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

PAST EVENTS

Online Chinese New Year Celebration – February 7, 2022

The Flanders-China Chamber of Commerce **celebrated the Year of the Tiger** on February 7 in an online event with special guests of honor **His Excellency Cao Zhongming, Ambassador of the People's Republic of China in Belgium**, and **His Excellency Jan Jambon, Minister-President of the Government of Flanders**.

Ms Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce, delivered the welcome speech. "Let me wish you all a Happy and Healthy Year of the Tiger! The Tiger is tenacious, powerful and ambitious. This year is the year of the Water Tiger. The element water is a source of nourishment and symbolizes fluidity and movement, which means the Water Tiger may find this year to be a good one for change and moving forward! So taking into account the slowing down of the pandemic and easing of restrictions, we hope to soon continue our events and meet you in person again and of course, we hope that later this year, we will be able to visit China again! We are honored that His Excellency Cao Zhongming, Ambassador of the People's Republic of China and Mr Jan Jambon, Minister-President of the Government of Flanders, can celebrate the Year of the Tiger with us. During this celebration, the Ambassador will share his views on the perspectives of the Chinese economy and the development of our bilateral trade relations. Mr Minister-President Jan Jambon will give us an insight in the trade and investment relations between Flanders and China, and our Chairman, Mr Kurt Vandeputte, will give the introduction."

Mr Kurt Vandeputte, Chairman, Flanders-China Chamber of Commerce, introduced the guests. "Let me first of all, wish you all a Happy Year of the Tiger! It is motivating and heart-warming to see so many participants online to celebrate the new year. I'm sure we all hope to meet each other in person very soon! I would like to start with thanking His Excellency Ambassador Cao Zhongming and his colleagues for their continued support and cooperation with our Chamber and our member companies. Your support and guidance is very important in the development of the business activities of Flemish companies in China. I look forward to a continued and even deepening of our cooperation and friendship in the coming years. I also wish to thank Minister-President Jambon, the Government of Flanders and our structural partner, Flanders Investment & Trade for their support of our Chamber. I remain strongly convinced that *together* we can further intensify the trade between Flanders and China. More than ever, Flanders is an attractive, innovative and business-friendly region for Chinese companies to explore the business opportunities that Europe can offer for them. Lastly, I want to extend my gratitude to the Federal Government of Belgium for their support to our Chamber."

You see on your screens a proud and smiling new Chairman of the Flanders-China Chamber of Commerce! Proud because despite the very difficult conditions, the year of the Ox, has been a very good year for our Chamber. Our membership basis increased significantly and we could reach a record amount of people with the variety of events, info sharing sessions, debate sessions and experience sharing activities in 2021. This clearly indicates that there is more than ever a need for information sharing, understanding each other better, for identifying new innovation or business partners. So thank you dear members, your interactions drive and motivate us to do better and more for you." Last week, we have unfortunately witnessed with a Flemish athlete participating to the Winter Olympics in Beijing how important it is that strongly different cultures need to align well, need to prepare well, agree on clear collaboration procedures, and most important of all: communicate well! This is a good lesson for business collaboration, and it also goes to the fundamental objective of our Chamber: develop better business relationships through mutual respect and collaboration.

Our Chamber has built over the years a strong partner network in China, mainly thanks to all the investments of our member companies in very diverse regions in China. These partnerships with industry- and innovation-minded cities can help you (our members) in identifying attractive business opportunities to sell your products or services but also to manufacture your goods in an attractive ecosystem. In this respect, I also wish to thank the City of Weihai, located in Shandong province, for their support to our Chamber and our companies that have invested in the city.

Allow me to draw your attention and to recommend you our China Business Weekly Newsletter providing useful information on China's economy and foreign trade. Due to the pandemic, networking "guanxi" at conferences has become more difficult but this is surely back on our agenda in the Year of the Tiger! Lastly, I would like to stress the importance of the European dimension of our Chamber: the EU-China Business Association. The EU-China Business Association is the umbrella organization of all bilateral China organizations in Europe promoting economic and trade relations between the EU and China.

As many of us know, China's market offers long-term business opportunities for our companies. And many (if not most) of our companies are **in China for China.** According to a survey of EU companies in China, they mentioned that despite the economic upheaval caused by Covid, a notable 42% of European companies reported increased revenues in 2020, with automotive, machinery, IT and telecoms, pharmaceutical and the retail sector posting particularly strong financials. Furthermore, European companies remain firmly committed to the Chinese market and indicate the plan to further grow their activities in China. It goes without saying that one of our big challenges for companies doing business with China is the fact that we still cannot travel to China due to the impractical imposed safety measures. From several members we have received feedback that this situation is creating negative impacts on their business and operations in China. Let's however not forget, for many companies, the biggest risk doing business with China is still not to be in China.

Before coming to my closing remarks, I would like our excellencies present at this event to create an environment that allows fluent bilateral trade between Flanders and China! Both sides have become interdependent and the future positive development of our societies will be based on smooth trade. I would like to wish all of you good health, prosperity and very successful businesses in the year of the tiger ! Let's cheer for our athletes at the Beijing Winter Olympics and wish them loads of medals."

His Excellency Cao Zhongming, Ambassador of the People's Republic of China in Belgium, said: "It gives me great pleasure to join the online celebration hosted by the Flanders-China Chamber of Commerce for the 2022 Chinese New Year of the Tiger. Today marks the 7th day of the first lunar month in the traditional Chinese calendar and I would like to take this opportunity to wish you a very Happy Chinese New Year. Meanwhile, the Beijing 2022 Winter Olympics being in full swing, let us join each other to cheer on competing athletes of both China and Belgium, wishing them to reach key performance in the Games.

This past year of 2021 has seen the 50th anniversary of the establishment of diplomatic ties between China and Belgium. President Xi Jinping exchanged congratulatory messages with His Majesty Philippe, King of Belgium. Premier Li Keqiang held a video conference with Belgian Prime Minister Alexander De Croo. Both Chinese and Belgian business communities have been joining hands to mitigate impacts of the pandemic, achieving satisfying results to mark the 50th anniversary of bilateral diplomatic relations. It is also in this year of 2021 that bilateral trade flow between the two countries reached USD38,95 billion with a year-on-year increase of 36,3%.

This past year of 2021 has seen the centenary of the Communist Party of China (CPC). Chinese people's aspiration for a better life is not only the focus of Chinese communists' efforts, but also the biggest internal driver for China's development. In 2021, China's GDP has grown by 8,1% with a total of USD17,7 trillion, achieving the dual target of fairly high growth and relatively low inflation. Its aggregate foreign trade value exceeded USD6 trillion; and China's actual use of foreign capital surged to USD173,48 billion with an increase of 20,2% year-on-year. Now, China is marching on a new journey of building a modern socialist country in all respects. The fundamentals of the Chinese economy, characterised by strong resilience, enormous potential and long-term sustainability, remain unchanged.

This past year of 2021 has also seen the 20th anniversary of China's accession to the World Trade Organization (WTO). Over the past two decades since its entry, China has fully honored its commitments to the WTO in all aspects: the average tariff rate has dropped from the former 15.3% to the current 7.4%, – lower than the accession commitments at 9,8%; for trade in services, nearly 120 sectors have been opened up – 20 more than what was agreed upon accession; a domestic economic management system aligned with international rules has been established and these measures have unleashed market and social vitality. Nowadays, China has become the world's largest trader in goods, the second biggest trader in services, and a major trading partner of more than 120 countries and regions. For twenty years, China's average annual

contribution to global growth has remained at about 30%. China's development has thus been empowering global growth and prosperity.

As a Chinese saying goes, "the whole year's work depends on a good start in spring." Looking ahead to the year of 2022, I very much look forward to joining hands with you and your Chinese colleagues, in addressing global challenges such as Covid-19, and in strengthening cooperation in multiple areas including innovation, digital economy, medicine and health, agriculture, food, chemical industry, green and low-carbon transition, and sustainable development. We shall work closely together to help maintain the stability of global industrial and supply chains and to better ensure our mutual benefits. Both China and Belgium are staunch advocates and supporters of free trade. I hope that both our countries could unite against protectionism and promote an open economy, playing an active role in advancing China-Belgium and China-EU cooperation.

First, we shall stay firmly confident in China's economy and actively make good use of the opportunities brought by its opening up and development. **President XI Jinping mentioned during his speech at the 2022 virtual session of the World Economic Forum: "for China, reform and opening-up is always a work in process. Whatever change in the international landscape, China will always hold high the banner of reform and opening-up."** In the upcoming year, China will continue to optimize the business environment based on the principles of marketization, rule of law, and internationalization; we will also work to strengthen the protection of intellectual property rights (IPRs), and to bring equal opportunities to both foreign and domestic enterprises. China will further shorten the negative lists of fields restricted to foreign investment, promote the all-around opening up of agriculture and the manufacturing sector, expand the opening of telecommunication, healthcare and other services in an orderly manner, implement a nationwide management system based on negative lists for cross-border trade in services, and improve trade and investment liberalization and facilitation. Not to mention that China will take an active and open attitude in negotiations on issues such as the digital economy, trade and environment, industrial subsidies and state-owned enterprises. China has a population of over 1.4 billion and a middle-income group of more than 400 million people, which makes it the second largest consumer market with a GDP per capita of 12,5 thousand US dollars in 2021, well above the world average. In the next ten years, China's accumulated value of imports is expected to total more than 22 trillion US dollars, offering enormous opportunities to countries across the world including Belgium. We welcome Flanders' enterprises to regard China as one of the highest potential markets and to accordingly expand your trade and investment to China for common interest.

Second, we shall strive to consistently enhance China-Belgium cooperation. Science and technology constitute the foremost productive forces and will open up more space for cooperation between China and Belgium. In recent years, Chinese R&D investment has grown remarkably, which has been injecting new impetus into the rapid growth of emerging technologies including big data, cloud computing, internet of things, mobile internet, artificial intelligence (AI) and new energy resources. According to the Global Innovation Index (GII) published by the World Intellectual Property Organization (WIPO), China has climbed from ranking 29th in 2015 to 12th in 2021. Today's China is no longer reduced to a country depending on technology importing as before, but rather a key player leading many fields of science and technology. "Made in China" increasingly becomes "Intelligent Manufacturing in China" or "Created in China". Preqin data shows that venture capital investors put a total of 129 billion US dollars into more than 5,000 start-ups in China in 2021. A two-way technology cooperation between China and Belgium has been nurturing interest of Belgium enterprises and people in Chinese technological innovation and application. Hopefully, Belgian enterprises will seek to make full use of their comparative advantages against protectionism, continue to promote mutually beneficial cooperation with China in science and technology, and further enhance the quality of China-Belgium cooperation for a sustainable long-term development.

Third, we shall firmly reinforce mutual trust between China and Belgium. President Xi Jinping stated on previous occasions: "to uphold true multilateralism, we should remove barriers, not erect walls; we should open up, not close off; we should seek integration, not decoupling." True multilateralism requires good faith in interactions among countries. Good cooperation shall be based on mutual respect and trust, and the same shall be applicable for business entities. When encountering differences and disagreements arising out of cooperation, we shall work together to properly manage these divergences with mutual trust, instead of turning economic issues into politics and ideologies. With both Chinese enterprises in Belgium and Belgian enterprises in China being key players in cooperation between the two countries, it is up to governments to foster a fair and non-discriminatory market environment and to adopt an open attitude towards trading and investing entities of the two sides. Since three years in my position in Belgium, I am deeply impressed by Flemish entrepreneurs not only because of their diligence, pragmatism and innovation, but also their sharpness and being strong-minded. I stay convinced that you are able to see where fish live in the deep waters of the world's major markets. Nevertheless, I also would like to share a relatively gloomy impression that certain people in Belgium including in Flanders tend to fabricate an "imaginary opponent" to Belgium, by overstating differences in national circumstances as "threats to national security", demonizing a friendly country, and devaluing the friendship and mutual trust built with joint efforts by both sides over the last decades; and this was all based on extreme views and misinformation. To be honest, we find it irresponsible to just fabricate an imaginary rival or enemy; and unfortunately, I cannot see any profit for Belgium as a result of this kind of behavior. In China we say, "friendliness is conducive to business success." Sincerely, I believe in your positive role in safeguarding the mutual trust between our two countries. Our pragmatic cooperation shall be based on the market for a sound development free from disruptions and distractions, in the common objective of richer benefits to people of both sides.

This year marks a vital year in fighting against the pandemic and in boosting the economic recovery. I hope that the business community of Flanders-China Chamber of Commerce will seize the opportunity in the Year of the Tiger to

uncover new market potentials with courage and vitality of this legendary animal, to make the market cake even bigger and to deliver more on commitments to pragmatic cooperation between the two countries. Let us join hands with full confidence, and work together for a shared future!

His Excellency Jan Jambon, Minister-President of the Government of Flanders, said: "It is an honor and a pleasure to be able to speak to you here today. Digitally, unfortunately. I would have much preferred it to be physical as well. I assume everyone would. But it is how it is. Let's all hope we can get back to normal as soon as possible. Let me start by wishing you all a Happy New Year. Because of course this event is also meant to celebrate that. We are celebrating the year of the tiger this year. And that makes me happy because the Tiger indicates a prosperous year. The Tiger stands for strength and braveness. Exactly what we need as we finally see light at the end of the pandemic tunnel. I also truly believe that 2022 will be a prosperous year. We must have that hope. All will be well."

The Flanders-China Chamber of Commerce (FCCC) promotes economic, commercial and scientific relations between Flanders and the People's Republic of China. Se we are going to talk about business and trade, of course. The pandemic has put quite a strain on economic activities, both in Flanders and in China. But for both, we also saw how resilient the economies were and how quick recovery is manifesting itself. This is important because the economy is of course the basis for trade. China is responsible for a large chunk of the world's economy, exporting over USD2.5 trillion and importing over USD2 trillion worth of goods. In addition, China has a gigantic population. With a market of 1.4 billion people China is key to driving demand in many sectors, also in Flanders. Not only in terms of trade but also in terms of innovation, China is at the top. The World Intellectual Property Organization ranked China as the most innovative upper middle income country in the world. That is something we cannot ignore. Finally, the Chinese economy has shown great resilience, recovering quickly after the first Covid wave. I realize that we cannot yet say that Covid is behind us. But let us be inspired by the tiger and hope that it will be soon and that full recovery will be powerful.

I am aware that next to China, Flanders seems like a dwarf. But don't be fooled by the size of our population or territory. It is with great pride that I can tell you that, relative to its size, Flanders is a trading powerhouse. We were the 15th exporting nation globally in 2020, exporting €298 billion worth of goods. This makes us a real player worldwide. Flanders is also an important partner for China, and vice versa. Flanders has strong trade links with China, exporting over €7,5 billion worth of goods to China and importing well over €16,4 billion of goods in 2020. These are impressive numbers considering the difficulties the world faced at the time. I am hopeful that we will do even better in the future. Trade between China and the EU, too, is significant to say the least. China is the EU's top trading partner – with €570 billion in imports and exports and over €200 billion in inward and outward foreign direct investment (FDI) streams. The mutual benefit of good trade relations between the EU and China cannot be overstated. The importance of trade to our respective nations is, therefore, a factor that binds us. And it is this importance of international trade in our economy, that means we greatly value openness and reciprocity.

This is also why we value cooperation – particularly on the multilateral stage. After all the multilateral trade system, as embodied by the WTO and other international forums, is what allows us to trade smoothly. This system works to our mutual benefit. Through the WTO we can strive towards a level playing field in which all nations can trade on an equal footing. Bilateral forms of cooperation conducted in good faith, too, are of great importance. This is why the Flemish Government supports the European Commission in negotiating ambitious and balanced free trade agreements and investment agreements. Because it is on the basis of good free trade agreements that trade will continue to flourish, and everyone benefits from that, both Flanders and China. That is why I hope that Flanders and China will continue to develop and strengthen their trade relations. In this context, my government has already conducted a trade mission to China, which will certainly not be the last that the Flemish government, this one or the next, will do. We will continue to build on our good relations.

A question & answer session focussed on trade and investment between Flanders and China and the growing opportunities concluded the online celebration.

FCCC/EUCBA ACTIVITIES

Webcast: How to understand and navigate China's changing business environment for foreign investors – 22 February 2022, 09:00 am CET

The Flanders-China Chamber of Commerce and The Conference Board are organizing a webcast to gain a better understanding of the current environment and implications for foreign businesses on February 22, 2022 at 09:00 AM CET [09:00] (Brussels), 04:00 PM SGT [16:00] (Singapore).

The current operating environment in China is being shaped forcefully on the one hand by changes from the pandemic as well as intensifying domestic economic imbalances, and on the other government initiatives to rectify what China's leadership has identified as serious ideological deficiencies in the commercial and social spheres associated with "disorderly capital expansion" and societal disarray.

The risks currently being targeted by China's leaders have recently focused on the massive wealth accumulation by Chinese entrepreneurs, the capture of market data by private firms, and the oligopolistic business practices in the marketized parts of China's economy. To address these risks, the increase of Party/state control appears to be happening everywhere.

Debate is rife about whether these current developments are primarily political and control oriented, or visionary and "managed reform" oriented and aimed at resolving longstanding social and economic problems to create a better and more egalitarian future for China. **This question is of huge consequence for foreign investors in China.**

Key learnings:

- The economic circumstances that contextualize China's "Dual Circulation" and "Common Prosperity" policy shifts
- Private sector rectifications and implications for the future role of markets in China
- Forecasts for changes to the business environment in China in the run up to the Fall 2022 20th National Party Congress and beyond
- Repositioning imperatives for foreign companies in China

Speaker: David Hoffman, Senior Vice President Asia and Managing Director of the China Center for Economics & Business, The Conference Board

Moderator: Gwenn Sonck, Sinologist, Executive Director, Flanders-China Chamber of Commerce and EU-China Business Association.

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China Dinner: The Picanol Journey in China – 24 February 2022, 18h30, Ghent

After a long period of virtual events, our chamber is once again pleased to be able to put on some live events at which we can all once again meet one another in person. Our second event is an informal dinner which will take place on **February 24, 18h30** at Cercle Royal La Concorde, Kouter 150 in Gent.

Mr. Johan Verstraete, Vice President Weaving Machines, Picanol Group is our guest speaker, and he will talk about Picanol's experiences in China.

He will have much of interest to say, so you are strongly encouraged to sign up to join us at the dinner, which always prove very popular with our Members. **There are limited seats**, so we can have a small group to enable people to share their experiences and to network.

Program:

18h30-19h00: Registration and networking.

19h00-19h05: Welcome by Ms. Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce.

Speech & Dinner: Picanol's experiences in China, by Mr. Johan Verstraete, Vice President Weaving Machines, Picanol Group, and Board Member, Flanders-China Chamber of Commerce.

Panel discussion and closing remarks: Mr. Kurt Vandeputte, Senior Vice-President Government Affairs, Umicore and Chairman, Flanders-China Chamber of Commerce.

21h30: Finish

Practical information:

Date and time: February 24, 2022, 18h30-21h30

Location: Cercle Royal La Concorde, Kouter 150 in Gent; Parking: Kouter

Price for Members: €75, + 21% VAT **Price for non-Members:** €95, +21% VAT

We will follow government guidelines, so we ask every participant to bring a Covid Safe Ticket.

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HEALTH

Olympic "closed loop management" keeps Covid in the bubble

Since February 1, 228 locally transmitted Covid-19 cases were reported in Mainland China, and separately more than 350 athletes and Olympic personnel testing positive upon arrival at Beijing Airport. On the opening day of the Olympics, 45 cases were reported, including those detected upon arrival and those through testing in the bubble. The "closed loop management, keeping Olympic arrivals strictly separated from the outside world, has so far succeeded in preventing outbreaks linked to the Olympics in the community.

Hong Kong reported 614 new cases on February 7, after more than 300 two days in a row in the city's fifth Covid wave. Chinese University's Professor Kwok Kin-on predicts that the number of daily confirmed case will soon reach 1,000. Patients with mild or no symptoms will be sent to the government's Penny Bay quarantine camp on Lantau island to free up hospital beds while allowing close contacts of carriers to self-isolate at home. Many of the recent patients were infected during Lunar New Year gatherings, while the rest were cleaners, security guards and construction workers who were frequently tested.

The Hong Kong government must tackle gaps in its Covid-19 strategy, stockpile more medicine and better allocate resources or run **the risk of Hong Kong being overwhelmed by an expected wave of infections**, health experts have warned, as the daily number of confirmed and suspected cases reached record highs. The ability of authorities to carry out contact tracing urgently needed to be expanded as clusters continued to mushroom across the city and more test kits should be distributed in the community, they said. Dr Siddharth Sridhar, Clinical Assistant Professor at the University of Hong Kong's Department of Microbiology, said it was safe to assume the fifth wave was going to get worse as the number of untraceable cases continued to rise during the Lunar New Year holiday.

The city of Baise in Guangxi – with a population of 3.5 million – asked all its residents to stay at home starting on February 7, the first working day after Chinese Spring Festival holiday, to fend off the latest local Covid-19 flare-up. Guangxi reported 99 locally transmitted Covid-19 cases from February 5 to 7, all in Baise, which is located about 120 kilometers from China-Vietnam border.

As long as China has no new measures to prevent imported strains of the coronavirus from triggering large-scale transmission and with no effective way to contain the epidemic, **the country will not adjust its dynamic zero-tolerance policy for now, because relying only on vaccines cannot contain Covid-19**, Wu Zunyou, Chief Epidemiologist with the Chinese Center for Disease Control and Prevention, told the Global Times. Many countries in Europe have already reached a vaccination rate of 70%, and some countries like Germany, France and the UK more than 70%, but the occurrence of Omicron with breakthrough cases challenges the concept of herd immunity. This means if you want to end the epidemic through building up herd immunity but mutated strains can evade immunity, this concept will no longer apply, Wu noted.

China has moved a step closer to developing a home-grown mRNA vaccine with the publication of early trial results for its prime candidate, ARCoV. No serious adverse events were recorded in the phase 1 clinical trial, but scientists said it was too early to judge its success. Large-scale trials of the vaccine – jointly developed by the Academy of Military Science, Walvax Biotechnology and Suzhou Abogen Biosciences – have been delayed since last year, as it has become more difficult to recruit unvaccinated volunteers for phase 3 trials. So far, China has relied on inactivated vaccines – which use traditional technology but are less effective against the Omicron and Delta variants – to protect its population against the virus. No overseas-developed mRNA vaccines have been approved by the Chinese regulator. Shanghai-based Fosun Pharmaceuticals has exclusive rights to distribute the Pfizer/BioNTech vaccine in Greater China, but supply has been restricted to Hong Kong, Macao and Taiwan while it awaits regulatory approval for Mainland China.

A new study by Chinese researchers from Nankai University in Tianjin and the National Institute for Communicable Disease Control and Prevention supports **the theory that the coronavirus may have passed from humans to mice and then** – after multiple mutations – **made the reverse journey becoming the Omicron variant.** Five mutations of the Omicron variant are identical to one found in mouse lung samples, according to the paper. The origin of Omicron remains unknown as it contains over 50 mutations, many of which have not been found in other previous variants. Many scientists agree that it did not evolve from Delta or other recent variants. Sars-CoV-2, the virus that causes Covid-19, has been found in a wide range of animals like dogs and cats, farmed mink and ferrets, and zoo animals. Hong Kong recently culled 2,000 hamsters, and Hong Kong University scientists found the world's first known instances of hamster-to-human transmission.

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

FOREIGN TRADE

U.S. says China did not meet commitments under two-year U.S.-China trade agreement; China says it did its best

China has failed to meet its commitments under a two-year phase-one trade deal that expired at the end of 2021, and discussions are continuing with Beijing on the matter, Deputy U.S. Trade Representative (USTR) Sarah Bianchi said. "You know, it is really clear that the Chinese haven't met their commitment in phase one. That's something we're trying to address," Bianchi told a virtual forum hosted by the Washington International Trade Association. In the deal signed by former President Donald Trump in January 2020, China pledged to increase purchases of U.S. farm and manufactured goods, energy and services by USD200 billion above 2017 levels during 2020 and 2021. Through November, China had met only about 60% of that goal, according to trade data compiled by the Peterson Institute for International Economics Senior Fellow Chad Bown. The deal prevented the escalation of a nearly three-year trade war between the world's two largest economies, but left in place tariffs on hundreds of billions of dollars of imports on both sides of the Pacific.

Agriculture Secretary Tom Vilsack in late January told lawmakers that China's purchases of U.S. farm goods fell short of the phase one goal by around USD13 billion. The U.S. Census Bureau is expected to release final 2021 trade data for goods and services this week, which will provide specifics on the shortfall. Chinese customs data showed the country's 2021 trade surplus with the United States surged by 25% to USD396.6 billion after declining for two straight years, with exports to the U.S. up by 27% and imports of American goods rising by 33%.

China's Embassy in Washington said Beijing has worked to implement the phase one agreement "despite the impact of Covid-19, global recession and supply chain disruptions". "We hope the U.S. can create a sound atmosphere and conditions for expanded trade with China. The two trade teams are in normal communication," the Embassy said in an emailed statement. Bianchi, whose portfolio includes China and Asian trade matters, did not identify steps the Biden Administration is taking to hold China to its phase one commitments, which also include increased Chinese market access for U.S. agriculture, biotechnology and financial services. "It's not our goal to escalate here. But certainly we're looking at all the tools we have in our toolbox to make sure they're held accountable," Bianchi said, without providing details.

Trade Representative Bianchi, who served as an economic adviser in the Obama Administration and took office in October, **said the U.S. was trying to foster a "stable relationship" with China**, but the two countries are at a "difficult stage in the relationship". "To be super-candid, the conversations are not easy. They're very difficult. But you know, from my perspective, what's important is that we're having conversations and they will be unflinchingly honest," Bianchi said. She said the USTR was emphasizing that China's state aid to companies and non-market economic policies and practices are a "serious threat to American economic interests." Bianchi said USTR was consulting closely with the U.S. Congress on the Biden Administration's planned Indo-Pacific Economic Framework to re-engage economically with the rest of Asia, and more details would be released in the coming weeks. The framework will not include improved market access for countries that sign up, Bianchi said, but the U.S. will be seeking high-standard "binding commitments" from trading partners in negotiations on digital trade policies, labor rules, environmental standards and supply chain resilience, the South China Morning Post reports.

U.S. President Joe Biden has extended by four more years tariffs imposed by former President Donald Trump on most solar panels imported from China and other countries, but excluded tariffs on so-called bifacial solar panels that can generate electricity on both sides and are now used in many large solar projects. This "will enable us to rebuild a sustainable, competitive, and technologically-advanced domestic solar industry", Biden said. Tariffs will be set at 14.75% and gradually be reduced to 14%. Since the tariffs were imposed, solar-panel production in the U.S. has tripled. Chinese and South Korean companies have set up factories in Georgia, Florida and Alabama, and an American firm, First Solar, expanded domestic production at a plant in Ohio.

Biden also doubled an import quota on solar cells to 5 gigawatt, allowing for more cells to be imported. The U.S. does not currently produce solar cells, and the Administration wants to make sure domestic suppliers "do not have to pay a tariff on a key input for their manufacturing process", a Senior Administration Official said. The cells come from countries like Vietnam or Malaysia – not China, the official said. "There is no reason to think that making the import quota larger will somehow help China," the official added, as reported by the South China Morning Post.

MARKETING

China's luxury spending unlikely to return to pre-Covid levels soon

Mainland Chinese consumers' spending on luxury items is unlikely to recover to pre-Covid-19 levels any time soon, owing to limited international travel and a bearish view on the economy, global consultancy **Bain and Company said**. "We expect Chinese consumers' personal luxury purchases to recover to pre-Covid levels between the end of 2022 and the first half of 2023," said Xing Weiwei, a partner at Bain. "This will be supported by continuous repatriation of spending and boosted by the gradual reopening of international travel, first in Asia and then globally." Before 2020, China's middle class, buoyed by rising affluence, made up a third of global purchases of luxury goods, ranging from watches to leather bags and cosmetics.

In 2019, Chinese consumers bought luxury goods worth about USD120 billion, which included purchases at home and when traveling abroad. Buying overseas has trickled to near zero over the past two years, since the outbreak of the coronavirus pandemic, which has limited international travel. Before the outbreak, 155 million mainland residents travelled abroad in 2019, becoming the biggest driving force of the global tourism and luxury goods markets. "Covid-19 has prevented millions of Chinese people from buying luxury goods," said Zheng Honggang, CEO of Shanghai-based Kate Travel. "We have received numerous queries from clients about the reopening of international travel, as they are eager to buy long-coveted bags and shoes during overseas tours."

A lackluster luxury market could dent Beijing's hopes of domestic consumption boosting the national economy. **Bain has forecast that the country's domestic luxury market will slow to "low double-digit growth" in 2022**, compared to a 36% year-on-year rise recorded in the past year. In 2021, purchases of luxury goods on the mainland were valued at CNY471 billion, which represented 62% of the total spending by mainland consumers in 2019, according to Bain. Sporadic outbreaks of the Omicron variant in cities such as Beijing, Tianjin and Hangzhou have prompted Beijing to further tighten containment policies, which are set to disrupt domestic consumption and global supply chains.

In late January, **the International Monetary Fund slashed its forecast for China's economic growth in 2022 to 4.8%**, down from its estimate of 5.6% in October. Swiss Bank UBS said in a research report in January that mainland consumers would refrain from spending in the first quarter of 2022 due to lockdown restrictions and a weak labor market. Luxury items in all categories saw strong year-on-year increases in the first half of last year, ranging from 40% to 100%, while growth throughout the second half dipped to an estimated zero to 25% year-on-year, according to Bain. It cited a cooling down in the stocks and property markets in the second half as one of the reasons for the slowing growth of luxury spending between July and December 2021.

Leather goods was the fastest growing category with a 60% growth rate for the whole year 2021, followed by fashion and lifestyle at about 40%. "There is little expectation that international travel will fully open in 2022," said Bain & Co Partner Bruno Lannes. "Chinese consumers will continue to buy in China," the South China Morning Post reports.

CHINA NEWS ROUND-UP

Australian iron ore imports to China slow, but demand expected to return

China's imports of Australian iron ore, the bellwether of the trading relationship between the two countries, **fell nearly 3% last year** as Beijing sought to reduce steel production and carbon emissions. Diplomatic ties have remained icy in recent years over a range of issues, including Australia's push for probing the origins of Covid-19, but Australian exports to China – iron ore in particular – had cushioned a complete fall-out in the relationship. Exports peaked in 2020, when China fired up its post-Covid industrial recovery, before starting to slow. "We think exports of iron ore will continue to struggle in 2022 as China's GDP growth remains subdued and the Chinese construction sector continues to struggle," said Ben Udy from Capital Economics after the Australian Bureau of Statistics released new trade data. "This should also see prices of iron ore weaken this year, which will also weigh on export values to China," he added.

Australia exported 694 million tons of iron ore to China in 2021, down from 713 million tons in 2020, according to the latest data from China Customs. Last year's imports however remained higher than the volume in 2019 of 665 million tons. While China's demand for iron ore had been strong for years amid continuous economic growth, last year, curbs to steel production, a pursuit of emissions reduction, a crackdown on the debt and growth in the property sector also known as the "three red lines", and a power supply crunch, showed there were plenty of factors that could threaten the demand, and put major suppliers like Australia and Brazil on alert. China's total iron ore imports last year – including the drop in Australian purchases – fell 3.4% to 1.13 billion tons, matching a lower steel output of 1.03 billion tons which fell from 1.065 billion tons the year before.

Navigate Commodities Managing Director Atilla Widnell said the latest news from China indicated **declines in iron ore imports would be limited this year**. "Iron ore imports were only a little lower, and the amount of stimulus and liquidity China is pumping in this year will result in roaring iron ore demand in the second half of the year," Widnell said. Indeed, China has announced it would make industrial growth its top priority this year, and thus "erased requirements to cut steel output in its 2022 decarbonization policy", commodities analyst S&P Global Platts said in a note, as reported by the South China Morning Post.

M&A deals in Mainland China and Hong Kong hit record high

The number of mergers and acquisitions (M&As) in China and Hong Kong rose nearly 20% to a record high last year despite headwinds from a slowing economy and sporadic Covid-19 outbreaks, according to Mergermarket. A total of 2,381 deals were concluded in 2021, the most since records began in 2006. The value rose 13% to USD545.2 billion, the second-highest ever. The increase in deal making was attributed to the consolidation of infrastructure, and technology, media and telecommunications firms, as well as a record-breaking upswing in private equity buyouts and the government's domestic policies.

China's latest five-year plan for "common prosperity" has put growth at home under the spotlight. It is focused on boosting domestic consumption, strengthening internal supply chains while reducing dependency on foreign ones, and enhancing regulation in a variety of industries including financial services and education. "Despite market turbulence and regulatory risks, the Chinese domestic market is booming," said John Yuan, Country Manager China and Southeast Asia for virtual data room iDeals in the report. "Many multinational companies are developing a China-to-China strategy and acquiring Chinese targets to reshape supply chains and make them more local," he added.

Most of the M&A activity was concentrated in mainland China, where 2,179 deals worth USD503.5 billion were concluded last year. The largest deal was the USD111.5 billion merger between Sichuan Railway Investment Group and Sichuan Transportation Investment Group. This was also the top deal globally last year. "Sub-sectors of larger industries such as semiconductors, renewable energy and electrical vehicles are ripe for investment," said Yuan. "Given that technological innovation, renewables and the digital economy are priorities for the government, acquirers and investors should be focusing on hi-tech manufacturing and emissions reduction projects."

Meanwhile, China's outbound direct investment (ODI) has fallen steadily in the last five years because of greater difficulties to export capital as well as a more complicated regulatory environment abroad, according to a report on Chinese outbound investment released by Baker McKenzie and the Rhodium Group. Completed global outbound M&A deals by Chinese companies slumped almost 83% to USD23.7 billion in 2021, from USD138.9 billion in 2017.

Turnover under China's emissions trading scheme expected to reach CNY15 billion in 2030

China's carbon trading scheme, the world's largest, could see transactions reaching CNY100 billion in 2030, climate experts and officials said. The increase in volume will come as the country's national Emissions Trading Scheme (ETS) takes shape. The scheme is expected to undergo several upgrades this year to meet China's carbon peaking and carbon neutrality goals. "The basic framework of the national ETS has taken shape, and the price determination mechanism has taken effect," said Liu Youbin, Spokesman for China's Ministry of Ecology and Environment (MEE). In the next step, the MEE will focus on improving relevant laws and technical specifications, he said.

The expectations of an increase in volume came after China's new carbon market met its first compliance deadline with a high compliance rate of 99.5%. The national ETS, which covers 2,162 firms from the power

sector with total annual carbon dioxide emissions of 4.5 billion tons, completed its first compliance period on December 31, after its official launch in July last year.

Almost all trading companies have surrendered at least an equivalent number of carbon emission allowances (CEA) – which they can buy or trade under the scheme – for actual emissions in 2019 and 2020. Transaction volumes are expected to hit the CNY100 billion mark by 2030, the year China is targeting to peak its total carbon emissions. About CNY8 billion worth of carbon trading has been recorded since the national carbon exchange was launched in Shanghai mid July last year. The national ETS is going to expand to cover 7 billion tons of carbon emissions by 2025, 60% of China's current total emissions, after gradually including all eight of China's heavy industry sectors. The price of carbon under the national ETS could rise to CNY65 a ton this year, compared to previous levels of about CNY50 per ton, according to forecasts by Refinitiv. The scheme is also going to undergo several upgrades, allowing enterprises from two more sectors – building materials and non-ferrous metals – to participate in trading this year, the South China Morning Post reports.

Beijing's commuter town of Yanjiao feels impact of downfall in property sector

Buying property in the small town of Yanjiao was once the first choice for many white-collar workers who did not have a permit to buy a house in Beijing. Like New Jersey is to New York, Yanjiao is less than two hours to downtown Beijing across the Chaobai river to the west and offers competitive property prices. But many of those dreams have now been dashed with Yanjiao a microcosm of the downfall in China's property sector, which has far-reaching implications on personal fortunes, economic growth, financial stability and commodity suppliers. After property prices in Yanjiao halved, and some even dropped below the value of the mortgage, some owners chose to suspend their repayments.

But their decisions were not without consequences with one case highlighted on social media last year seeing a 35-year-old sued by the Bank of China (BOC) for refusing to pay the CNY16,800 installment and remaining CNY2.82 million mortgage. It is, however, just the tip of the iceberg as there have been more than 600 similar disputes heard at local courts since 2019, according to verdicts published by China Judgements Online. The court in the city of Sanhe, which is the administration center for Yanjiao, has listed around 1,000 flats for auction since May 2020 on e-commerce platform JD. "It's an abnormal phenomenon that many investors are trapped in Yanjiao and some assets even turned negative," said Zhang Dawei, Senior Analyst with property agency Centaline.

According to a central bank survey, property accounted for 59.1% of household wealth in 2019, 28.5 percentage points higher than American families, while it accounted for 75.9% of their total debt. Spurred by rumors that Yanjiao would be absorbed into Beijing, Yanjiao's population doubled in a decade to 629,554 at the end of 2020. News of possible coordinated planning or underground train connections saw home prices rise eightfold in 10 years to CNY40,000 per square meter in 2017. Prices have now halved partly due to a relaxation of local property regulations, according to Zhang, who does not see prices rising back to the previous highs due to low investor confidence.

In China last year, the value of property sales grew by just 4.8% to CNY18.2 trillion compared to 8.7% growth in 2020. The amount of floor space sold also grew by just 1.9% last year, with real estate investment growth falling to a 22-year low of 4.% last year. Moody's Analyst Kelly Chen said that the value of national property sales is likely to decline by 5% to 10% in 2022 due to constrained funding and weaker homebuyer confidence, the South China Morning Post reports.

Presidents Putin and Xi agree on closer energy cooperation

As Russian President Vladimir Putin attended the opening ceremony of the Winter Olympic Games in Beijing, he agreed with Chinese President Xi Jinping on closer energy cooperation between the two countries. Valuing Russia as a reliable source of energy for China, observers say the partnership between the two will enhance sustainability of global supply chains. China has plans to strengthen strategic energy cooperation with Russia, push for mega oil and gas projects, accelerate major tech innovations in energy, explore new energy partnerships, and support each other's efforts to safeguard energy security, read a Chinese statement after the high-profile meeting between Xi and Putin on February 4 in Beijing. Chinese and Russian government officials signed agreements of cooperation in major areas, said the statement, without elaborating.

"The statement by the top leaders of the two countries sets the tone for future cooperation on energy," said Liu Qian, Executive Deputy Director of the Center for Russian and Central Asian Studies at the China University of Petroleum. He added that the two countries have actively conducted energy technology cooperation in recent years. The two nations have a lot of room for cooperation in LNG production and energy infrastructure build-up, Liu said. Future energy corporation could include the China-Russia east route, Arctic LNG 2 project, and the Tianwan and Xudabao nuclear power plants. Russia's Gazprom announced it had signed a long-term agreement with its main Chinese partner China National Petroleum Corp (CNPC) to supply natural gas to China via the Far Eastern route. "As soon as the project reaches its full capacity, the amount of Russian pipeline gas supplies to China is going to grow by 10 billion cubic meters, totaling 48 billion cubic meters per year" according to the statement.

China's trade volume with Russia topped USD140 billion for the first time in 2021 as China was Russia's top trading partner for the 12th year in a row. China's exports to Russia jumped 33.8% year-on-year to USD67.57 billion, while its imports from Russia, mostly oil and gas, rose 37.5% to USD79.32 billion, Chinese Customs data showed. Whether in terms of geopolitics or the complementarities of resources and markets, a closer partnership between Moscow and Beijing is mutually beneficial and win-win, Lin Boqiang, Director of the China Center for Energy Economics Research at Xiamen University, told the Global Times.

China joins treaty protecting industrial design IP

China has joined the World Intellectual Property Organization's Treaty on Protecting Industrial Designs, which should help Chinese designers safeguard their work internationally. China has entered the WIPO's The Hague System for the international registration of industrial designs – **as well as the Marrakech Treaty, making books for the visually impaired more accessible**. WIPO Director General Daren Tang received China's accession documents while in Beijing to attend the Winter Olympics opening ceremony. WIPO said Chinese residents filed 795,504 designs in 2020, or 55% of the worldwide total. "The design community in China will find it easier to protect and bring their designs out of China, and overseas designers will find it easier to move their designs into one of the world's largest and most-dynamic markets," Tang said. The Hague System eliminates the need to file and pay for separate design protection in each member country. It will apply to China when its accession comes into force on May 5. Some larger Chinese businesses with plants in member countries, such as Xiaomi and Lenovo, had already been adhering to the system.

WIPO said industrial designs constituted the "ornamental aspect" of an item, including three-dimensional features, such as the shape of an article, or two-dimensional features, such as patterns, lines or color, it said. "More recently, graphical user interfaces or objects for the virtual world are becoming popular forms of designs," it said. "Design registrations of health and personal safety items have also risen lately, showing the relevance of design innovation as part of the worldwide efforts to curb the Covid-19 pandemic."

Meanwhile China's accession to the Marrakech Treaty will also come into force on May 5. The treaty makes the production and international transfer of specially adapted books for people with blindness or visual impairments easier, via limitations and exceptions to traditional copyright law. "The blind and visually impaired community in China, which is estimated at over 17 million, will benefit more easily from accessible versions of foreign-produced texts," Tang said. He said the WIPO would work to add a strong collection of books in Chinese to its existing offering of 730,000 books in 80 languages, the South China Morning Post reports.

EU's GDP falls behind that of China in 2021

China's GDP has surpassed that of the European Union for the first time in 2021, one year earlier than previously estimated. The 27-member EU posted a preliminary annual GDP growth of 5.2%, which translates into a GDP of €14.09 trillion, roughly USD15.73 trillion in current dollars, below China's USD18 trillion GDP recorded in 2021. China beat market expectations with an 8.1% growth for 2021, with GDP reaching CNY114.37 trillion, according to the National Bureau of Statistics (NBS). Analysts said overtaking the EU in terms of GDP is a milestone event, meaning China is now the world's second-largest economy in every sense, even compared with a giant economic bloc such as the EU.

The EU was for some time the world's largest economy, even larger than that of the U.S. The withdrawal of the UK from the EU, which was a USD2.7 trillion economy in 2020, prompted analysts to forecast China overtaking the bloc. The EU's GDP in the first quarter of 2021 outstripped that of China, but the Chinese economy has been expanding at a faster rate after that. Cui Hongjian, Director of the Department of European Studies at the China Institute of International Studies, said that the EU's lack of a strong internet and digital economy also accelerated China's overtaking of the bloc. However, Chinese analysts said policymakers are no longer obsessed with the GPD growth rate, shifting their attention to achieving higher quality growth and sustainability.

It should be noted that, on a per capita basis, China still lags behind the U.S. and the EU. In 2020, average per capita GDP of the EU is about 3.6 times China's, while the figure of the U.S. is about 6 times China's. In 2021, China's GDP per capita was around USD12,551, nearing that of a "high-income country" as defined by the World Bank and overtaking the global average GDP per capita, the Global Times reports.

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