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SCI China Market Update – February 2013

Dear Friends,

The Chinese New Year, the Year of Snake, will officially begin Feb. 10, 2013. I am currently on a business trip in China and am already seeing millions of people across the country starting to make their way home for family get-togethers and New Year celebrations. I have also been struggling through unbelievable fog and smog levels of PM2.5+ in Beijing and Tianjin. But at last, on Feb. 1st, the strong winds have begun to improve the situation. So I will soon get together with all of our staff in Tianjin to celebrate the Chinese New Year under better conditions – I hope. Visibility was reduced to around 200 meters in parts of Beijing, Tianjin and surrounding areas during last week's smog weather and the current hot discussions nationwide lead us to believe that environmental protection, energy saving and pollution control are becoming the top sales opportunities in the China market. Now, more than ever before, China badly needs real and long term “Green Technology” solutions.

China endorses energy consumption control target

The State Council, or China's Cabinet, approved an energy consumption control target, part of the country's efforts to correct overuse and foster greener growth. The government aims to keep total energy consumption below 4 billion tons of standard coal equivalent by 2015, with electricity consumption below 6.15 trillion kilowatt-hours, according to a statement released after a State Council meeting presided over by Premier Wen Jiabao. To meet the target, average annual energy consumption growth should be controlled at around 4.3 percent between 2011 and 2015, lower than the 6.6-percent annual increase realized between 2006 and 2010. Control goals will be split and distributed among local governments, and enterprises will be urged to take more responsibility in energy conservation and environmental protection, the statement said.

Power plants urged to cut pollution

China should adopt a strategy of multi-pollutant control in reducing emissions from its coal-burning power plants, according to a report released by the China Electricity Council (CEC) and the Environmental Defense Fund, a US-based environmental advocacy group. China's power sector has increased efforts to cut pollutants and carbon emissions in recent years, they said. Data from the CEC showed the sector's carbon emission dropped by 57.51 million tons year on year in 2011.

At present, a major proportion of China's electricity comes from coal. The country's total installed power generation capacity reached 1.14 billion kilowatts (kw) by the end of 2012, among which 819 million kw, or 71.6 percent of the total, came from coal-burning plants, according to latest official data.

Chinese nuclear reactor ready for export

China's self-developed nuclear reactor, known as the CAP1400, will be ready for export this year. The design of CAP1400 is based on the AP1000 reactor made by Westinghouse Electric Co. The AP1000 is known for its third-generation nuclear technology, with higher unit efficiency than older models and an optimized layout. China owns the intellectual property rights for the CAP1400, making it possible to export the reactor. "The technology is under evaluation by the National Energy Bureau, and a demonstration project can be built by the end of 2013 at the earliest," said Gu Jun, president of State Nuclear Power. Jack Allen, president of Westinghouse Asia, said that a continuous partnership with State Nuclear Power is an important step to achieve mutual success.

The top of the containment vessel was installed on the world's first AP1000 unit, unit 1 of the Sanmen Nuclear Power Plant in Zhejiang, marking the end of general construction works of the unit's nuclear island. The unit is expected to be the world's first AP1000 reactor to begin operations, as soon as 2014. All four AP1000 units in China are scheduled to be operational by 2016. "Still, China needs to build 20 to 30 CAP1400 units for its domestic market before the brand can establish its global image," an expert said.

China manufacturing growth expands: surveys

Manufacturing activity in China expanded in January, two separate surveys showed, but they differed on whether the recovery was slowing or accelerating. The official purchasing managers' index (PMI) was 50.4 in January, a slight moderation from 50.6 in the previous month, according to the China Federation of Logistics and Purchasing and the National Bureau of Statistics. British bank HSBC said its final PMI for January stood at a two-year high of 52.3, up from a preliminary 51.9 released last week and a final 51.5 in December. Its survey focuses more on smaller enterprises. The PMI is a widely watched barometer of the health of China's economy, with a reading above 50 indicating expansion while anything below points to contraction.

The official reading slipped into negative territory for two months from August when economic growth hit a more than three-year low in the third quarter, before returning to positive territory with 50.2 in October and 50.6 in November. But the January result was lower than the 51.0 median forecast of 10 economists polled by Dow Jones Newswires.

Even so, analysts said it was unlikely to distress investors significantly as the figure is usually distorted around the Chinese New Year holiday, which falls on February 10 this year, as business flows turn down.

"We believe the Chinese economy and its related asset markets will remain in a sweet spot in the near term," said Bank of America Merrill Lynch economists Lu Ting and Hu Weijun in a research note. The People's Bank of China last cut interest rates in July last year, and has instead used open market operations to boost liquidity to support the economy.

China's looming worker shortage threatens economy

China's demographic time bomb is ticking much louder with the first fall in its labor pool for decades, analysts say, highlighting the risk that the country grows old before it grows rich. The abundant supply of cheap workers in the world's most populous nation has created unprecedented cost efficiencies that underpinned its blistering economic expansion over the past 35 years, propelling the global economy forward. But now the inexorable consequences of the one-child policy imposed in the late 1970s are beginning to appear, and threaten to impact future growth. China's working-age population, defined as 15-59, fell 3.45 million last year, the first decline since 1963. The immediate effect may be small in a nation of 1.35 billion people, but the cumulative effects will accelerate over the coming decades. The number of people aged between 15 and 64 will drop by around 40 million between 2014 and 2030, said Wang Guangzhou, a researcher with the Chinese Academy of Social Sciences (CASS), a government think-tank -- more than Poland's entire population. "The population is aging so fast that we are running short of time to deal with it," said Li Jun, also of CASS, adding the family planning policy had exacerbated the problem.

China's proportion of over-65-year-olds is projected to double from seven to 14% over only 26 years -- a key demographic measure that took the United States 69 years to complete. "Undoubtedly it will substantially slow down China's potential growth rate," Yao Wei, an economist with Societe Generale in Hong Kong, told AFP.

An ageing population not only means fewer people available to employ and higher labor costs, but investment -- a key driver of China's growth -- will be harder to maintain as families spend their savings on health care, she said.

Chinese authorities maintain that controlling its population growth has been key to increasing its prosperity. But while China has risen to become the world's second-largest economy, on a per capita basis it still lags far behind the US and other developed countries. Industrial disputes have become more common in recent years, as workers demand higher pay and better working conditions on the back of growing awareness of their rights and the shortage of skilled staff. By around 2060, every three Chinese workers will have to support two people above 60, compared with a ratio of five to one now.

Labor shortage expected to hit S China

Labor shortages in the southern province of Guangdong are expected to worsen after Spring Festival. The labor shortfall is expected to reach between 1 million and 1.2 million, as a large number of migrant workers have returned home for family reunions, according to Guangdong Human Resources and Social Security Department.

Guangdong, where a number of foreign-funded companies, joint ventures and privately run firms are located, normally has a shortage of about 400,000 workers, labor authorities said. More than 10 million migrant workers, or 61 percent of the total in Guangdong, will leave the province known as the "world's factory", to return home for the Lunar New Year. Ninety percent of those workers have expressed a wish to return after the festival. Labor demand from Guangdong's companies will grow this year because of the province's steady economic growth, authorities said. Guangdong companies' labor demands have increased by 15.2 percent compared with the end of 2011, according to the provincial department of human resources and social security. Currently the minimum wage in Guangzhou, capital of the province, is around 1,300 Yuan ($210) per month.

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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