SCI China Market Update – April 2011

To date, the impact of the Japan earthquake on China has been small. It is hoped that China's strong economy will contribute to Japan's reconstruction, from construction machinery to daily use products. To deal with challenges ranging from domestic inflation to global instability, China officially entered its 12th Five-year Development Plan period. Below are some recent China market highlights for your information:

China central bank raises key interest rates

China's central bank is raising key interest rates by a quarter of a percentage point as it tries to dampen high inflation. The People's Bank of China said that the increase lifts the one-year lending rate to 6.31% and the rate for one-year bank deposits to 3.25%. This is the 4th rate hike since October and reflects concerns about overheating and excess liquidity that is driving up prices, especially of food. China's consumer prices rose 4.9% in February, driven by an 11% jump in food costs.

China's economy is expected to grow 9.6% in 2011 as fixed asset investment remains a key driver, the Asian Development Bank (ADB) said in an annual report released recently. With inflation pressures building and tightened monetary policy, China's GDP growth was forecast to be moderate this year compared with a growth of 10.3% rate in 2010, said the ADB. A growth rate of 9.2% is expected in 2012.

China sets higher goals for energy use, gas emissions

China will reduce its energy consumption and carbon dioxide emissions more drastically than earlier planned during the period of the new development plan in order to sustain economic growth at a lower cost to the environment. According to the Ministry of Industry and Information Technology (MIIT), targets for 2015 call for 18% cuts in energy consumption per unit of industrial output, a minimum reduction of 18% for carbon dioxide emissions, as well as increasing utilization of industrial solid wastes to 72%. Annual goals for 2011 through 2015 are part of the package.

China's Sinovel replaces GE as world's second largest wind turbine maker

Sinovel, China's largest wind turbine maker, has replaced GE as the world's second largest such company after Danish manufacturer Vestas, according to the company's annual report. Sinovel occupied 11.1% of the global wind turbine market at the end of 2010, up from 9.2% the previous year. The company held 23.2% of China's wind turbine market in 2010. Sinovel's product mix includes 1.5MW and 3MW doubly-fed wind turbines. The company produced a 5MW prototype in October

2010. It expects to roll out a 6MW prototype in June of this year. The report says that Sinovel installed some 4.386GW in new wind power capacity in China in 2010. 2010 revenues and profits were up over 2009 by more than 48% and 50%, respectively.

Chinese, US steel firms open joint venture

Jinhuan Steel, a leading private Chinese steel manufacturer, and Rigid Building Systems, a Houston-based steel building company, officially opened their joint-venture, Rigid Global Buildings, in the US. Jinhuan Steel invested about $11 million in Rigid Building Systems and now holds 51% of Rigid Global Buildings. The two owners of Rigid Building Systems hold 12% of the joint venture each, with the remaining 25% being held by Citibank, said Liu Baozhong, president of Jinhuan Steel. Liu said that, instead of merely focusing on the US and Chinese markets, they plan to expand international business, eyeing especially the Middle East market.

China United Steel: China's steel demand growth falls

The growth of China's demand for iron and steel is expected to fall below 7% in 2011. Experts said steel demand will continue to increase as the iron and steel enterprises downstream see different degrees of growth. But compared to 2010, growth of road construction investment and the auto industry will slow.

China's auto industry will have to adjust in 2011 as the three major incentive policies are withdrawn, i.e. vehicle purchase tax concessions, automotive popularization in the countryside and auto replacement. Other limiting factors include Beijing's car purchasing limit and increasing car costs. As a result, car sales growth is expected to be 10-15% in 2011, much lower than the 30% growth in 2010. Thus steel demand in the auto industry will decrease sharply. China's iron and steel imports are expected to stay at the same level of 2010, and exports may decrease. Importantly, as China has cancelled its export tax rebate, steel exports will face more difficulties in 2011. Rising raw material costs, Yuan appreciation and international trade protection will also inhibit steel exports.

China's largest coal producer builds processing project on China-Mongolia border

China Shenhua Energy Co. Ltd., the country's largest coal producer, plans a 10 billion Yuan (1.5 billion U.S. dollars) investment to build a coal processing project on the China-Mongolia border to better use coal imports from the Republic of Mongolia. The Wulate Middle Banner commission of development and reform said Shenhua's project, slated for first phase production by 2012, would have a coal washing ability of 6 million tons a year, coking capacity of 2.4 million tons a year and an annual capacity of producing 4.8 million tons of methanol and 30,000 tons of tar.

US companies in China profitable: Amcham Survey

More US businesses in China said they were profitable last year even though they are still worried about the prospects of local market access, the American Chamber of Commerce in China (Amcham) said recently. 78% of member companies surveyed by Amcham said their China operations in 2010 were "very profitable" or "profitable", the highest proportion in survey results dating back to 2002.

At the same time, the country's rapid economic growth makes it an increasingly important market for companies such as GM and GE. Some US companies, however, said the Chinese government is making it increasingly difficult to do business in the world's second-biggest economy. "There are two themes to the data," Amcham China Chairman Ted Dean said in Beijing. "American companies are doing well, and American companies are concerned in some cases about the current regulatory environment and in others the trend line for the regulatory environment." 83% of Amcham China members plan to increase investment in the country this year, according to the survey. The survey was based on responses from 434 member companies out of a total of about 1,100 members.

Some 85% of respondents reported increased revenue from their China operations last year. 63% reported improved operating margins, compared with 44% who said the same of their 2009 results. 71% of the respondents said China's business licensing process discriminates against foreign companies. More respondents – 31% - named bureaucracy as one of their top five challenges, up from 23% in 2010.

For more information about today's China market and opportunities, please visit our website at www.s-c-i.com or call me at the number below or Dr. Tim Weckesser at 610-828-8060.

Best regards,

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