

SCI China Market Update – April 2018

Dear friends,

During my most recent business trip to Asia I visited potential vendors in both Taiwan and Mainland China for our client. I found the business culture of Taiwanese companies to be quite different from their Mainland China competitors. I think this may be because the island of Taiwan is so small and lacking in resources compared with the Mainland. The Taiwanese companies I visited are doing fine but they lack the resources and space to develop further.

Taiwan's weather was nice in late March. Taipei's subway system is well developed but very crowded. Although it's high speed train system is short, service is good and prices are low. Taipei Taoyuan International Airport seems to me to be very much like those in China's tier 2 level cities. Taiwan infrastructure - residential apartment buildings, office buildings, shopping centers, hotels, etc. – appears somewhat old and lacks a modern architectural look compared to major Mainland cities.

Some 40 years ago when Deng Xiaoping opened China's doors to the outside world and started its reform and development, the situation was just the opposite. Taiwan, Hong Kong, Korea and Singapore - the so-called Four Asian Tigers – were much more advanced than mainland China in terms of quality of life, technology, infrastructure development, production and so on. Today, from GDP growth to high-speed train systems, airports, R&D and production capability as well as urban development, mainland China is surely way ahead of Taiwan. Asia has changed dramatically over the past 40 years, mostly due to China's huge development. For example, in Kunshan, a city near Shanghai and Suzhou, all the manufacturers are invested by Taiwan companies but supported by the Mainland's favorable policies and resources.

Even some 20 years ago many Western companies did business with China by using the platform of Taiwan or HK or Singapore. But today most of them have already moved their Asia Pacific headquarters to Shanghai or Beijing or Guanzhou or Tianjin and are sourcing directly from Chinese companies. And, Western companies as well as those from Japan, Taiwan and Korea have invested in manufacturing in China and export huge amounts from there but at better pricing. This is surely a key part of the “trade deficit” – that is, Western companies manufacturing in China and then shipping product back to the west.

Regarding auto parts companies that I visited in both Taiwan and mainland China, I could feel and see that the potential for fast development in the mainland is much bigger than in Taiwan. This is simply because of the size of the mainland China market. Almost all of the world's top car companies (e.g. GM, Ford, Toyota, VW, Audi, BMW, Benz) are making and selling vehicles in China - but not in Taiwan. China is so big that all kinds of road conditions can be tested, but Taiwan is too small to do so. From raw materials to parts to engineers and technical workers, Taiwan's 20 million people surely find it hard to compete with the 1.4 billion people of the Mainland.

In general, Taiwan left me a good impression but a little concern about its resources and relationship with the mainland.

By the way, I am not too worried about the current U.S. – China trade dispute although the DOW 30 dropped 650 point (2% drop) today as trade war fears. They surely know that if a real tariff war gets fired up it will cost billions on both sides and damage the world economy. This surely is not what the Presidents want. So, I believe they will soon work out something that looks good politically and seems to taste nice to both Washington and Beijing. Both sides now need to win faces.

OK, here is some very recent China market news from various public sources:

Trump threatens tariffs on \$100 billion more China goods; Beijing says will fight back

These would be in addition to the \$50bn worth of US tariffs already proposed on hundreds of Chinese imports. This maybe is Mr. Trump's negotiation technique but Beijing is not a commercial company. China said on Friday it is fully prepared to respond after U.S. President Donald Trump instructed trade officials to consider imposing tariffs on another \$100 billion worth of Chinese goods.

China will not hesitate to respond if the United States adds further tariffs, Commerce Ministry spokesman Gao Feng told a media briefing in Beijing, describing the tariff row as a struggle between multilateralism and unilateralism.

Economic officials of both sides have not recently held any trade negotiations, which are impossible under current conditions, he said.

China signals tough stance on trade as U.S. officials push talks

China would win any trade war with the United States, the country's state media said on Thursday, as U.S. officials sought to ease market jitters over escalating tensions between the world's two biggest economies.

After Washington and Beijing targeted each other with planned steep tariffs, Chinese state media declared that the country never surrendered to external pressure and would prevail in any tit-for-tat on trade. In Washington, U.S. officials publicly encouraged negotiations as a way to ease or avert punishing tariffs and get the two countries off a trade war footing.

“As part of this deal - and I think we are going to get a deal over a period of time - yes, I think these barriers will come down on both sides,” Larry Kudlow, director of the White House National Economic Council, told reporters on Thursday.

China launches WTO complaint on U.S. tariffs linked to IP issues

China has sought consultations with the United States, the first step in a WTO dispute, over its announced tariffs on \$50 billion worth of Chinese imports on grounds of alleged theft of U.S. intellectual property, the World Trade Organization said on Thursday.

The notification to the Geneva-based watchdog triggered a 60-day deadline for the two sides to settle the complaint or face litigation at the WTO by a neutral panel of arbitrators.

China has already condemned the U.S. announcement and said on Tuesday it would “take corresponding measures of equal scale and strength against U.S. products” and that it would resort to the WTO dispute settlement mechanism. The U.S. tariff plan is based on Section 301 of the 1974 Trade Act.

China’s 2018 economic growth predicted at 6.8%: major state-owned banks

China’s GDP growth for 2018 is forecasted at around 6.8%, according to a report from the Institute of International Finance of Bank of China (BOC) on March 28, China News Agency reported.

The growth was predicted at 6.7% by BOC at the end of 2017. Forecasts for the country’s GDP growth in the first quarter of this year put it at 6.9%, while in the second quarter it may be around 6.8 percent. Growth in industry, consumption, investment and export, key economic area indicators, speed up in the first three months of this year, influenced by strong exterior demands, growth of new drivers, and the picking up of real estate sector and private investment.

In the second quarter, the country’s economy will grow steadily, with new growth drivers continuing to emerge and rapid growth, and consumption gaining policy support, said Zhou Jingtong, a senior researcher with the international finance institute of BOC.

Next step on VAT to reduce levies starting on May 1, premier says

China will cut value-added tax rates as part of a tax reduction package amounting to 400 billion Yuan (\$63.58 billion) this year to drive high-quality development, State Council executive meeting chaired by Premier Li Keqiang decided on Wednesday.

The tax rate for manufacturing will be lowered from 17% to 16%, and for transportation, construction, basic telecommunications services and farm produce from 11% to 10%.

VAT reform was first tested in Shanghai before it was rolled out nationwide in May 2016. It has delivered a total tax cut of 2.1 trillion Yuan in the past five years.

Nissan's China vehicle sales up 2.4 percent year on year in March

Nissan's vehicle sales in China rose 2.4% in March from a year earlier to 122,959 vehicles, the Japanese automaker said on Wednesday. For the first three months of the year, China sales volume totaled about 336,131 vehicles for the Yokohama-based company, up 6.9% from the same period a year ago, it said.

Toyota's March China vehicle sales up 5.4% year on year

Toyota's vehicle sales in China rose 5.4% in March from a year earlier to about 118,500 vehicles, the company said on Wednesday.

For the first three months of the year, sales volume totaled about 321,900 vehicles, up 8.7% from the same period a year ago.

Toyota aims to sell 1.4 million vehicles in China in 2018, nearly 9% more than it sold last year. Toyota insiders have described the target as a stretch goal, in part because of production constraints and other hurdles.

Toyota's forecast for 2018 is relatively more upbeat than the previous few years, partly as it expects to launch later this year a couple of potentially high-volume subcompact sport-utility vehicles (SUVs) — two China-market versions of the subcompact Toyota CH-R crossover SUV. The CH-R hit showrooms in the United States in April last year.

For more information about today's China market and opportunities please visit our website at www.s-c-i.com or call me at (610) 828-8061.

Best regards

Shiqiang Gu
President & CEO

Sino Consulting (SCI)
One Tower Bridge
100 Front St., Suite 1460
West Conshohocken, PA 19428
U. S. A.
Tel: (610) 828 8061
Fax: (610) 828 8801
Web: www.s-c-i.com