on **“Experiences of investing in Weihai, Shandong province”**. This webinar will take place on **Thursday June 16 at 10h00 CEST**.

During this webinar, you will hear of the experiences of companies that have already invested in Weihai, as well as more information about the investment environment and the pillar industries.

Several of our member companies, such as Bekaert, Beaulieu and Marquardt, already have major investments in Weihai. They have benefitted from the city’s very business-friendly investment environment. The city has established several pillar industries, including machinery, food, transportation equipment, textiles and garments, medicine and medical devices, electronics and new materials. The emerging industries of Weihai are medical & healthcare, information & outsourcing and “intelligent” manufacturing.

Over the past 10 years, the Flanders-China Chamber of Commerce and the Weihai Foreign Investment Bureau have formed a strong bond to help build and then strengthen trade relations between both sides and to introduce each other’s investment environments.

Program

09:30 – 09:35 Welcome by **Mr Gong Bengao, Director, Weihai Municipal Bureau of Commerce** and **Ms Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce/EU-China Business Association, Honorary Citizen of Weihai City and Shandong Province**

09:35 - 09:40 Speech by **Vice-Mayor of Weihai, Mrs Yang Li**

09:40 - 09:45 Speech by Mr Kurt Vandeputte, Chairman, Flanders-China Chamber of Commerce

09:45 – 10:05 Presentation of Weihai and Interview on the Weihai industrial and investment environment with **Mr Chen Hui, Chief Representative of Weihai in the EU**

10:05 – 10:25 Experiences of Bekaert of investing in Weihai: **Mr Adam Touhig, Senior Vice President RR Asia, Bekaert**

10:25 – 10:45 Experiences of Marquardt of investing in Weihai: **Mr Berthold Arends, General Manager, Marquardt Switches Weihai.**

10:45 - 11h00: Question and answer session

Practical information:

Date: 16.06.2022

Location: Online

Price members: Free

Price non members: Free

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Seminar: "Win in China: Doing business with a changing China"
22 June 2022, 10h30 – 11h15

During the Flanders Investment and Trade Export Fair, the Flanders-China Chamber of Commerce, with the support of Flanders Investment and Trade, is organizing a seminar focused on 'Win in China: Doing business with a changing China'.This seminar will take place on June 22, 2022 at 10h30.

Mr. Bo Ji, Chief Representative for Europe and Assistant Dean of China's top business school, Cheung Kong Graduate School of Business, will deliver the keynote speech. During the seminar, Professor Ji will share his perspective on how to be successful on the Chinese market. He will be tackling the opportunities and issues facing companies as they look to expand their businesses into China. Focusing on China as the land of opportunity, Professor Ji will also shed light on this diverse and complex market and how business leaders can change the mindset to engage successfully with China.

The programme is as follows:

Welcome by **Mrs. Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce**

Keynote speech by **Mr. Bo Ji, Chief Representative for Europe and Assistant Dean of China's top business school, Cheung Kong Graduate School of Business.**

Practical Information:

Date and time: 22 June 2022, 10h30 - 11h15

Location: Online

Participation: Free

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ACTIVITIES SUPPORTED BY FCCC

Visit the Flanders-China Chamber of Commerce at the Flanders Investment and Trade Export Fair – 21-23 June 2022 – Brussels

The Flanders-China Chamber of Commerce participates in the Flanders Investment and Trade Export Fair.

Come and meet us at our booth.

The FCCC will organize a seminar on doing business with a changing China on 22 June at 10h30. More details will follow.

Program of the Export Fair

Register and make your own program. The Fair is open from 9:00 till 17:00.

An overview of all activities is in the agenda.

Appointment with a FIT Country Expert

Worldwide FIT has stationed country experts who live and work in the export destination of your dreams:

- 89 economic and trade representatives
- 9 technology representatives
- 4 customs representatives

Discuss your export plans with them and realize your international dreams!

Make an appointment soon, FIT Country Experts are very popular. You can find their profiles here.

Seminars & workshops

Are you looking for practical advise and inspiration for your international plans? FIT is organizing numerous interesting seminars and workshops to optimize your international talent and skills. You will find them in the agenda.

FIT-booth

In the center of the Fair is the FIT-booth, where you can go for all your questions about our services.

- subsidies and financing
- group business trips, participation in expos & other events
- market information (trade statistics, regulations, international opportunities)
- consultancy (market inquiries, how to make an export plan, evaluation of the export capacity of your company with our patented export meter etc.)

You can make an appointment in advance with our 14 international advisers on entrepreneurship.

Other Fair participants

Many service providers who can help you make a success of your international project are happy to welcome you at their booth. You can find an overview of the participants here.

Website of the FIT Export Fair: https://exportbeurs-2022.b2match.io/page-2161

MEMBERS' NEWS

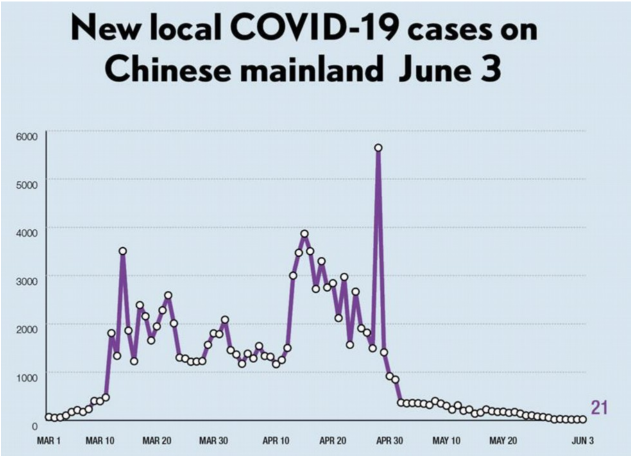
Confucius Institute: 2022 Chinese Summer Courses

The Confucius Institute at GroupT-Academy has announced that its Chinese teacher Ms. Li Heng has arrived in Leuven two weeks ago and the Confucius Institute is going to organize Chinese Courses for Summer 2022. Please refer to the poster below. More information can also be found through our website. The Confucius Institute warmly welcomes you and members of the Flanders-China Chamber of Commerce to join our Summer Courses.

Follow the Flanders-China Chamber of Commerce on LinkedIn – Facebook – Twitter – Instagram

HEALTH

Restaurants reopen in Beijing; Shanghai returning to normal



Beijing lifted Covid-19 restrictions starting on June 5 based on improvements in the epidemic situation, bringing the lives of people back closer to normalcy. Except in Fengtai district and some places in Changping district, where the strict measures would continue**, all city restaurants could resume dine-in services.** People can also go back to work after several weeks of working from home. All public transportation resumed normal operations. Beijing reported five new locally transmitted cases as of 3 pm on June 5 – all among people already in quarantine – bringing the total number of infections to 1,822 since April 22. Shanghai reported two locally transmitted cases and one asymptomatic infection.

Shanghai ended its two-month lockdown on June 1 as more than 22 million residents, or 90% of Shanghai's population of 25 million people, living in low-risk areas that had been declared infection-free for the past 14 days **were allowed to leave their compounds**, access public transport, and go to offices and shopping malls. People are required to show a negative PCR test taken within 72 hours before using public transport and visiting public venues. Twelve Shanghai shopping centers owned by such Hong Kong developers as Sun Hung Kai Properties (SHKP), Swire Properties, Kerry Properties and Hang Lung Properties said business resumed at more than 800 stores. Shopping center managers must limit the number of customers entering their premises, with the daily traffic capped at 75% of their capacity. But **three days after the lockdown formally ended, seven new Covid-19 cases were discovered in the community**, sending four residential compounds back into a 14-day lockdown.

"The recent Covid-related restrictions in Shanghai and elsewhere have caused a significantly more severe economic hit than most prior lockdowns in China," Louis Kuijs, Chief Economist for the Asia-Pacific at S&P Global Ratings, said in a note last month. "The effect on manufacturing output and supply chains has been large." In April, output from Shanghai's industrial sector was valued at CNY128.617 billion, a decline of 61.5% compared with the same month last year. Suzhou also recorded a 0.5% year-on-year decline in industrial output in the first four months of this year, a fall of 10.1 percentage points from the first quarter.

At the end of May, **the throughput of containers of the Port of Shanghai had resumed to 95.3% of pre-outbreak levels.** Throughput capacity of the port has increased 1.9% in the first four months this year, compared with the same period last year. The Shanghai Stock Exchange planned to allow all technicians, compliance officers and back-office clerks to leave the closed loop and let them commute from home every day from June 6. Exchange staff had been locked in the building since late March to ensure stock trading continued. Shanghai's reopening also means that the city's financial industry, with about 1,700 licensed institutions and nearly 500,000 employees, is gradually returning to normal.

The Beijing government encouraged all residents to spend the Dragon Boat Festival (June 3-5) in the city, not to travel to other provinces and to stay away from places of high or medium risk for Covid-19. Fengtai district, which has reported new cases recently, asked residents to stay in the district and not go out unless absolutely necessary.

The British Chamber of Commerce in China has called for "predictable and proportionate" Covid measures under the zero-Covid policy to mitigate disruption to mobility and manufacturing activities. Foreign business sentiment in China has reached "a tipping point" with uncertainty denting confidence and eroding attraction for overseas talent and investment, the Chamber said in its latest position paper. "Recent sporadic outbreaks of Covid-19 across the country and the corresponding snap lockdowns have taken away one of things most businesses have been able to depend on: a stable and relatively predictable business environment. A growing sense of detachment and isolation among the foreign business community in China is now tangible," the paper added. Uncertainties are "reaching a crescendo", which are weighing on operations and forcing foreign talent to leave China, with "considerable barriers" to bringing in replacements. The lack of clarity and communication in regard to various policies, goals and processes is perhaps the most significant cause for concern." "A sizeable outflow" of international talent and a "brain drain" across all industries has taken place, the paper said. The Chamber also highlighted long term optimism due to China's market potential, including financial services, retail and consumer goods, and decarbonization.

Many cities have begun issuing coupons worth millions of yuan to boost consumption. Suzhou in Jiangsu province will issue coupons worth CNY100 million. More than 4,000 companies in Guangzhou organized around 10,000 promotional events in May to promote the city's commerce. "Residents can now receive several thousand yuan in government subsidies if they buy a car," Lin Guoqiang, Deputy Director of the Guangzhou Commerce Bureau said. This overview is based on reports by the China Daily, Shanghai Daily, Global Times and South China Morning Post.

TRAVEL

Investment in hotels expected to drop in the coming years

Hotel companies and investors were likely to reduce investments in China in the coming years, despite the number of hotels currently under construction reaching a record high in the first quarter of 2022, because of the country's Covid-19 measures, analysts said. **In the January to March period, 3,711 hotel projects with 704,101 rooms, were under construction**, up 8% and 7%, respectively, from a year ago, according to Lodging Econometrics' latest report. This was despite the strict Covid-19 containment measures, such as routine lockdowns and strict quarantine requirements for international visitors, hobbling a full recovery in the tourism sector. "The first quarter of 2022 showed a record high construction of hotel rooms in China, but it is unlikely for this trend to continue, as some of the new projects were actually planned in pre-Covid-19 times," said Tao Zhou, Managing Director of JLL Hotels and Hospitality in Greater China. "We are likely to see a slowdown in new developments for hotels over the next two to three years."

Even in a market that is mainly supported by domestic demand – only 145 million were international arrivals compared with 6 billion local tourists in 2019 – hotels in China have seen revenues and occupancy decline during the pandemic. In the January to April period this year, hotel occupancy was 42.8%, lower than the 51.9% a year ago, according to hotel data-tracking firm STR. The average daily rate of hotel rooms was down 3.2% to CNY395, while revenue per available room fell by about a fifth to CNY169 in the same period.

Last month, U.S.-based Airbnb said it was pulling out of China, citing the challenges brought about by the pandemic. "China's zero-Covid policy with stringent measures and travel restrictions has largely decreased business activities," said Lucia Leung, Associate Director of Research and Consultancy in Greater China at Knight Frank. Besides deterring tourism, China's lockdowns have also affected construction work, a fact that was mentioned by Marriott International in its first-quarter earnings call on May 4. Marriott's current portfolio in China includes more than 450 hotels spanning 23 brands across more than 110 cities. The firm expects to open more properties under plans put in motion before the recent outbreaks of Covid-19.

"In 2022, we expect to grow our brand portfolio by adding another 13,000 rooms and more than 50 hotels in over 30 destinations, including popular gateway cities such as Chengdu, Xian, Sanya and Qinhuangdao," said Henry Lee, **Marriott**'s President for Greater China. "In early 2023, we also expect to open our 500th hotel in China." Hilton said China's hotels market was expected to more than double to USD131.2 billion by 2027 from USD57.6 billion in 2020, giving the group, whose brands include Conrad and Waldorf Astoria, confidence about China, according to Alan Watts, Hilton's President in the Asia-Pacific region. Hilton has over 400 hotels operating in China and opened 24 hotels in China in the first quarter this year, including the Conrad Shanghai, the biggest Conrad in the Asia-Pacific. Other planned openings also include the Waldorf Astoria in Shanghai Qiantan and Conrad Chongqing, the South China Morning Post reports.

ENVIRONMENT

China publishes three documents on climate change, confirming its carbon peak pledge

China last week released three top-level documents on fighting climate change, renewable power and green financing. The National Development and Reform Commission (NDRC) unveiled a new plan for renewable energy during the 14th Five Year Plan period from 2021 to 2025, to guide development of the sector in support of China's 2060 carbon-neutral goals. By 2025, annual electricity generation from renewable energy should reach 3,300 terawatt-hours (TWh), and the share of power generated from renewable energy should account for 50% of the total increase in the country's electricity consumption. Power generation from wind and solar sources should double at the same time, according to the NDRC. The new document de-emphasized China's targets to increase the installed capacity of wind and solar power to 1,200 gigawatts (GW) and raise the share of non-fossil fuel energy consumption to 25% of the total energy mix by 2030.

China's total renewable energy consumption should reach about 1 billion tons of standard coal equivalent by 2025, as the share of non-fossil fuel energy is expected to account for 20% of total energy use. If successful, it should help reduce carbon dioxide emissions by about 2.6 billion tons annually, according to NDRC. "There were worries that China may scale down its decarbonization efforts due to the Russia-Ukraine conflict, energy security concerns, and disruptions to supply chains because of China's Covid-19 policies," said Qin Yan, Lead Carbon Analyst at data provider Refinitiv. "But the policy package and strong emphasis on renewables development shows that China is holding firm on its carbon peak and neutrality pledge."

The NDRC and the National Energy Administration (NEA) issued an implementation plan, introducing 21 measures to ensure the country's high-quality development of new energy. It includes the installation of large wind and solar bases, promotion of renewables in rural areas, speeding up approval procedures for wind power projects, including micro-grid projects, and the creation of a secure and efficient energy system to achieve the 1,200 GW target for wind and solar energy by 2030. The plan also emphasizes improving financial policies to support the shift to new energy, including green electricity trading and green certificates. Following the launch of a pilot scheme last September to enable renewable energy generators and corporate users to trade directly in green power, the plan indicates that more financial tools will be offered in the future, according to Qin.

China's Ministry of Finance released a separate document announcing it would create a basic financial policy framework by 2030 to support China's dual carbon goals. China Central Television (CCTV) announced that China aims to add 108 GW of solar power to the grid, higher than the industry association's previous expectations. "The policies released this week are not a coincidence and are the result of joint efforts by multiple ministries to move forward and achieve a carbon peak by 2030," said Qin. She expected China will start a rapid buildout of renewable energy in the 14th Five Year Plan period, especially in solar and wind energy, adding at least 100 GW in total per year.

China is the world's biggest greenhouse gases emitter, emitting 9.9 billion tons of carbon dioxide in 2020, or 30% of the world's total. It announced a plan in 2020 to achieve peak carbon emissions by 2030, and secure net-zero emissions by 2060. It also vowed to start phasing out coal consumption from 2026. Renewable power made up 42.5% of China's total installed power generation capacity at the end of 2020, or 934 GW. Wind power, photovoltaic power, hydropower, and biomass power generation reached 280, 250, 340, and 30 GW, respectively.

The consumption of renewable energy reached the equivalent of 680 million tons of standard coal in 2020, accounting for 13.6% of China's total primary energy consumption, according to the NDRC. Power generated from renewable energy reached 2,200 TWh in 2020, or 29.1% of all power generation in the same year, the South China Morning Post reports.

CHINA NEWS ROUND-UP

China to accelerate major foreign investment projects

China will accelerate major foreign investment projects to attract foreign investment – a key point in the stimulus package of 33 measures unveiled by the Chinese government to stabilize economic growth. The package covers fiscal, financial, investment and industrial policies. Analysts said foreign investors are important contributors to China's economic development, and the nation is expected to further stabilize foreign investment to inject new impetus into economic growth. "The new measures are a strong and positive signal to foreign investors that China wishes to expand cooperation with foreign enterprises and welcome them to realize stable and long-term growth in China," said Zhou Mi, Senior Researcher at the Chinese Academy of International Trade and Economic Cooperation in Beijing. He also said that Chinese authorities always welcome the views of foreign enterprises so that policies can be tweaked to better address certain issues related to the business environment and balance in economic development.

Based on foreign investment projects that have been included in the Chinese government's special working mechanisms and green-track programs for foreign investors, the nation will review and greenlight such projects entailing large investments, strong spillover effects and a wide coverage of upstream and downstream industries. The revision of the industry catalog for which foreign investment is encouraged will also be sped up to guide foreign capital into fields like high-end manufacturing and scientific innovation, as well as into central, western and north-eastern regions.

China will also support foreign investors that seek to establish research and development centers in high-tech and emerging tech, apart from expanding enterprises' cross-border financing channels, enhancing communication with foreign chambers and enterprises, and facilitating foreign businesses, the China Daily reports.

Shanghai's reopening creates CNY50 billion market for digital sentries

Shanghai's reopening after a two-month-long citywide lockdown is expected to create huge demand for digital devices that check and track individuals' temperature, vaccination status, recent movements, and most recent PCR test, generating sales worth CNY50 billion, analysts said. As many as two million such "digital sentry" machines could be deployed in public venues such as hospitals, shopping centers, office buildings and entertainment venues in the coming weeks, according to brokerage Everbright Securities. Most digital sentry machines have been developed and are manufactured by SenseTime, China's largest artificial intelligence (AI) firm, as well as Hangzhou Hikvision Digital Technology and Zhejiang Dahua Technology, the country's biggest surveillance camera makers.

"The real market demand could largely beat Everbright Securities' estimate, given the size of China's huge market," said Cao Hua, Partner at private-equity firm Unity Asset Management. "If the devices are proven to be highly effective in helping Shanghai guard against the Omicron variant, they could be seen everywhere in the country's most congested cities." Many venues in Shanghai are expected to post digital sentries at entrances to abide by the rules of Shanghai's digital health-code system to avoid punishment. "Anti-pandemic curbs can bring a windfall to China's hi-tech firms, particularly AI technology developers," said Wang Feng, Chairman of Shanghai-based financial services group Ye Lang Capital. "The market potential here cannot be matched anywhere else in the world, because these smart devices will be widely used in big cities to meet stringent virus control rules. Operators of shopping malls and cinemas will buy the machines to improve the efficiency of their verification process, hence attracting more clients."

Most digital sentry machines use facial recognition technology to check and record information about individuals' vaccinations, Covid-19 tests and their recent movements before allowing access to public venues. They are priced between CNY2,000 and CNY10,000 per unit, Everbright Securities said. SenseTime would not reveal its sales targets for the digital sentry device Thunder-Air, but said that it took the company only two weeks to launch the product in March. "The device has six functions – mask detection, temperature screening, health code verification, vaccination record query, nucleic acid report query and ID verification," SenseTime told the South China Morning Post.

First ministerial-level trade talks between EU and Taipei on semiconductors

The first ministerial-level trade talks between Taipei and the EU, co-chaired by the EU's Director General of Trade, Sabine Weyand, and Taiwan's Minister of Economic Affairs Wang Mei-Hua on semiconductors were held in Brussels on June 2. The talks violated the one-China principle on which the diplomatic relations between China and the EU are based, which prohibit ministerial-level contacts with the authorities in Taipei. The EU is exploring ways to set up its own semiconductor supply chain, while Taiwan produces 90% of the world's most advanced chips, which will power the industries of the future. The talks came after months of EU deliberations on how and when to upgrade its annual dialogue with Taipei, and only a day after the United States launched an economic and trade initiative of its own with Taiwan. **Taipei described the talks as a "major breakthrough in relations with the EU".** The upgrade "shows that in the EU's blueprint for international economic and trade cooperation, the importance of Taiwan has increased", its Ministry of Economic Affairs said in a statement.

"This is the start of what I expect will be a gradual ramping-up of European relations with Taiwan after years of neglect," said Noah Barkin, Analyst of EU-China Affairs for the Rhodium Group. "This is partly out of self-interest:

Taiwan is a vital partner in semiconductors as the EU embarks on a push to build up its domestic chips production capacity. But it is also a reflection of the EU's deteriorating relationship with China and growing concerns about Beijing's aggressive stance towards Taiwan."

The EU secured Taipei's support for its European Chips Act, a €42 billion blueprint to manufacture one-fifth of the world's microchips by 2030. Taipei told Brussels that it would "continue to be a trusted partner" in microprocessors. But while Taiwanese companies are mulling chip-related investments in nations likes Germany, France and Lithuania, the EU's Trade Department will leave talks about individual investments to member states. Both sides also discussed long-standing trade grievances, including protectionism in each other's agricultural sectors. But a bilateral investment agreement, which Taiwanese officials have sought for some time, was not on the agenda.

A Spokesman for the Chinese Mission to the EU said that Beijing "firmly opposes all forms of official interaction with Taiwan by countries or organizations having diplomatic ties with China. We urge the EU side to abide by the one-China principle and not to have official interaction with Taiwan in any form", the South China Morning Post reports.

Foreign vessel makes first cabotage trip from Shanghai to Tianjin

China has opened the cabotage market to foreign vessels as the Merete Maersk transported 725 tons of vegetables from Shanghai's Yangshan port to the port of Tianjin. The vegetables had arrived in Shanghai from Vancouver, Canada, in 27 containers. The trip marked the first Chinese coastal relay of international cargo by a foreign carrier, which is regarded as a breakthrough as it used to be strictly prohibited.

Zhou Dequan, Director of the Shanghai International Shipping Institute's Domestic Shipping Research Office, said efforts have been made for years to launch such international relay shipments, and major progress has recently been made. The strategy was included in the central government's plan to boost development of Shanghai as an international shipping center. In November 2021, the Ministry of Transport announced that international cargo relay activities would be allowed on a trial basis until the end of 2024. Based on third-country reciprocity and meeting several additional criteria, qualified foreign carriers can use their own vessels to carry out international cargo relays between Shanghai's Yangshan port and northern Chinese ports, including Dalian, Tianjin and Qingdao.

"We are proud to be the first foreign company that successfully implements international cargo relay in China. Transshipment in Shanghai allows us to improve services through optimized networks and can also address some of the factors behind the bottlenecks in Chinese supply chains, shortening transit times, reducing emissions and freeing up additional capacity for our customers," said Soren Skou, CEO of A.P. Moller-Maersk. The opening of China's cabotage market for foreign carriers allows overseas operators to fully utilize their free space and further lower shipping costs, Zhou said. These carriers used to go via Busan, South Korea, and Singapore, as well as other international ports for transshipment, the China Daily reports.

China trying to save aviation sector from precipitous dive

China is stepping up efforts to save its aviation industry from a "cliff-like" plunge in business, as the sector struggles to shake off the impact of zero-Covid and China's deadliest aviation disaster in nearly 30 years. Under the 33-point stimulus package airlines will receive significant aid from the central government, including emergency loans of CNY150 billion and a bond quota of CNY200 billion. China has big ambitions for its aviation sector and has invested billions of dollars to make it internationally competitive, including by developing its own narrow-body passenger jet, the C919, to compete with the Boeing 737 and Airbus A320.

"The Chinese government's response to Covid right now is very different from what you see in other major air travel markets like Europe or North America, where effective vaccination programs and more decentralized political decision-making have led to an ongoing recovery in passenger boarding," said Douglas Royce, Senior Aircraft and Engine Analyst at Forecast International. "There's too much uncertainty over the course of the pandemic in China right now to forecast demand for new planes in the near future." Confidence in China's aviation sector has also been shaken following the crash of China Eastern Airlines flight MU5735 in March, killing all 132 people aboard. Industry Analysts Lin Zhijie said the sector lost close to CNY30 billion in April, the largest single monthly loss in history.

"Since the beginning of this year, due to the continuous resurgence of outbreaks, especially since March, the production and operation of the civil aviation industry has taken a sharp turn," said the Civil Aviation Administration of China (CAAC) in a statement. The Ministry of Finance said it would offer two months of subsidies to Chinese airlines, starting from May 21, to help carriers weather the coronavirus-induced downturn and higher oil prices. But support will only be provided to airlines when their average daily number of domestic flights falls below or is equal to 4,500 per week, the Ministry said. Air China, China's biggest state-owned carrier, said in 2019 it offered 15,436 code sharing flights per week with its partners. The central government will fund 70% of the subsidies, while local authorities will cover the remaining 30%. But the subsidies had been suspended by the CAAC over concerns that airlines might intentionally reduce services.

Skyrocketing fuel costs and a weakening yuan are adding pressure to the industry. Government subsidies and other support measures may not be enough to help airlines cut their losses, which are still mounting, Lin said. Last year, the civil aviation industry suffered a net loss of CNY84.25 billion, compared to CNY102.96 billion in 2020, the South China Morning Post reports.

Activity in manufacturing and services up, but still contracting

Activity in both China's manufacturing and services sectors improved in May but remained in contraction. The official manufacturing purchasing managers' index (PMI) rose to 49.6, from 47.4 in April, according to the National Bureau of Statistics (NBS). A reading above 50 indicates expansion, while a reading below that mark indicates contraction. The May figure was above the market forecast of 48.5. The official non-manufacturing PMI, which measures business sentiment in the services and construction sectors, rose to 47.8 in May from 41.9 in April. The official composite PMI, which includes both manufacturing and services activity, rose from 42.7 in April to 48.4 in May. The figures offer an early insight into the state of the Chinese economy heading into the midway point of the year and the impact of the strict lockdown in Shanghai. Within the official manufacturing PMI, the subindex for production in May rose to 49.7, up from 44.4 in April, while the subindex for new orders rose to 48.2 from 42.6 in April. New export orders, meanwhile, rose to 46.2, compared with 41.6 a month earlier. Within the official non-manufacturing PMI, the construction subindex fell to 52.2 in May from 52.7 in April, while the service subindex rose to 47.1 from 40.

Last month, Premier Li Keqiang instructed more than 100,000 officials from across China to use whatever resources they have to stabilize the economy as the zero-Covid policy remains in effect. Li admitted that China may miss the "around 5.5%" economic growth target set earlier this year, the South China Morning Post reports.

China's consumer sentiment has fallen to a historic low of 86.7 in April, down from 113.2 in March, according to the National Bureau of Statistics (NBS). It represents a fall below the watershed mark of 100 that separates optimism and pessimism, hitting the weakest level since the data first became available in 1991. The drop of 26.5 from March to April is also the sharpest on record. Premier Li Keqiang poured cold water on growing calls for Beijing to issue direct payments to stimulate domestic consumer demand. He said that any such scheme would prove to be too big in a country of 1.4 billion people, also pointing out that regional development was too unbalanced for the central government to issue direct stimulus payments to all consumers, the China Daily adds.

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

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Vice-Chairman
Mr. Filip Coremans, Managing Director Asia, NV AGEAS SA

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Membership rates for 2022 (excl. VAT)
- SMEs: €435 (excl. 21% VAT)
- Large enterprises: €1,080 (excl. 21% VAT)

Contact
Flanders-China Chamber of Commerce
Office: Ajuinlei 1, B-9000 Gent, Belgium
New telephone and fax numbers:
T ++32/9/269.52.46
F ++32/9/269.52.99
E info@flanders-china.be
W www.flanders-china.be

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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

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