# SCI China Market Update – January 2012

The Chinese New Year, the Year of Dragon, will officially begin January 22, 2012. Millions of people across the country have already started making their way home for family get-togethers and New Year celebrations. At the beginning of 2012, we see a little slowing down of the high-speed "Chinese Economic Growth Train", but the growth rate for 2012 is still expected by many experts to be close to 10%. The Year of Dragon will be a year filled with many kinds of challenges, but also opportunities – perhaps the normal "Yin and Yang" in the Chinese view. Below are a few important news items as we look to the New Year.

**China's massive holiday migration begins**

The world's largest annual migration of people officially began in China on Sunday with millions of travelers boarding public transport to journey across the vast country for Lunar New Year celebrations. The government estimates the number of passenger trips on trains, planes, boats and buses will reach 3.2 billion during the holiday, also known as the Spring Festival, up 9.1% from last year. The weeklong Chinese New Year holiday runs January 22-28. The Year of Dragon will be a "big year" to Chinese.

**China updates Guidelines on foreign investment**

In a new version of the Foreign Direct Investment Industry Guidelines (2011), the Chinese government is encouraging foreign investors to put money into advanced manufacturing, the service industries and certain businesses concerned with energy conservation, advanced technology, renewable sources of energy, new materials and advanced-equipment manufacturing. Officials and experts said the new guidelines are in keeping with proposals in China's 12th Five-Year Plan (2011-2015), which seeks to lay the foundation for a more innovative and greener economy. Last week, the Ministry of Commerce and the National Development and Reform Commission (NDRC) issued the guidelines, which will replace a previous version of the rules that was published in 2007. They are expected to come into force on January 30, 2012.

In the new guidelines, the Chinese government encourages foreign enterprises to invest in new technology and equipment for the textile, chemicals and machinery-manufacturing industries. The guidelines also encourage investment in nine service industries. Among them are those concerned with charging electric vehicles and swapping their batteries, protecting intellectual property rights, vocational training and cleaning up offshore oil pollution. China will also allow foreign companies to invest in medical institutes and various other industries that were previously off limits to them. China, meanwhile, has removed industries from the list of those it encourages foreign companies to invest in.

No longer part of that group is automakers, large coal-to-chemical operations and manufacturers of polycrystalline silicon. "The restrictions generally apply to industries that have excessively large capacities and that pollute the environment," said Zhang Xiaoji, senior researcher at State Council's development research center. From January to November, 2011, the value of China's foreign direct investment increased by 13.15% from the same period the year before, reaching $103.77 billion.

**China hikes minimum wages amid labor shortages**

China is raising minimum wages in some key cities and provinces as local officials try to combat labor shortages and growing worker unrest. The southern city of Shenzhen, a major manufacturing center bordering Hong Kong, will raise its minimum wage by nearly 14% to 1,500 yuan ($238) from February, according to a local government statement. Authorities in the capital, Beijing, raised wages by almost 9% to 1,260 yuan from January 1, while the southwest province of Sichuan hiked wages by at least 23%, the official Xinhua news agency said.

Shenzhen already has the highest minimum wage in the country, but manufacturing hubs typically face a labor shortage after the Chinese Lunar New Year since many workers do not return after going home for the holiday. The moves follow a series of strikes across China since November, as workers protest low salaries, wage cuts and poor conditions amid company cutbacks due to the global economic slowdown. Persistently high inflation -- which peaked at a three-year-high of 6.5% in July last year but has since retreated -- has also cut into people's spending power. So, the relatively lower labor costs in seaport and industrial cities like Tianjin are getting more attractive to foreign investors.

**Power shortfalls to persist**

China will face further power shortages this year and coal prices will likely rebound after government-mandated controls expire, according to company officials and analysts. China Southern Power Grid Co, one of the two major State-owned power distributors, expects to see a "severe" power supply shortage this year, with the largest shortfalls ranging from 8 million kW to 14 million kW. The company said that March through May will be the three most difficult months, and Guangdong province will have the biggest shortfalls within the grid, reaching 6 million kW to 10 million kW.

To meet the rising power demand and cut the losses of coal-fired plants, the NDRC said that thermal coal prices at nine major ports - including Qinhuangdao, Caofeidian and Tianjin - should be less than 800 yuan ($126) a ton starting on January 1. The NDRC also said that term-contract coal prices could not be hiked by more than 5%. However, analysts said that thermal coal prices will rebound when the government lifts controls, which will probably happen after the second quarter.

The government regulated thermal coal prices once before, in 2008, but prices rebounded after the limit was lifted. China raised on-grid electricity prices by 0.025 yuan a kilowatt hour (kWh) and electricity prices for industrial users by 0.03 yuan a kWh on November 30. The electricity price rise and the coal price regulations had helped coal-fired power plants this time by reducing their costs and raising their incomes. Since coal prices are largely market-oriented, while electricity prices are set by the government, rising fuel costs in recent years have caused financial difficulties for many coal-fired power plants.

**China builds first 200-million-ton coal base**

Shenhua Shendong Coal Group Corporation produced 202 million tons of commercial coal in 2011, becoming the first 200-million-ton commercial coal production base in China. The company said it had set several new records in coal output and sales in 2011. Its annual output of raw and commercial coal both exceeded 200 million tons. To be more specific, its raw coal output reached 219 million tons in 2011, up nearly 11.2 million tons from the previous year. Meanwhile, its commercial coal output reached 202 million tons, up nearly 9.3 million tons from the previous year. The company's Shendong coalfield covers a total area of 31,200 square kilometers, and is partly located in northern Yulin in Shaanxi province and partly in southern Ordos in Inner Mongolia. The coalfield has 223.6 billion tons of proven coal reserves, the largest in China. Shenhua Shendong Coal Group Corporation has built the world's only 10-million-ton coal mine complex in the coalfield. At present, there are seven 10-million-ton coal mines and three 20-million-ton coal mines in the coalfield.

**China plans Asia's biggest coal-fired power plant**

China's Shenhua Group will build the largest coal-fired power station in Asia over the next five years, the official Xinhua news agency said Tuesday, as the country struggles to meet its energy needs. China's biggest coal company and officials in the Guangxi Zhuang Autonomous Region signed a deal for the 8-gigawatt thermal plant last week, according to Xinhua and the local government's website. The plant would be built in the southern port city of Beihai to help ease power shortages caused by drought, which has strained power supplies.

China relies on coal for nearly 70% of its energy needs, which have soared in recent years as the country's economy grew at a blistering pace. Power outages and rationing have been imposed in 17 provinces this year and shortages could worsen if coal supplies are not increased or if the country's north sees particularly harsh winter weather.

Shenhua and the Guangxi government will ensure the new plant's eight power generators get a steady supply of coal from company mines in Indonesia and Australia by building four 100,000-tonne deepwater loading docks, Xinhua said. Beihai city will also build a coal storage facility capable of handling 30 million tons a year in the nearby port of Tieshan.

**China becomes Audi's biggest market**

German automobile manufacturer Audi announced Thursday that it sold a total of 313,036 vehicles in China, including Hong Kong, in 2011, representing year-on-year growth of 37%. Audi, a subsidiary company of Volkswagen, said the results showed that China has outstripped its home market to become the company's largest market. More than 80%, or 252,000, of the cars were manufactured in joint factories in Changchun, an industrial city in northeast China, according to the company.

The company also said China has become the largest market for its Q7 and A8L luxury cars, with sales volumes of 19,063 and 12,425, showing year-on-year growth of 70% and 153%, respectively. Audi announced last month it plans to build a new factory in Foshan, Guangdong province. The new factory will go into operation in 2013 and roll out 150,000-200,000 new cars for the Chinese market annually.

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Best regards,

Shiqiang Gu
Vice President & COO
----------------------------------------
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