

## SCI China Market Update – April 2014

Dear friends,

From April 5<sup>th</sup> through 7<sup>th</sup> China celebrates the annual Qingming Festival to honor parents and ancestors. Qingming is traditionally one of the most important festivals for all Chinese worldwide. Three years ago, Beijing declared it a paid national holiday to encourage Chinese families to keep the tradition vibrant. To provide support, Beijing decided to close all highway toll stations so that people could more easily drive to visit the tombs of their relatives. So we normally suggest to our clients that they avoid travel in China during this period. The highways can be even more jammed than usual.

Qingming is also referred to in English as “Tomb Sweeping Day” or “Pure Brightness”, and usually falls around this same time each year. The Festival dates back some 2,500 years. In earlier times, the day before “Tomb Sweeping Day” was the traditional Chinese “Cold Food Day” when people used no fire for cooking and ate only cold food. As time passed, the two festivals were gradually combined into one - the Qingming Festival. The “Tomb Sweeping” holiday is intended to show respect for our parents and ancestors by visiting and tending their burial sites. But Qingming has also become a time for early Spring family outings for activities like flying kites, boating and tree planting. So, around this time each year, millions and millions of Chinese participate in this celebration. And it becomes a very strong market force. Today it is extremely expensive to buy a “good” burial site in any major Chinese city.

Below is more business news for your information, selected from a variety of public sources.

### **China manufacturing up in March but weakness remains**

China's manufacturing activity improved slightly in March from the previous month, the government said, but analysts said the world's second biggest economy remained weak. The official purchasing managers index (PMI) was 50.3 in March helped by an improvement in export orders, the National Bureau of Statistics said, up from an eight-month low of 50.2 in February. The index tracks manufacturing activity in China's factories and workshops and is a closely watched indicator of the health of the economy. A reading above 50 indicates expansion.

Last month, Chinese Premier Li Keqiang set the nation's annual growth target at "around" 7%, the same level as the goal for last year. China's economy actually grew an annual 7.7% in 2013, the same as in 2012 -- which was the slowest since 1999. Chinese manufacturing gauges pointed to weakness in the world's second-biggest economy that could prompt the Communist Party leadership to roll out additional support measures.

## **China's urbanization plan 2014-2020**

Basic principles, objectives and milestones for urbanization in China from now to 2020 were set out recently. A national plan (2014-2020), the first of its kind, was unveiled by the Central Committee of the Communist Party of China and the State Council, the country's Cabinet. The following are main features of the scheme.

### ***Key numbers***

- Permanent urban residents rose from 17.9% of the total population in 1978 to 53.7% in 2013.
- By 2020, 100 million migrant workers and other permanent urban residents should get city "hukou" (household registration).
- There were almost 270 million migrant workers in China at the end of 2013.
- Regular railways will connect all cities with more than 200,000 residents by 2020, and high-speed rail will connect those with above 500,000 residents.
- Expressways will link cities with over 200,000 residents by 2020.
- Civil aviation services will cover about 90% of China's population.

### **Significance**

- strong impetus for sustainable economic growth
- accelerate industrial restructuring
- solve agricultural problems
- balance regional development

### ***Major objectives***

- By 2020, permanent urban residents should reach 60% of the populace, while three quarters of those residents will have hukou.
- The leading role of major cities will be emphasized, while increasing the number of small and medium cities.
- The service functions of small towns will be improved.
- Green production and consumption will be the norm in the urban economy.
- The urban environment will be harmonious and pleasant with basic public services accessible to all permanent urbanites.
- Clean air and safe drinking water will be available for all.
- The systems of household registration, land management, social security, taxation and general administration will be improved.

## **China to move some facilities out of polluted capital to ease congestion**

China plans to move some administrative, research and healthcare facilities out of its capital to a nearby city to ease the burden on Beijing, which is often wreathed in heavy smog and choked with traffic jams.

The environment has emerged as one of Beijing's key priorities amid growing public disquiet about urban smog, dwindling and polluted water supplies and the widespread industrial contamination of farmland. With a population of more than 21 million and more than 5 million cars on the road, Beijing's living conditions are being pushed to their limits.

Baoding, a dusty industrial city 100 miles (161 km) southwest of the capital, will host the administrative units, universities, research institutes and healthcare facilities that are to be relocated, official news agency Xinhua said. No time frame was given for the plan, but some citizens are skeptical. Beijing must relocate non-core functions, rein in its population, and stop "spreading out like a big pancake", Xi told government officials at a meeting last month, Xinhua said. Baoding city, where the dominant industry is heavy machinery and the auto industry, itself has more than 11 million people.

### **Sinopec makes major breakthrough on shale gas development**

Sinopec, the country's largest oil refiner, announced that the company has made a significant breakthrough in the exploration and development of shale gas reserves in Chongqing. The breakthrough means the country can enter into large-scale commercial development of shale energy earlier than expected. The Fuling shale gas field in southwestern Chongqing is China's first large-scale shale gas field, with reserves of 2.1 trillion cubic meters, according to geological data and expert analysis.

The company expects an annual output of 10 billion cubic meters of gas by 2017, equivalent to 10 million metric tons of oil. Annual output at Fuling will reach 1.8 billion cubic meters by the end of 2014 and 5 billion cubic meters by 2015, a tenfold increase over what was previously planned, the company said. Under China's 12th Five-Year Plan for the shale gas industry, the country would reach a total output of 6.5 billion cubic meters by 2015. If development proceeds as expected, Sinopec will be positioned to contribute 77% of that target.

### **3M marks 30 years in China**

Industrial conglomerate 3M vowed to support the industrial transformation of China as it celebrated its 30th anniversary in the country. By holding to its "In China, for China" principle, 3M has enjoyed robust double-digit growth for over a decade, said Inge Thulin, 3M's president and chief executive officer. "We are here for 30 years, and what has happened here is phenomenal. We built a \$3.8 billion business, developed an organization of 8,000 professionals, created extensive research and development, and a manufacturing network that brings our innovation to all key cities," Thulin said in Shanghai, 3M's China headquarters.

3M's China operation has become the company's largest business operation outside its home market in the United States. Sales in China alone jumped to about 15% of its global revenue in 2013, according to

James McSheffrey, chief executive officer of 3M China. To capitalize on local potential, 3M China will enhance its business footholds in healthcare, occupational safety, new energy, environment protection, infrastructure and public consumption. The company also pledged to keep investing in China with elevated research and development and manufacturing capabilities in the next five years.

### **Hyundai to build fourth China plant**

South Korea's largest carmaker Hyundai Motor said recently it will sign a preliminary agreement to build a fourth plant in China, as it looks to expand in the world's biggest car market. With an annual production capacity of 300,000 cars, the plant in the southwestern mega-city of Chongqing is scheduled for completion in 2016 and will mark a "new leap forward" in the country, Hyundai added.

The firm already has three car plants on the outskirts of Beijing that currently produce a combined 1.05 million units per year, as well as a commercial vehicle plant in Sichuan Province with an annual capacity of 160,000. Hyundai's sister company Kia Motors has three plants in Jiangsu Province that can produce a total of 740,000 units a year. Chongqing has a population of 30 million and its economic output surged 12.3% in 2013.

### **China Southern will launch direct Guangzhou-NY service**

China Southern Airlines announced a new direct flight between Guangzhou and New York set to start on Aug 6, a move the airline sees as a boon to its growing cache of nonstop offerings. Last year there were 1.7 million passengers who traveled between the US and China, a 15.6% increase from 2012. China Southern's plans for the new route call for four round-trip flights a week between JFK in New York and Baiyun International Airport in Guangzhou.

### **China, France sign major business deals on Xi visit**

Beijing and Paris signed scores of deals Wednesday worth 18 billion euros (\$25 billion) on the second day of a lavish state visit by Chinese leader Xi Jinping, in what President Francois Hollande said would bring much-needed growth. Xi and his wife Peng Liyuan have been given VIP treatment on a nostalgia-tinted trip to France marking the 50th year of full diplomatic ties between the two countries -- a visit due to culminate with a concert at the Versailles chateau on Thursday. By far the biggest deal was a Chinese order for 70 Airbus planes worth more than \$10 billion.

### **China's Huawei aims to double last year's record revenue by 2018**

China's Huawei Technologies Co Ltd has targeted 2018 revenue almost double the record reaped last year when the company booked 34% profit growth and became the world's third-biggest smartphone manufacturer. Huawei has been flooding emerging markets with low-priced smartphones and tapping advanced economies with high-end offerings to make up for slowing growth in its primary business of

building mobile telephone networks. In 2013, revenue hit a record 239 billion Yuan (\$38.47 billion), helping operating profit land within Huawei's guidance range, and pushing net profit up 34.4% to 21 billion Yuan - its quickest profit growth in four years.

### **China's natural gas consumption up in Feb**

China used 14.9 billion cubic meters of natural gas in February, up 10.1% year on year, according to a report from the National Development and Reform Commission. Domestic output jumped 8.3% year on year to 10.3 billion cubic meters in February and imports rose 2.8% to 4.1 billion cubic meters, according to the report. There has been a surge in demand for natural gas in China as the government promotes the use of clean energy to reduce dependence on coal, following heavy air pollution in the country since early 2013. In the first two months, the country used 31.9 billion cubic meters of natural gas, rising 7.3% from the same period last year.

For more information about today's China market and opportunities please visit our website at [www.s-c-i.com](http://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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