

SCI China Market Update – December 2013

Dear friends,

Everyone has been commenting recently on the results of the recent third Plenary Meeting of the 18th Congress of the Chinese Communist Party, held in Beijing November 9-12 during my recent Beijing visit. It is true that this is a very important conference for China's future, but we are going to wait until the New Year to comment. We may know a bit more about priorities by then.

China entered December by launching its first moon rover mission successfully - the latest achievement in its aggressive space program symbolic of its rising stature among world powers. The Chang'e-3 lunar probe blasted off on a Long March-3B carrier rocket from the Xichang Satellite Launch Centre in Sichuan province. If the mission goes well, the rover will conduct geological surveys and search for natural resources after the probe lands on the moon in mid-December. The Chang'e-3 mission is named for the goddess of the moon in Chinese mythology and the rover vehicle is called "Yutu", or Jade Rabbit, after her pet. Unlike many lunar deities in other cultures who personify the Moon, Chang'e only lives on the Moon. Chang'e is the subject of several legends in Chinese mythology that represent the Chinese dream of flying to the Moon. The Chinese view the perfect Monday launch with great pride in their growing international status and technological advancement.

We have also watched China make great progress in development of sophisticated capital equipment in major global industries. Emblematic of this progress, I learned on my recent China trip that the state-owned Jier Machine Tool Group in Jinan, Capital of Shandong Province, has won its sixth order from Ford for high-speed stamping equipment, breaking into business that German companies have controlled for the past 20 years. This order is the largest single export order that Chinese machine tool producers have ever received in the field of high-end equipment. In fact, China has been the world's largest metalworking machine tool consumer for 11 consecutive years, and now the largest producer for the last 4 years in a row. This is no small business, as China spent US\$38.28bn on metalworking machine tools last year alone, accounting for 45% of the global total. Below we present other very recent news for your information:

China's Yuan surpasses euro as world's 2nd trade currency

China's Yuan has overtaken the euro to become the second most-used currency in international trade finance, a global transaction services organization said. The market share of the Yuan (or the Renminbi, RMB), in traditional trade finance reached 8.66% in October, surpassing the euro on 6.64%, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) said in a statement. Global trade

remains utterly dominated by the US dollar, which it said had an 81.08% share. "The RMB is clearly a top currency for trade finance globally and even more so in Asia," said Franck de Praetere, Asia Pacific head of payments and trade markets for SWIFT. The organization said China, Hong Kong, Singapore, Germany, and Australia were the top 5 countries and regions using Yuan for trade finance as of October.

China's November factory growth clings to 18-month high

China's factory growth held at an 18-month high in November on firm domestic and foreign demand, defying expectations the economy faces a modest slowdown as 2013 draws to a close. The official Purchasing Managers' Index (PMI) stood at 51.4 in November, the National Bureau of Statistics said, unchanged from October and ahead of market expectations for a reading of 51.1. Experts welcome the unexpected PMI strength as a sign that China can press on with sprawling plans outlined last month to cut back central economic planning without fear of endangering growth.

OECD sees China growth accelerating in 2014

China's annual economic growth is likely to accelerate to 8.2% in 2014 from an expected 7.7% this year, driven by stronger domestic demand, according to OECD revised projections. "Growth is picking up and inflation remains low, domestic demand has led the turnaround," it said in its latest report on the global economic outlook. The OECD highlighted the need for Beijing to quicken structural reforms in favor of stronger domestic consumption, as economic expansion still relies heavily on investment. It predicted China's consumer inflation will ease to 2.4% in 2014 from 2.5% this year. The volume of China's exports of goods and services will grow 6.8% in 2014, slowing from 8.8% this year, while import growth could ease to 9.2% from 9.8%. China's current account surplus as a share of GDP could fall to 1.5% in 2014 from 2.3% in 2013, it added.

China to ease one-child policy

China will relax its hugely controversial one-child policy, state media said, in a major policy shift announced days after the 3rd Plenum meeting of China's top Communist Party leaders. Couples will be allowed to have two children if one of the parents is an only child, the official news agency Xinhua reported, citing a "key decision" made by leaders at the meeting. "There's an economic reason (behind the move), because China now starts to worry that in 20 years or even less, there will be a labor shortage," said Cheng Li, director of research and senior fellow at the Brookings Institution's John L. Thornton China Center in Washington, D.C. The policy was brought in during the late 1970s to control China's huge population, the world's largest. The law currently restricts most couples to one child, with one of the exceptions allowing a second if both parents are only children. Others exempted include ethnic minorities and farmers whose first child is a girl.

More than a million Chinese chase 19,000 government jobs

More than one million people took China's national civil service exam at the weekend in a modern version of an age-old rite, but faced huge odds against clinching one of the few government jobs available. A total of 1.12 million took the National Public Servant Exam, according to figures from the State Administration of Civil Service figures. But only 19,000 positions were available, the state-run Global Times newspaper said, meaning that fewer than 1 in 50 candidates will be successful.

Government jobs have had an age-old appeal to Chinese because they are seen as stable employment and bring with them a range of privileges, as well as the status of being an official. The benefits can include living allowances, pensions, health insurance, and even property -- a valuable commodity in China's prolonged housing boom.

World steel production rises in October: trade data

Global steel production rose 6.6% in October compared to output a year ago, with China -- the world's biggest producer -- outpacing overall growth, World Steel Association data showed. The evolution of steel production is a key indicator of activity in the industrial sector. Leading producer China recorded a growth of 9.2% in October to 65.1 million tons, while Japan's production was up 7.7% to 9.5 million tons. US production jumped 8.7% to 7.4 million tons, and in the European Union, production was up 4.0%.

Pakistan launches largest nuclear power project with China's help

Pakistani Prime Minister Nawaz Sharif launched the construction of the country's biggest atomic power plant and vowed to pursue further projects to make nuclear the largest energy source. The 2,200-megawatt plant is to be built with Chinese technical assistance on the Arabian Sea coast at Paradise Beach, 40 kilometers (25 miles) west of Karachi. Pakistan already has three operational nuclear plants generating a total of around 740 MW of power and has begun work on a fourth, in addition to the one launched Tuesday. The World Nuclear Association has estimated the cost of the new project at nearly \$10 billion. Pakistan Atomic Energy Commission engineers will work on the project with help from the China Atomic Energy Authority. As Pakistan is not party to the Nuclear Non-Proliferation Treaty it is excluded from the international trade in nuclear materials and technology, and can rely only on its neighbor China for help.

China needs more nuclear power

China's need for nuclear power is likely to exceed its long-term development target as the nation strives to lower its reliance on coal-fired power and cut air pollution, industry insiders said recently. "As demand for energy has outstripped domestic sources of supply, China's nuclear power industry will expand more quickly than anticipated in the next two decades to better manage the nation's energy

structure and deal with environmental problems," said Zheng Mingguang, head of the Shanghai Nuclear Engineering Research and Design Institute.

After the 2011 Fukushima nuclear crisis in Japan, China reduced its installed nuclear power capacity target for 2020 to 58 gigawatts from the original target of 80 to 90 gW. The current installed capacity is 12.6 gW. But even the lower target would still make China the world's largest nuclear market. And building on the domestic market, State-owned nuclear companies hope to move onto the global stage by selling domestic reactor designs and technology. China has intellectual property rights for the third-generation nuclear power technology known as CAP1400. That design is based on technology used in the AP 1000 reactor technology of United States-based Westinghouse Electric Co LLC, which is a unit of Japan's Toshiba Corp. Ownership of those IP rights means China could export its reactors.

Natural gas and renewable energy are keys to China

China's natural gas consumption will quadruple by 2035, becoming a driver of global demand for the fuel, according to a report released by the International Energy Agency in Beijing. China consumed 147.1 billion cubic meters of natural gas in 2012, up 13% year-on-year.

China is the largest potential buyer of that LNG.

Along with eastern Africa, Australia, and North America, China will be an active participant in global natural gas trading, which will propel diversification of that market. In most parts of the world, it's cheaper to generate electricity with coal than with natural gas. But efforts to cut air pollution, address climate change and improve energy efficiency will determine the future of these two fuels. There's no doubt that China's coal consumption will ease as the central government strives to raise the percentage of natural gas in its primary energy mix, the report said. According to the IEA, China's coal use will peak in 2025. India will become the world's largest coal importer in the 2020s, replacing China. China's natural gas development is playing a big role in the country's drive to improve its air quality.

"China's natural gas output has maintained double-digit growth in recent years, with an average annual growth rate of about 13% in the past 10 years," said Zhou Jiping, chairman of China National Petroleum Corp, the country's largest natural gas producer. He said that the company will continue to increase natural gas imports, with more investments in pipelines and LNG projects. The company, which operates about 70% of China's natural gas pipelines, invested about 300 billion Yuan (\$49 billion) from 2010 to 2013 in pipeline construction. The nation's natural gas pipeline network totals about 55,000 kilometers. But Zhou said it still lags those of developed countries.

28 Chinese cities, regions to promote green cars

Twenty-eight Chinese cities and city clusters that will promote the use of new energy vehicles were announced on Tuesday. Government subsidies will be provided for users and manufacturers from 2013 to 2015. The list consists of city clusters each comprising four to 10 cities in five provinces -- Hebei, Zhejiang, Fujian, Jiangxi, and Guangdong. Government organizations, public institutions and public transportation will be key targets for the policy. The subsidy standards will be rated following basic price differences between new-energy automobiles and their traditional counterparts, but will decrease each year due to scale of production and technological progress, according to the September notice. New energy vehicles started being promoted in China in 2009, with public transportation as a pilot area. By the end of 2012, there were 27,800 new energy vehicles in 25 cities, and 80% of them were buses, figures showed. Many cities have been encouraging drivers to buy new energy cars to help reduce air pollution

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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