China Business Weekly

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

FCCC/EUCBA ACTIVITIES

Webinar: Belgian Customs and its activities in China – 21 February 2023, 10 am CET

The Flanders-China Chamber of Commerce (FCCC) is organizing a webinar focused on '**Belgian Customs and its activities in China**', which will take place **online** on **21 February 2023** at **10 am CET**.

The programme is as follows:

10h00 – 10h05: Introduction, Ms **Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce

10h05 – 10h25: Procedures and regulations of the Chinese customs and other institutions related to import or export, Ms **Isabelle Bedoyan,** Counsellor and Customs Attaché at the Embassy of Belgium in China

10h25 – 10h45: Support given by FASFC to local companies when exporting to China, Ms **Annabelle Schreiber,** Agricultural Attaché at the Embassy of Belgium in China

10h45 – 11h00: Q&A Session

Practical information:

Date: February 21, 2023

Time: 10h00 am CET (Brussels Time)

Location: Online

Participation: Free of charge

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Webinar: “China and the world: the resurrection of geopolitics. What does that mean for businesses?” – 3 March 2023, 10 am

The Flanders-China Chamber of Commerce (FCCC) is organizing a webinar focused on “**China and the world: the resurrection of geopolitics. What does that mean for businesses?”.** Join us to discover and share our latest viewpoints and analytical framework that all EU-based business leaders can leverage on. This webinar will take place on **3 March 2023** at **10 am CET**.

The programme is as follows:

10h00 – 10h05: Introduction by Ms **Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce.

10h05 - 10h45: “China and the world: the resurrection of geopolitics. What does that mean for businesses?”

10h45 – 11h00: Q&A Session

Speakers:

- Mr **Alexis De Méyère**, Director, PwC Belgium
- Dr **Peter Eitel**, Senior Manager, PwC Germany
- Mr **Jens Paulus**, Partner, PwC Germany

Practical information:

Date: March 3, 2023

Time: 10 am CET

Location: Online

Participation for members: Free of charge

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Webinar: China calling – FIT China testifies (in Dutch) – 10 March 2023 – 10h00 CET

The Flanders-China Chamber of Commerce and Flanders Investment & Trade are organizing a webinar with the **Flemish Economic Representatives in China** on **10 March 2023 from 10h00 till 11h15**. The webinar will be conducted in the Dutch language.

The programme is as follows:

10h00 – 10h05: Introduction by **Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce

10h05 – 10h55: Panel discussion with the Flemish Economic Representatives of Flanders investment & Trade

- **Koen De Ridder**, Flemish Economic Representative in Beijing
- **Frank Van Eynde**, Flemish Economic Representative in Shanghai
- **Eva Verstraelen**, Flemish Economic Representative in Guangzhou
- **Siegfried Verheijke**, Flemish Economic Representative in Hong Kong S.A.R.

10h55 – 11h15: Q&A session

Practical information:

Date: 10.03.2023

Time: 10 am – 11:15 am CET

Location: Online

Price members: Free

Price non members: Free

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ACTIVITIES SUPPORTED BY FCCC

EU SME Centre webinar: Towards a Circular Economy in China – February 23, 2023

The EU SME Centre, in coordination with the European Union Chamber of Commerce in China, is organizing on 23 February at 9 AM Brussels Time (4 PM Beijing Time) a free **online training seminar to discuss the concept of a circular economy in China and explore the opportunities and support measures available to European SMEs as well as the challenges SMEs are currently facing. This event is open to all European SMEs and partner organizations** of the EU SME Centre.

Underpinned by governmental initiatives and policies to promote greener production, improve waste management, reduce energy and water consumption and reach carbon neutrality by 2060, the circular economy has become a hot topic in China.

Chinese consumers are becoming more environmentally conscious, pushing companies to be more environmentally responsible. While China is clearly taking steps towards a circular economy, the concept is still in its nascent stage and there is space for improvement. What are the implications for European SMEs doing business with China?

Join this webinar to:

- Understand the current situation of the circular economy in China as well as the driving policies and the key regulatory milestones in Europe and China;
- Gain insights into the opportunities and supporting measures European SMEs can access in this area;
- Understand the main challenges and innovative business models in this sector;
- Learn from the case studies of doing business in the field of green and circular economy in China.

This free event is open to all SMEs from European Union Member States and countries participating in the Single Market Programme.

To find out all the details about this event: https://www.eusmecentre.org.cn/events/the-future-is-circular-towards-a-circular-economy-in-china/

6th China International Import Expo (CIIE) – November 5-10, 2023 – Shanghai

The 6th China International Import Expo (6th CIIE) is scheduled to be held physically in Shanghai during the period from November 5 to 10, 2023. Foreign companies including those from the Flanders region are most welcome to take active part in the Enterprise & Business Exhibition. Registration and application are now available and an early bird always catches the worm. We expect this year there may be many applications due to the reopening of China.

For the details of 6th CIIE, please download two documents for your kind information from the link https://we.tl/t-G7L42Sn7Ap . You may also visit the official website of CIIE for more information https://www.ciie.org/zbh/en/ . We will keep you updated if there is more information including exhibition and/or supporting activities of the 6th CIIE.

PAST EVENTS

Webinar: "Navigating turbulent times in the freight industry" – 8 February 2023

The Flanders-China Chamber of Commerce organized a webinar focusing on "**Navigating turbulent times in the freight industry"** on **8 February 2023**.

Ms **Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce, introduced the topic of the webinar and the speakers. The disruptive events that caused record-high ocean shipping rates are coming to an end and rates are swinging back. But following the disruption, what is happening in the shipping market and what can we expect in the coming years? How low will container rates go, as a shipper what can you do to benefit from the decreasing prices, and is the pricing crisis really over? The year 2022 has been a turbulent one and 2023 will certainly be very different. The biggest change is that since January 8 China lifted all travel restrictions so there is no quarantine anymore when you enter China and also for traveling in China there are no restrictions anymore. Business leaders can meet each other and build up the relationship and trust. Many investments have been put on hold as they could not visit the location and meet business partners, so the reopening of China's economy will certainly increase trade and investment between both sides. Last week we already received the first Chinese delegation which we introduced to our member companies.

EU investments in China grew for the first time in four years by a staggering 92% year-on-year in 2022. The Chinese government identified stabilizing economic growth as one of China's top priorities this year. Looking at the longer term, Morgan Stanley predicted that the reopening would allow China to achieve economic growth of 5% in 2023 compared to 3% growth in 2022.

Mr **Didier Duponselle**, Business Unit Director Warehousing and On-site Logistics, Ahlers, gave a presentation on "Navigating turbulent times in the freight industry". Ahlers was founded in 1909 in the Port of Antwerp and is 3rd generation family owned. It delivers high-quality services to enable its customers to focus on their core business. The company offers tailor-made solutions beyond logistics in four areas: end-to-end supply chain solutions; secured transportation of high-value cargo; trade facilitation and after-sales services; and complex project logistics. Ahlers has offices in many countries, including in China's Shanghai and Guangzhou.

The last few years we have experienced disruption in the markets, affecting many of us. More than 1,200 vessels call on Shanghai port every day, which is an incredible number. Compared to last year, delays have been reduced, so the picture is much better today. The trade is going a lot smoother also on the ocean-bound leg. Port congestion is an indicator of how trade is going. Ninety percent of trading companies were affected in their supply chains and 60% of them have changed their supply chain or procurement, and 10% have structurally changed their supply chains, such as re-shoring or completely changing their production set-up. This is a very high percentage, which is normally 1%, giving you an idea of the disruption we have experienced. Lidl for example has decided to set up their own container shipping company, operated by Tailwind Shipping Lines. This is a vertical integration of their supply chain.

Mr Duponselle introduced the factors influencing the prices on the spot market. The four biggest factors are inflation and the impact of spending behavior; carrier capacity and pricing strategy; container availability; and geopolitical impacts and fuel. In the short and medium term, factors positively influencing the current spot market are Covid-19 being endemic or not; inflation and impact on spending behavior; and carrier capacity and pricing strategy. A worsening factor is the geopolitical impacts and fuel prices. On Asia-Europe routes rates have gone down by 86% on a yearly basis and by 50% in the other direction. The price of a container going from Shanghai to Europe has dropped from USD14,000 to about USD3,300, which is good for international trade.

Looking at future outlook indicators, on the demand side, world GDP evolution is the key driver, with 33% of the world economy expected to go into recession, but world GDP is still expected to grow. The IMF expects China to face a difficult first quarter. On the supply side, an estimated 7.5% capacity is to be delivered in 2023. There are also more blank sailings, especially from China to Northern Europe.

How low the rates will go will continue to depend from region to region and trade flow to trade flow. Where much margin is made, new capacity will be brought in, and where it is deteriorating, capacity will be taken out. From the price point of view, we are going for a smooth landing. Service expectations are improving, but temporary and local delays will remain. As an exporter or importer, try to break up your contract if you have long-term agreements at the higher rates, and try to negotiate a link with the market rates.

Mr **Arno Coster**, Commercial Director, Trade Facilitation, Ahlers, talked about "Business Process Outsourcing in complex markets". He has more than 12 years of experience in international trade, bringing business from West to East. Ahlers China was founded in 1993 and has 12 employees. Ahlers started to offer importer/exporter of record services since 2021, covering your local legal entity requirements. When importing products there should be a label in Chinese on the product. Ahlers can also assist with financing, accounting and auditing.

Demand for western brands is growing in China along with the number of people who are able to spend. China's middle class has been among the fastest growing in the world and the country has kept inflation at a worldwide low of 2% in 2022. Asian markets in general are also growing a lot. About 40% of customers favor products that are readily available and expect fast delivery. Products to help you live healthy are still very popular. There are three main online retailers: Alibaba, Jingdong and Pinduoduo. Through the Ahlers set-up it is not necessary to have a local entity. We act on your behalf and offer you overview and control over the business through our trade facilitation services.

The third speaker, Mr **Jan Van der Borght,** Port Representative, Port of Antwerp-Bruges, spoke about how a world port like Antwerp-Bruges can adapt to respond to the changing maritime supply chain. He has been living in China for more than 15 years. Times have been quite turbulent, including geopolitics, the impact of Covid on the economy and the zealous domestic politics with more emphasis on ideology. U.S.-China relations became tense and contentious and rivalry is increasing. There is a shift from transactional issues to values, leading to more decoupling. The U.S. is perceiving China as a threat so they cannot be soft, while in China we see growing nationalism and pride.

Now that China is open again, we can expect a charm offensive, reconnecting to the world and strong resilience in 2023. China is aiming for a GDP growth of greater than 5% and China's GDP now approaches 20% of world GDP. Reopening has been extremely fast. There was unrest after more than a year of very strict measures, carried by the population in the beginning, but later turning into increasing malcontent. The wave of infection spread very fast, but it was over in two to three weeks and everybody is back to work. The resilience of the Chinese is remarkable. In the third and fourth quarter there is going to be a very strong relaunch. During the past year, family incomes have been under a lot of pressure. Many businesses, especially hotels, restaurants and other businesses, didn't make it. Now people are very eager to get back to work. We are going to see a dynamic that we have never seen before.

Significant uncertainties include the possibility of a global economic recession. A pause in the Russia-Ukraine conflict should help. Fortunately the Chinese mainland economy is no longer dependent on exports as the main driver of growth is domestic demand, which is largely unaffected by external disturbances. China-U.S. strategic competition will become the new normal with continuing “wars” in trade, investment and technology. Some decoupling of the Chinese and U.S. economies is inevitable, but the impact on both will be relatively marginal. The continuing U.S. tariffs on imports from China have had only a small effect on the Chinese economy. U.S. controls on exports of technology could slow down some sectors.

Another uncertainty is demographic developments. In the short and medium term the problems of a potential labor shortage can be mitigated, but in the long term China should try to maintain a stable population. What are the implications for multinationals? There remains a push to retain and encourage multinational investment with more supportive and substantial incentives. Multinationals are still committed to continuing operations and further investing in China. China remains the largest economy worldwide and a growing market. We do see a geographical diversification of supply chains to build resilience, but the question is how long this is going to last. The Chinese domestic market remains very robust.

Demand for container transport has been under pressure. We can expect an increase in blank sailings, reduced regularity in departures and more consolidated volumes. There is a retreat from all time highs in the global container trade. Far East-European rates are under pressure. Demand growth will be flat at best. Carriers have made vast profits in the past period. The order book of ships is a bit worrying as future capacity is increasing combined with a lower demand. The big question is whether there will be new rate wars due to overcapacity. Evergreen has 49 vessels under construction and MSC has the largest order book with 133 ships. Rail transport has become very popular due to high sea rates but this is now changing again. Rail is an alternative for air freight but never for sea freight. In the second half of the year we are going to see a big boost in the Chinese market.

A Q&A session concluded the webinar.

SECTORAL STUDY

Opportunities for Flanders' companies in the biotech sector in China

The Flanders-China Chamber of Commerce (FCCC) has made a study with the support of Flanders Investment & Trade (FIT) on opportunities for Flanders' companies in the biotech sector in China. At the request of FIT, the study is published **in the Dutch language**.

Biotechnology is one of the sectors in which China wants to excel and reach the top level on a world scale. Other priority sectors are semiconductors, renewable energy, electric vehicles, and new materials. It is useful to consult the 14th Five Year Plan and other official planning documents such as the “Made in China 2025” program to learn more about the priorities of the Chinese authorities. In the healthcare sector it is useful to check which are the most common diseases in

China because that's what the government will prioritize. This is less so for biotech because everything in this sector is a priority. China started late to reach the top in biotech but has made big strides forward in the past years. It is advisable to follow developments closely. In some sub-sectors China is more advanced compared to other sectors, where it is still lagging behind. Those will be the sub-sectors where foreign companies are most welcome. The aim of the government is for Chinese companies to attain a 70% market share in the domestic market by 2025.

The study looks at investments in the biotechnology sector, the numerous biotech zones, and important institutes and laboratories. It provides an overview of the most important developments in biotech and some of the latest news from companies active in the field. The study introduces the China Biomedical industrial Barometer, but also warns about possible U.S. sanctions which might be imposed on Chinese biotech companies in the future. The study includes some tips for foreign companies doing business in China and provides useful references and contacts.

You can obtain a copy of the study in PDF format by sending a email to : info@flanders-china.be

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HEALTH

Risk of new Covid-wave considered small; no new varieties detected

The possibility of a big wave of Covid-19 infections in China in the future is slim, experts said, adding that no new variants with significantly strong transmissibility or virulence have been detected. Wu Zunyou, Chief Epidemiologist at the Chinese Center for Disease Control and Prevention (CDC), said that China faced a major outbreak following the optimization of Covid-19 control measures, and most of those who were infected have either recovered or are recovering. “Herd immunity across the country is high at present, so the chances of experiencing a fresh wave of the outbreak in the coming months are slim,” he said during a news conference. Infections in China peaked in late December and started declining thereafter. About 80% of the population had been infected by January 21, Wu said. “Infection clusters will likely occur sporadically in some regions in the future, but the chances of an acute, national epidemic are slim,” he added.

Chen Cao, Researcher at the China CDC, said that since January 1, 39 sub-lineages of the Omicron variant have been detected in inbound passengers, with the majority being offshoots of **BA. 5.2 and BF.7**. These two **were** also **the dominant strains during the recent domestic outbreak**. “So far, no new variants with a significant increase in transmissibility, pathogenicity or immunity evasiveness have been detected,” Chen said. According to the World Health Organization (WHO), 0.08% of infections in December were fatal, compared with 1.72% in 2021 and 2.33% in 2020.

Since December 9, 2022, positive results of nucleic acid testing in the population reported by all provinces showed a trend of first increasing and then decreasing. The number of deaths from Covid-19 in hospitals hit a daily peak of 4,273 on January 4, but has declined since then, falling to 102 on February 6, a 97.6% drop from the peak, the Chinese Center for Disease Control and Prevention (Chinese CDC) announced. It was the third release of specific Covid-19 figures by the Department since the country optimized response measures and downgraded its management. The number of positive cases peaked at 6.94 million on December 22, and then fluctuated and dropped to 900 positive cases on February 6.

The borders have reopened and quarantine is a thing of the past, but **many barriers still exist to any kind of normal tourist travel to and from China**. Anyone eager to enter mainland China for any purpose other than business, homecoming, family reunion or study will still have to wait. **The Chinese authorities are not yet issuing tourist visas and have given no indication as to when that might change.** Even an unexpired 10-year tourist visa for China wouldn’t be valid until the government gave the green light to leisure tourism, Daria Westerfield, Owner of the American agency River Oaks Travel, explained to the Bloomberg newswire. “We are still kind of in a holding pattern for the normal traveller to go see China.” Even when that green light is given there will remain hurdles, one of which is likely to be the scarcity and cost of flights. It will take time for airlines to ramp back up to pre-pandemic scheduling.

“It’s crucial for the international flight schedule to increase, which will make it easier to get to China and also bring down flight prices, which are still well above pre-pandemic levels," George Cao, CEO of Dragon Trail International, told CNN Travel. "This has already started for certain destinations – for example, many flights between China and South Korea, and between China and Singapore, have resumed already." **Your country may also be one China retaliates against for having reimposed Covid-19 restrictions on Chinese arrivals only.** What might happen if a visitor catches Covid-19 in China? Who will have to cover the costs if you have to wait for a negative test result before returning home? Could lockdowns be swiftly reimposed? Chinese tourists also face hurdles such a high prices. A seven-day trip from southwestern China to the Thai capital of Bangkok that would have cost CNY1,880 in 2018 now starts at CNY7,580. Moreover, some of the destinations most desired by Chinese tourists – Japan, South Korea and the United States included – are also placing specific restrictions on arriving Chinese.

This overview is based on reports by the China Daily, Shanghai Daily, Global Times and South China Morning Post.

FOREIGN INVESTMENT

New policies encourage foreign investment in R&D centers

China has rolled out new policies to encourage foreign investment in research and development (R&D). A policy document released by the Ministry of Commerce (MOFCOM) and the Ministry of Science and Technology (MST) on January 18 outlined 16 policy measures to strengthen support for foreign-funded R&D centers. Key measures include encouraging the centers to conduct fundamental research, allowing them to use reports and data collected by national research programs and major equipment, and strengthening support for infrastructure and operational funding. Higher-education and research institutions and vocational schools will be given help to partner with the centers and allow them to offer postdoctoral research programs, the document said. Furthermore, foreign investors who establish collaborative innovation platforms will receive stronger official support in terms of their use of land, equipment and infrastructure, among other areas. Financial institutions will also be incentivized to offer financial support to foreign-funded R&D centers in their efforts to conduct sci-tech innovation and basic research.

Chen Chunjiang, Assistant Minister of Commerce, told a news briefing last month that **R&D centers set up by foreign investors are a key part of China's scientific and technological innovation system**, as they help to introduce cutting-edge technology and top-notch talent to raise technological expertise. The rollout of the measures will create a better environment for the development of the centers, enable them to allocate their resources globally and unleash their potential to drive industrial upgrades, he said. According to the Ministry of Science and Technology, the number of researchers employed at R&D centers set up by large foreign businesses grew from 595,000 in 2012 to 716,000 in 2021, with the amount of R&D investment up from CNY176.36 billion to CNY337.74 billion during the period.

Wu Jiaxi, Deputy Director of the Department of Research Commercialization and Regional Innovation at the Ministry, said the centers are mainly concentrated in Beijing, Shanghai and the Guangdong-Hong Kong-Macao Greater Bay Area, and they have played pivotal roles in helping China build an open innovation climate and in facilitating its growth. Shanghai, for instance, was home to the regional headquarters of 891 multinational corporations and 531 foreign-funded R&D centers as of last year. According to the Ministry, the number of patents filed by large foreign businesses increased from 68,000 in 2012 to 241,000 in 2021. "Foreign-funded R&D centers are not only an effective channel for foreign businesses to gain access to the Chinese market and take part in domestic innovation, but are also a key means for Chinese enterprises to integrate with the global innovation network," Wu said. To make it easier for foreign businesses to do R&D work, the document pledged to promote the free flow of data for research purposes in a safe, regulated manner. Talented individuals from overseas will also find it easier to work in China, with measures to greenlight foreign-funded R&D centers to apply for work and residence permits for foreign researchers in batches.

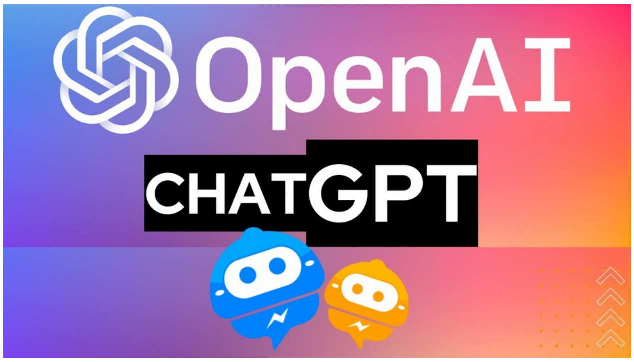
The protection of intellectual property rights (IPRs) will be another priority, according to the policy, with authorities set to clarify measures on the protection of commercial secrets, legal liabilities and litigation procedures. A punitive compensation mechanism for IPR infringement will be implemented, and a special campaign targeting trademark and patent infringements as well as online piracy will be launched. MOFCOM said last month that actual foreign direct investment hit more than CNY1.23 trillion in 2022, up 6.3% year-on-year. In U.S. dollar terms, the figure was USD189.13 billion, up 8% year-on-year. The latest policy measures have already been welcomed by foreign businesses with an R&D presence in the Chinese market.

According to a report released by the European Union Chamber of Commerce in China and the Berlin-based

Mercator Institute for China Studies last year, the overwhelming majority of European companies surveyed have expressed plans to increase R&D spending. “European companies recognize that China’s R&D ecosystem is increasingly vibrant and has many advantages over the rest of the world,” said the report, which surveyed 32 respondents. Among the advantages most commonly cited was the number and variety of collaboration partners, including established national industry firms, startups, scientists, and researchers, the report said. It said that most respondents see considerable value in participating in China’s innovation ecosystem. They are keen to expand R&D activities and to integrate this with their global strategies to make the most of China’s talent pool, its speed of commercialization of new technologies, and the potential of combining European hardware and Chinese software, the China Daily reports.

IT & TELECOM

Chinese companies also joining the chatbot race to compete with ChatGPT



Chinese tech companies are scrambling to roll out artificial intelligence-powered chatbots or products, similar to ChatGPT, which has taken the world by storm since its launch in November by U.S.-based AI research company OpenAI due to its advanced conversational capabilities. As ChatGPT uses machine-learning technology to generate text responses to prompts, Chinese enterprises should pool more resources into improving algorithm models, computing power and natural language processing abilities, industry experts said. They also expressed concern that the ChatGPT-like concept might be overhyped and suggested that people should invest rationally in the stock market. Meanwhile, a new set of problems will likely emerge, including ethics, copyright protection, privacy and data security.

Alibaba Group confirmed that it is developing a ChatGPT-style AI tool, which is currently under internal testing. The company did not give a timeline for its ChatGPT rival to be launched. Frontier innovations, such as large language models and generative AI, have been the company’s focus areas since the formation of the Damo Academy, a research institute launched by Alibaba in 2017. “As a technology leader, we will continue to invest in turning cutting-edge innovations into value-added applications for our customers, as well as their end users, through cloud services,” a Spokesperson added.

Baidu, China’s largest search engine company, announced a similar AI chatbot project, called Ernie Bot, which will complete internal testing in March before being made public. The Beijing-based company has invested large sums of money in developing its Ernie system, a large-scale machine-learning model that has been developed over several years. Other Chinese tech companies have jumped on the chatbot bandwagon. NetEase announced that its education subsidiary Youdao has been working on AI-generated content, and is promoting its application in the education sector. Meanwhile, intelligent speech and AI company iFlytek said ChatGPT-related technology will be first used in its learning machine.

China's Securities Times cautioned against risks in chasing ChatGPT-concept stocks. It said in a front-page editorial that although some sought-after concepts have been successful, many more new ideas haven’t been commercialized. Some people are keen on hyping up fake concepts, it said, adding that investors should not invest blindly. The share prices of Cloudwalk Technology and Speechocean, have risen strongly recently before dropping somewhat.

“At present, the application of ChatGPT-related technology is still at a nascent stage, and its commercial uses and profit model are not clear,” said Pan Helin, Co-director of the Digital Economy and Financial Innovation Research Center at Zhejiang University’s International Business School, adding that investors should make rational decisions. As a large AI-powered language model, ChatGPT features strong semantic understanding and logical capabilities based on context, but “it has higher requirements for algorithms and computing power, which relies on considerable investments”, Pan said, adding that Chinese companies should invest more in fundamental R&D to bolster comprehensive innovation abilities. There is still a long way to go to realize the large-scale commercialization of AI-generated content as the supporting technologies, and related laws and regulations, are far from mature, Guo Tao, Deputy Director of the China Electronic Commerce Expert Service Center, said, as reported by the China Daily.

CHINA NEWS ROUND-UP

Despite tensions, U.S.-China trade reached new high in 2022

While relations between the United States and China have yet to thaw after years of growing tension, bilateral trade ties are expanding, with the value of imports and exports hitting a new high last year. China was the U.S.' third-largest trading partner for goods in 2022, accounting for 13% of total trade, following Canada, with 14.9%, and Mexico at 14.7%, according to the U.S. Commerce Department. "The increase shows that economic forces are stronger than political talk," Gary Hufbauer, Senior Fellow at the Peterson Institute for International Economics in Washington, DC, told China Daily. "The U.S. economy is very strong, and U.S. firms need to get intermediate and final goods from reliable suppliers that offer high quality and low prices. That means China," he said. The value of U.S. goods exports to China increased by USD2.4 billion year-on-year to a record high of USD153.8 billion, with imports increasing USD31.8 billion to reach USD536.8 billion last year, the U.S. data showed.

Two-way trade in goods between the world's two largest economies rose to USD690.6 billion last year, exceeding the record set in 2018. Compared with 2012, U.S. exports of goods to China increased 39%, while its imports from China grew 26.6%, according to the U.S. data. According to China's General Administration of Customs (GAC), Sino-U.S. trade rose 0.6% year-on-year to USD759.43 billion in 2022, with the U.S. remaining China's third-largest trading partner following the Association of Southeast Asian Nations (ASEAN) and the European Union.

Chinese exports to the US grew 1.2% year-on-year to USD581.78 billion last year, while its imports from the U.S. fell 1.1% to USD177.64 billion, GAC said. Despite the countries' differing statistics, the figures show that the booming trade relationship between the two major economies is mutually beneficial, creating jobs in both countries and taming rising inflation in the U.S., said Yang Weiyong, Associate Professor of Economics at the University of International Business and Economics in Beijing. Hufbauer, however, said that if geopolitical tensions worsen substantially, there could be a plunge in bilateral trade. Current trade relations suggest that the decisions of consumers and business executives have been more powerful than those of policymakers, he added.

In his State of the Union address, U.S. President Joe Biden said Washington seeks competition, not conflict, with Beijing, and the U.S. will work with China in areas where interests align. In late November, U.S. Commerce Secretary Gina Raimondo said the country reaps great benefits from trade with China and would not decouple from it, with the exception of critical technology and other areas that Washington deems could "undermine" its national security. Beijing made it clear that it opposes stretching the concept of national security and politicizing or weaponizing economic and trade ties, the China Daily reports.

China's largest balloon manufacturer denies involvement in U.S. incident

China's largest balloon manufacturer, the Zhuzhou Rubber Research & Design Institute Co, has denied any involvement in the "spy balloon" incident in the United States in which the U.S. Air Force shot down a Chinese balloon. According to the Chinese government, the balloon was used for weather observation and drifted off course, but the U.S. maintains is was used for spying. The incident prompted U.S. Secretary of State Antony Blinken to cancel a trip to China on February 5. The U.S. is confident the manufacturer of the balloon "has a direct relationship with China's military and is an approved vendor of the People's Liberation Army (PLA)". China admitted owning the balloon but said it was intended for civilian purposes and had entered U.S. airspace by accident.

The Zhuzhou Rubber Research & Design Institute Co, under China National Chemical Corp, has denied it had any connection with the "spy balloon" incident. It has developed some world-leading technologies in the manufacture of sounding balloons, also known as weather balloons. Zhuzhou Rubber institute's sounding balloon can fly at an altitude of 50,000 meters – higher than any competitor's product. The company has an 80% Chinese market share and its balloons are exported to more than 40 countries and regions, including Russia, France, the U.S., Germany and Britain, according to the firm's website. Increasing demand for balloons for scientific research and other sectors has stimulated the rapid development of the technology in China, according to industrial experts.

A sounding balloon has a rubber balloon and a radiosonde, a small device that measures atmospheric pressure, temperature, humidity and wind speed. The balloon is filled with hydrogen or helium. Zhuzhou Rubber improved its rubber formula for the production of balloons and has mastered two kinds of crafting processes: a dipping method and a rotational moulding method. Balloons produced by Zhuzhou Rubber can rise to an altitude more than four times that of the highest-flying civil aircraft. During the lift-off process, the balloon scans the sky from low altitude to high altitude like a CT scanner and obtains key values needed for scientific research or military operations. The company has also designed a flat floating balloon, which can climb to a high altitude, then measure horizontal areas.

Zhuzhou Rubber's balloons range in weight from 10 grams to 7,000 grams. A high-altitude balloon that can fly to 20,000 meters costs just CNY170, while a balloon that reaches 50,000 m costs nearly CNY20,000. Zhuzhou Rubber is the designated supplier to the China Meteorological Administration, the People's Liberation Army (PLA) and the World Meteorological Organization (WMO). It is also a member of the international Association of the Hydro-Meteorological Equipment Industry. In 2017, the Zhuzhou Rubber Institute, as a representative of the Chinese latex industry, led the drafting of the "Meteorological Balloons – Specification", an international standard, the South China Morning Post reports.

The Biden Administration added six Chinese entities to an export blacklist, saying they were linked to Beijing's suspected surveillance balloon program. The entities include Beijing Nanjiang Aerospace Technology, the China Electronics Technology Group Corp's 48th Research Institute, Dongguan Lingkong Remote Sensing Technology, Eagles Men Aviation Science and Technology Group, Guangzhou Tian-Hai-Xiang Aviation Technology and Shanxi Eagles Men Aviation Science and Technology Group. Being added to the entity list makes it hard for targeted companies to obtain U.S. tech exports.

Blockchain research center to be set up in Beijing; ban on cryptocurrencies remains

The Ministry of Science and Technology (MST) has approved the establishment of the National Blockchain Technology Innovation Center in Beijing to pursue core technological breakthroughs related to blockchain, while maintaining a ban on cryptocurrencies. The new center will also focus on the uses of blockchain in the national economy and personal livelihoods, making blockchain an important foundation for China's new digital infrastructure. Over the past several years, China has offered greater support to blockchain development while also intensifying a crackdown on cryptocurrencies, which the government regards as a threat to financial stability. In 2021, the government clarified that all cryptocurrency trading was illegal in China. Two years earlier, Chinese President Xi Jinping said blockchain would play "an important role in the next round of technological innovation and industrial transformation". The Ministry of Industry and Information Technology (MIIT) and the Cyberspace Administration of China (CAC) also said in guidelines published in 2021 that China will seek to use blockchain broadly across a range of industries by 2030.

The nod from President Xi served as a call to action for Big Tech firms and start-ups alike, resulting in a flood of investment into blockchain. **By last July, China had 1,821 blockchain companies registered with the CAC**, encompassing legal, financial, agricultural and intellectual property protection projects. An MIIT official also said last year that China has the most blockchain patent applications of any country, accounting for 84% of the world's total. The state-backed Blockchain-based Service Network (BSN) is also rapidly moving ahead with domestic and overseas projects. These include the Spartan Network, which aims to get businesses outside China to adopt blockchain divorced from cryptocurrencies, currently the most popular use of the technology.

China's new blockchain innovation center will be led by the Beijing Academy of Blockchain and Edge Computing, which is backed by the Beijing municipal government. The academy is known for having developed an enterprise blockchain called Chang'An Chain, or ChainMaker. ChainMaker said last year that it had been equipped with technology that can resist attacks from both classical and quantum computers, the South China Morning Post reports.

SMIC's sales up 34% in 2022, but profits down 26% in Q4

Semiconductor Manufacturing International Corp (SMIC), China's top contract chip maker, said its profits declined by more than one-fourth in the fourth quarter, as falling consumer demand in smartphones and laptop computers weighs on the industry. During the three months ended December 31, profits fell over 26% year-on-year to USD425.5 million, the Hong Kong and Shanghai-listed foundry reported. Quarterly revenue reached USD1.6 billion, down 15% from the previous quarter, but up 2.6% from a year earlier. Total revenue for 2022 increased nearly 34% to USD7.27 billion, compared with USD5.44 billion in 2021. SMIC said in November that it expected weaker demand for consumer electronics to weigh on its business outlook through the first half of 2023.

Global smartphone shipments last year fell 11% to fewer than 1.2 billion units, the lowest in a decade, according to research firm Canalys. Personal computer shipments declined 15%, according to Counterpoint Research. Around the world, the semiconductor industry has been facing strong headwinds, with global semiconductor sales dropping nearly 15% year-on-year to USD130.2 billion in the fourth quarter, according to the Semiconductor Industry Association (SIA). Intel posted a 20% slump in revenue in 2022, while Samsung Electronics saw quarterly profit shrink by more than two-thirds to an eight-year low in the last quarter of 2022. SMIC said the semiconductor industry is likely to remain at the bottom of the cycle in the first half of 2023, which could push the company's first-quarter revenue down by as much as 12% compared with the December quarter.

As China's front-running foundry, SMIC had begun using the 7-nanometer process to produce semiconductors since at least last year, according to Canada-based research firm TechInsights, putting the Chinese company a step closer to the levels of Intel, Samsung and Taiwan Semiconductor Manufacturing Co (TSMC). SMIC never publicly announced it is using the 7-nanometer process without using the highly advanced extreme ultraviolet machines made by Dutch chip equipment supplier ASML, which stopped exporting such equipment to China in 2019 under U.S. pressure. SMIC, which was added to the U.S. Commerce Department's Entity List in late 2020, is currently building four mature 28-nm foundries across China, including one each in Shanghai and Tianjin, which are set to go online in the next five to seven years.

As of the end of 2022, the new fab in Shenzhen had entered production, while trial production had begun in another fab in Beijing, where mass production is expected to be delayed by one to two quarters owing to a delay in the procurement of certain equipment. SMIC said its monthly capacity increased to 714,000 8-inch equivalent wafers last year, while total capital spending amounted to USD6.35 billion. It said the increased budget was to prepay for equipment procurement for its four new wafer foundries, which would provide additional capacity equivalent to 340,000 12-inch wafers per month, the South China Morning Post reports.

CPI up 2.1% in January, biggest rise in three months

The National Bureau of Statistics (NBS) announced that China's consumer price index (CPI) rose the fastest in three months, climbing 2.1% from a year earlier in January, which is higher than the 1.8% annual rise in December. China's consumer inflation accelerated in January, mainly driven by the Spring Festival holiday effect, pointing to a gradual recovery of domestic demand amid signs of a steady economic rebound, analysts said. Despite facing inflationary pressures amid the robust recovery of domestic demand and high prices of energy and raw materials, they said they believe China will keep prices stable within a reasonable range this year, given its sufficient supply of daily necessities and the government's effective measures to maintain price stability. The Producer Price Index (PPI), which gauges factory-gate prices, was down 0.8% in January from a year earlier, showing an annual decline for the fourth month in a row.

Lu Ting, Chief China Economist at Nomura, said the growth in CPI inflation was mainly driven by the Spring Festival holiday falling in January this year compared to February last year, and the decline in the PPI was driven by falling global energy prices. "Looking forward, we expect inflation to edge down marginally to 2% in February," Lu said. Nomura recently raised its 2023 China GDP growth forecast from 4.8% to 5.3% and the 2023 CPI inflation forecast from 2.5% to 2.6%. "We still believe inflation is not a major concern in China this year, and we expect monetary policy to remain accommodative in 2023," Lu said.

This year, China will seek to keep overall prices stable within a reasonable range, given the sufficient supplies of grain and oil, expanding acreage of vegetable farms, effective measures to use pork reserves to steady prices, and the solid foundation for ensuring stable prices of essential commodities, said Zhang Xuewu, Director of the Price Analysis and Forecasting Division at the Price Monitoring Center, which is part of the National Development and Reform Commission (NDRC). Zhou Maohua, Macroeconomic Analyst at China Everbright Bank, said he expects China's CPI will continue to rise mildly with the gradual recovery of economic activity, while the PPI may continue to decline in the following months due to slowing global demand and the high comparison base of the previous year. China's broad money supply (M2) rose 12.6% year-on-year in January to CNY273.81 trillion, higher than the 11.8% in December, according to the People's Bank of China (PBOC).

China's outbound direct investment (ODI) rose 5.2% year-on-year to CNY985.37 billion in 2022, according to the Ministry of Commerce (MOFCOM). Apart from benefiting from the tangible growth of the Belt and Road Initiative (BRI) and the Regional Comprehensive Economic Partnership (RCEP) agreement, experts said the growth of China's ODI last year was mainly driven by domestic companies' improved ODI structure. China's ODI in wholesale and retail sectors soared 19.5% on a yearly basis to USD21.1 billion last year, while investment in manufacturing, and leasing and business services went up 17.4% and 5.8% year-on-year, respectively. China's optimized Covid-19 control policies and eased travel restrictions will not only encourage its exporters to travel abroad to win more orders, but also increase Chinese companies' merger and acquisition activities in overseas markets this year, especially in developed ones, as well as in BRI and RCEP-related markets, said Wang Xiaohong, Deputy Director of the Information Department of the Beijing-based China Center for International Economic Exchanges, the China Daily reports.

Sensor technology firm Hesai launches IPO on NASDAQ

The American depositary shares (ADS) of Hesai Group, a Shanghai-based developer of sensor technologies used in self-driving cars, rose 11% in their U.S. trading debut after raising USD190 million from its IPO on the Nasdaq. It is the largest IPO by a Chinese issuer in the U.S. market since October 2021, according to Dealogic. Hesai, which is backed by strategic investors Baidu, Xiaomi, Qiming Venture Partners and German engineering conglomerate Robert Bosch, sold 10 million ADS, traded under the symbol HSAI. Hesai's IPO is the first such transaction underwritten by Goldman Sachs, Morgan Stanley and Credit Suisse since 2021. Founded in 2014, Hesai makes three-dimensional light detection and ranging (LiDAR) solutions that enable a broad spectrum of applications across passenger and commercial vehicles with advanced driver assistance systems and autonomous functions. As of December 31, Hesai shipped over 103,000 LiDAR units.

According to a Frost & Sullivan report, **Hesai was the global leader in the autonomous mobility LiDAR market by 2021 with a 60% global market share**. Hesai aims to expand its presence on the global stage. Li Yifan, Co-founder and CEO of Hesai, said the company opted to pursue a U.S. listing over other venues because it wanted more exposure on the global stage. Hesai is talking to several global carmakers for potential business opportunities. "For them to make those decisions, being able to know we are publicly traded, well-funded with a healthy growth margin and cash-flow is tremendously important," he said. Hesai's sales have been growing steadily in the past three years. The company's sales in the first nine months of 2022 reached USD112 million, with its net loss in the period shrinking to USD23 million, according to its filings with the U.S. Securities and Exchange Commission (SEC).

Hesai's annual gross profit margin from 2019 to 2021 was 70.3%, 57.5% and 53%, respectively. In 2021, it invested CNY368.4 million in R&D, accounting for 51.1% of its net revenue. Duane Kuang, Managing Partner of Qiming Venture Partners, said the investor looks forward to seeing more technology and product innovations from Hesai to help promote the wider adoption of autonomous driving. "We see many interesting investment opportunities in the intelligent and autonomous driving value chain," Kuang said.

Straits Research forecast that the global LiDAR market size in terms of annual revenue will likely reach USD6.93 billion by 2030, with a compound annual growth rate of 19.27% from 2022 to 2030, the China Daily reports.

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