

## SCI China Market Update – August 2015

Dear Friends,

I contribute Chinese language articles to two major newspapers here in North America. Both are headquartered in New York. I also contribute articles to People's Daily Overseas Edition published in Beijing and printed worldwide, including New York. On July 23, "The China Press", based in New York, published my article titled "The Summers I Spent Without Air Conditioning". This long article recalled the hot summers I spent in my hometown, Tianjin, totally without air conditioning until apartments and office buildings finally began to install this luxury in the late 1980s.

In 1977, soon after the end of the "Cultural Revolution", educational examinations were re-instated and universities re-opened to us under Deng Xiaoping's leadership. At that time I was an 18 year old apprentice lathe operator at Tianjin Hydraulic Press. I had been "assigned" to this manufacturer during the Cultural Revolution, while millions of others had been assigned to the "countryside" to work in agriculture. That summer was extremely hot, but this opportunity for higher education was so valuable to us that no one ever complained about the lack of air conditioning.

I got up very early in the morning and went to sleep very late at night – always wet with sweat while studying and studying under a weak 40 watt lamp on the days electricity was available. When there was no electricity, we studied by candlelight or kerosene lamp – usually the latter. Candles were expensive. So we would convert empty pill bottles into lamps by cutting a hole in the metal lid, pushing a small length of copper tubing through the hole, and then a wick through the copper tubing.

In the summer of 1978, I finally passed the national exam and that allowed me to be admitted to the Tianjin Institute of Technology. After 10 years of Cultural Revolution I had basically missed high school, along with millions of others. Now I was just one of some 6.1 million young people from the countryside, factories, the military and everywhere else who participated in this national exam. Only 400,000 lucky ones passed to realize the dream of studying at a university. By the way, another of the successful exam takers was young Xi Jinping. At that time, Xi had already served some 7 years in the countryside where he had been sent to learn the ways of the peasants. Today he is the president of China but, like me, will never forget this tough heritage. Though proud of my experience as a 'worker', I was still more pleased and proud to pass the exam and begin life as a university student. The hard life and hot summer could not stop us.

After graduating in 1983, I was hired by Tianjin Science & Technology Commission to develop international technical exchanges – and still no air conditioning in either my home or office. That finally began to happen in the late 1980s. I still remember when my brother, Shining, and his classmates installed the first window air conditioner in the Gu home in 1988. And just 10 years later, in the late 1990s, China had quickly become the world's largest market for, and exporter of, air conditioners. In China, my experience is not special. The Chinese do seem to have a special ability to face and overcome tough challenges and experiences.

China's stock market tumbled recently and generated lots of talk about collapse of this world's 2<sup>nd</sup> largest economy. We really doubt this, even though the economy is indeed facing difficulties. This huge nation is often like a sponge that can absorb economic issues and difficulties quite differently from more developed nations. Moreover, the Shanghai Composite Index had risen about 150 percent by early June from mid-2014. A 30 percent drop may be a needed adjustment and certainly does not signify any "collapse".

Below is some of the latest China market news taken from a variety of public sources.

### **IMF: China 'strong enough' to handle market turmoil**

IMF Managing Director Christine Lagarde said that China could weather the turmoil battering its stock exchanges. "We believe that the Chinese economy is resilient, and strong enough to withstand that kind of significant variation in the markets," she said in an online press conference.

"It's a market that has gone up extraordinarily," she said. "It's a relatively young market, and there is an element of a learning curve" among investors, companies and the authorities.

She said it should not be surprising to anyone that Chinese authorities had moved to restrain the steep daily falls in the capital markets. "The fact that they want to maintain a level of liquidity as well that is commensurate with an orderly process is also quite good."

### **China manufacturing index hits two-year low: survey**

A key gauge of Chinese manufacturing activity plunged to a two-year low in July, an independent survey showed Monday, the latest data suggesting the world's second-largest economy faces downward pressure in the third quarter.

The final reading of Caixin's Purchasing Managers' Index (PMI) came in at 47.8 for the month, the Chinese media group said in a joint statement with Markit, a financial information services provider that

compiled the survey, down from a preliminary 48.2. The figure was below the 49.4 registered in June and was the weakest reading since 47.7 in July 2013, according to previous data.

### **China's FDI up 8.0% in January-June on M&A**

Foreign investment into China rose 8.0 percent in the first half of this year as mergers and acquisitions by overseas companies more than quadrupled in value. Foreign direct investment (FDI), which excludes financial sectors, totaled \$68.41 billion in January-June.

It gave the value of M&A activity at \$13.19 billion, a gain of 336.5 percent from the same period last year, while its proportion of total FDI ballooned from 4.8 percent to 19.3 percent. With the increase of China's land prices and other costs, many companies are now investing in the country in the form of mergers and acquisitions.

### **China says gold stash rose almost 60% in six years**

China's official gold reserves rose by almost 60 percent over the past six years, according to the first official data on the subject since 2009. The central People's Bank of China (PBoC) said bullion holdings rose to 1,658 tons as of the end of June, from 1,054 tones in April 2009, the last time a figure was released.

China is the world's largest producer of the yellow metal, but the 57 percent pace of increase marked a slowdown in gold accumulation after holdings jumped 75 percent from 2003 to 2009.

Bloomberg News reported that China's gold purchases since 2009 were second only to those of Russia. China had foreign currency reserves of \$3.69 trillion as of the end of June, the world's largest trove. The PBoC announces those figures on a quarterly basis.

### **Two leading Chinese power companies generate less electricity**

Two leading Chinese power companies reported lower electricity generation as the economy slows.

Huadian Power International Co. reported that the total amount of power generated in H1 decreased 7.29 percent from the same period a year earlier. The corporation's total amount of on-grid electricity tumbled 7.33 percent in the first half of last year. Last week, Datang International Power Generation Co., Ltd. reported that its power generation had dipped 4.32 percent. Total on-grid power decreased 4.10 percent.

China's total electricity consumption in the first six months climbed 1.3 percent over the same period in 2014, according to National Energy Administration. The growth was significantly slower than last year's

5.3 percent. The electricity consumption is expected to recover in the second half as easing policies revive industrial production. The industrial output in June picked up to 6.8 percent for the third straight month since a growth of 5.6 percent in March.

### **China's largest solar power tower plant starts construction**

Construction has begun on China's largest solar power tower plant in the northwestern province of Qinghai. Occupying 2,550 hectares of the Gobi Desert in Golmud city, the plant will have an installed capacity of 200 megawatts, and be capable of supplying electricity to 1 million households, according to Qinghai Solar-Thermal Power Group. "Its designed heat storage is 15 hours, thus, it can guarantee stable, continual power generation," said group board chair Wu Longyi. Once operational, the plant will slash standard coal use by 4.26 million tons every year, reducing emissions of carbon dioxide and sulfur dioxide by 896,000 tons and 8,080 tons, respectively.

Using heliostats to focus sunlight onto a central tower for power generation, the solar power tower system boasts higher efficiency and better energy storage than the more commonly used trough system. By 2014, the country's solar power capacity was 28.05 gigawatts, 400 times more than 2005, and there are plans to increase this to around 100 gigawatts by 2020. Recently, the regional government of Tibet, China's sunniest place, said the region has increased its solar power capacity to 200 megawatts and 600,000 people have used solar electricity.

### **China Starts Construction of Another Nuclear Power Plant**

This is the second nuclear plant under construction this year since the fifth unit of the Hongyanhe plant, which started on March 29.

The new member will make the number of China's nuclear power units under construction to 26, perceived as number one in scale in the world.

Together with Unit 5 the Hongyanhe Nuclear Power Plant, the construction of the new unit was part of the implementation of China's energy development strategy action plan in the field of nuclear power. According to Beijing, by 2020, nuclear power installed capacity will reach 58,000 megawatts, in the construction of capacity reached 30,000 megawatts and above.

According to earlier reports, once all six units are in operation, the Hongyanhe plant will generate around 45 billion kWh of electricity annually, avoiding the need to burn more than 16 million tones of coal for power generation and the resulting emissions of some 40 million tones of carbon dioxide.

**Olympics: Beijing edges 2022 Winter Games vote to make Olympic history**

Beijing on Friday narrowly won an IOC vote for the 2022 Winter Olympic Games that secured its place in sporting history.

The Chinese capital beat Almaty in Kazakhstan by just 44 votes to 40, with one abstention, to become the first city to be awarded the summer and winter Games.

Beijing held the summer Olympics in 2008 in what was then seen as China sealing its place on the world stage as an emerging superpower. "We represent the safest and most realistic choice," said Beijing's mayor Wang Anshun. Beijing has said it will spend \$3.06 billion on running the Games and special infrastructure for the event. That does not include \$5 billion for a high-speed train link from Beijing to Zhangjiakou, where many mountain events will be held.

**GM to invest \$5 billion on new Chevrolet for emerging markets**

GM announced plans to invest \$5 billion to introduce a new family of cars under the Chevrolet line targeting emerging markets, co-developed by Chinese partner SAIC Motor.

The largest US automaker expects to manufacture and sell the vehicles in China, Brazil, India, and Mexico and export the cars to other emerging countries. The first entry is expected in the 2019 model year, and the program is anticipated to grow to more than two million vehicles annually. The core architecture and engine of the new vehicles are being jointly developed with state-owned SAIC, a leading Chinese automaker and a partner of GM on major joint ventures in the world's second-largest economy.

**China's BYD signs deal to provide zero-emission buses to London**

Chinese automotive company BYD signed a 19 million pound (\$30 million) deal to provide London with its first large-scale, zero-emission, single deck bus fleet. The deal was signed between BYD and the UK bus and coach builder Alexander Dennis Ltd., and together the two companies will build 51 emission-free, pure electric buses, all of which will be built on BYD chassis and powered by BYD's technology-leading electric drivetrain.

The buses will be bodied by ADL, incorporating their market-leading Enviro200 midi bus design. The Enviro200 is the world's best-selling midi bus and renowned for its lightweight, easy access, maneuverability and fuel efficiency. The 51 buses would run on two routes operated by Go-Ahead London, and will come into service by August 27, 2016. They will run on London routes 507 and 521, which link Waterloo station to Victoria and London Bridge stations respectively.

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.

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