SCI China Market Update – August 2013

Dear Friends,

I just returned from another business trip to China. The key word for this trip was “hot”. In Suzhou, the last leg of the trip, the temperature was 39C, and that was early in the morning! I had to cut my normal morning walk after breakfast to about 10 minutes because the Suzhou sun was so brutal. One week later, one of our Shanghai partners told me that the heat wave was still burning the greater Shanghai area, including Suzhou and Hangzhou. It is reported that more than 10 people have died in Shanghai as the city swelters in its highest temperatures for at least 140 years. On at least on occasion, Suzhou actually used artificial rainfall to try to reduce the heat.

The really “hot” topic on this trip was the huge GlaxoSmithKline bribery case. Chinese authorities say GSK-China executives bribed government officials, pharmaceutical industry groups, hospitals and doctors to promote sales. A police official has claimed that GSK staff funneled (or "laundered") nearly $500 million in suspected bribes through travel agencies and consultants since 2007. Police said that GSK executives took kickbacks from travel agencies in return for organizing conferences, some of which did not exist. One Reuters report said GSK transferred up to 3 billion Yuan to 700 travel agencies and consultancies over six years to facilitate the bribes. The Chinese government, in another investigation, is currently checking 60 other pharmaceutical companies over their pricing, a move analysts say is aimed at cutting healthcare costs for ordinary Chinese. Foreign baby formula companies are also being targeted regarding pricing. This investigation is far from over, but it is already clear that corruption in China’s business culture is very complicated and “international” in nature. Below is some very recent China market news for your information:

China to 'maintain steady growth' in second half

China's economy will continue to grow at a steady rate during the second half of this year despite "extremely complicated domestic and international conditions", the government said last week. Leaders of the world's number two economy will "coordinate the tasks of stabilizing growth, restructuring the economy and promoting reforms", according to a statement from the Political Bureau of the ruling Communist Party's Central Committee. The announcement came after a meeting of the politburo attended by President Xi Jinping, the state news agency Xinhua said. China's economy grew 7.5 percent year-on-year in April-June, slowing from the first quarter's 7.7 percent. This in turn was worse than 7.9 percent in the final three months of 2012.

China manufacturing falls to 11-month low: HSBC

China's manufacturing sector saw mixed fortunes in July, underlining concerns of a slowdown in its economy. The official Purchasing Managers' Index (PMI), which surveys bigger firms, rose to 50.3 in July from 50.1 in June. However, HSBC's PMI, which tracks smaller firms, fell to 47.7 from 48.2 in June. The PMI is a key indicator of manufacturing activity and a reading below 50 shows contraction. This is the third month in a row the HSBC reading has been below that level.

China issues trade facilitation measures

China rolled out measures on last week to stabilize weak trade as its economy undergoes restructuring. In June, China's exports surprisingly declined by 3.1 percent year-on-year, the first monthly decrease since January 2012 and the biggest decline since the 2009 recession. Imports dropped 0.7 percent year-on-year in June, compared with a 0.3 percent fall in May, according to the General Administration of Customs. The State Council also decided to temporarily exempt companies with monthly sales of less than 20,000 yuan from value-added and business taxes, starting Aug 1. The move will benefit more than 6 million small businesses and affect jobs and income for tens of millions of people.

China orders firms to cut capacity as economy slows

China has ordered companies in 19 sectors including cement and steel to slash production capacity as growth in the world's second largest economy slows. Beijing's industry ministry ordered around 1,400 firms to shut down outdated facilities by September and eliminate excess capacity by year-end, state media said last week. The ministry on Thursday ordered 527 cement producers to slash nearly 93 million tonnes of excess capacity and 24 steel makers to cut seven million tonnes of capacity, according to a statement on its website. Cement, steelmaking, ferroalloys, electrolytic aluminum, copper smelting, chemical fiber and papermaking are among industries required to cut excess capacity. Papermaking and cement are the two industries that involved the largest number of companies in the latest campaign.

Yuan rises 34% against USD, what is next?

Eight years after China began exchange rate reform, the Chinese currency Renminbi (RMB), or the Yuan, has advanced 34 percent against the U.S. dollar. The central parity rate of the Yuan stood at 6.17 Yuan per U.S. dollar on last Monday as China marked the eighth anniversary of reform on its exchange rate regime, according to the China Foreign Exchange Trading System. The Yuan also gained some 20 percent against the euro over the past eight years. The People's Bank of China, the central bank, said in a recent report that the Yuan's exchange rate is close to the equilibrium level. An equilibrium exchange rate means that the demand and supply for a currency are equal, and the price of exchanging two currencies will be stable.

Chinese developer buys LA site for $1b project

Shanghai's Greenland Holdings Group acquired a site in downtown Los Angeles from a California teachers' pension fund on Friday to build a $1 billion project that will include a hotel, office units and residences. The property purchase marks the latest foray by Chinese developers into overseas markets. The state-owned real estate developer – which is building China's second-tallest tower – acquired the 25,600 square-meter site from the California State Teachers' Retirement System, the second-biggest US pension fund.

Chinese developers are moving into the US and other overseas markets as China's leadership maintains residential-property curbs aimed at holding down skyrocketing prices. Greenland said earlier this month it planned to spend 10 billion Yuan ($1.63 billion) on overseas property projects this year. In February, China Vanke Co, the largest Chinese developer traded on the nation's stock exchanges, announced a $620 million luxury high-rise condominium project in San Francisco with its New York-based partner, Tishman Speyer Properties LP. Xinyuan Real Estate entered the US market in October with a $54.2 million residential-land purchase in Brooklyn, New York.

Myanmar-China gas pipeline goes into operation

Gas has started flowing to energy-hungry China through a pipeline from Myanmar, Beijing's official media reported, in a major project that highlights their economic links even as political ties come under pressure. The 793-kilometre (492-mile) pipeline runs from Kyaukpyu on resource-rich Myanmar's west coast, close to the offshore Shwe gas fields, and across the country.

China to invest $277 billion to curb air pollution - state media

China plans to invest 1.7 trillion Yuan to combat air pollution over the next five years, underscoring the new government's concerns about addressing a key source of social discontent. The money is to be spent primarily in regions that have heavy air pollution and high levels of PM 2.5. The new plan specifically targets northern China, particularly Beijing, Tianjin and Hebei province, where air pollution is especially serious.

Mobile payments to exceed 9 trillion Yuan in 2015

Online payment transactions handled by Chinese mobile payment service providers will exceed 9 trillion Yuan ($1.45 trillion) in 2015, according to an industry report published on Monday. In 2012, the country's mobile banking sector handled 800 billion Yuan in online payment transactions, an increase of 265.3 percent from a year earlier, according to a report published by the Internet Society of China (ISC). Last year, the country's online payments rose 66 percent to nearly 3.7 trillion Yuan, with fast growth in payments on premiums, according to the report. Online premiums payments grew 123.8 percent year on year to 3.66 billion Yuan in 2012, the report said.

China cancels $6 billion uranium plant after protest

China has abruptly cancelled plans to build its largest uranium processing plant in a southern Chinese city, a day after hundreds of protesters took to the streets demanding the project be scrapped. The proposed 230-hectare complex in the heart of China's Pearl River delta industrial heartland in Guangdong province had also sparked unease in neighboring Hong Kong and Macau. State-run China National Nuclear Corporation and China Guangdong Nuclear Power Corp (CGNPC) had planned to build the 37 billion Yuan project. Chinese authorities are becoming increasingly sensitive to local protests over environmental issues, having cancelled, postponed or relocated several major petrochemical and metals plants.

World's largest building opens in China

Boasting its own artificial sun and a floor area three times that of the Pentagon, the "world's largest building" has opened in southwest China to mixed reviews from its first visitors. The towering 100-metre (330-foot) high New Century Global Centre, which is said to be big enough to hold 20 Sydney Opera Houses, recently opened its doors Chengdu. The complex, which Chinese officials say is the world's largest standalone structure, is 500 meters long by 400 meters wide, offering 1.7 million square meters of floor space. But the first wave of visitors were divided over the attractions of the the structure, which houses 400,000 square meters of shopping space, offices, conference rooms, a university complex, two commercial centers, two five star hotels, and an IMAX cinema.

Shipbuilders' losses seen widening

Companies struggle to stay afloat as sluggish demand batters sector CSSC Jiangnan Heavy Industry Co Ltd, the first domestically listed shipbuilder to unveil interim results, reported losses and said it saw a sharp decline in revenue for the first half. Tts first-half revenue dropped 39.49 percent year-on-year to 319 million Yuan ($51.63 million), and it reported a loss of 61.52 million Yuan for the same period. It added the market is still sluggish and that orders are drying up, which dragged down both its core business and its non-shipbuilding revenue. Last year, the company posted 76.05 million Yuan in net losses, down 299 percent year-on-year, a stark contrast with the 38.21 million Yuan in net profit reported in 2011.

Data from the Ministry of Industry and Information Technology showed only 20.6 million deadweight tonnage (DWT) in orders were completed from January to June nationwide, down 36 percent year-on-year, and that Chinese shipbuilders' orders in hand dropped 13.4 percent to 108.98 million DWT as of the end of June. The core business revenue of 80 major shipbuilding companies declined 22.4 percent to 84.1 billion Yuan from January to May. "For shipbuilders, 2011 was gray, 2012 is black, and 2013 will be bloody," said Ren Yuanlin, the chairman of the Yangzijiang Shipbuilding Group Ltd. Ren added that he expects the bearish conditions to persist for at least five years.

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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