

## SCI China Market Update – January 2013

Dear friends,

The Chinese New Year – the Year of the Snake - will begin on February 10<sup>th</sup>, 2013. The 1.3 billion people in China and another 40 million or so Chinese around the globe will celebrate the New Year with family get-togethers, re-connections with old friends, great food and many cultural activities. The “official” holiday runs from February 9th through the 15th. Many privately owned companies along the coast may take a much longer holiday because so many of their workers are immigrants from Sichuan, Anhui and other distant provinces. In general, we suggest to our clients that they forget any business travel to China from about February 8th (Friday) through 18th (Monday). Before or after those dates will probably be fine.

Ancient Chinese wisdom holds that a Snake in the house is a good omen because it means your family will not starve. That is, a snake would only choose to live in a house where food is available. Westerners have a long tradition of demonizing snakes, but not so in China. There the snake is seen as clever and flexible, making it good in business, and a close relative of the powerful dragon. So, let’s hope the Year of the Snake is a prosperous, peaceful and productive year for business. Here is some very recent news to get us started.

### **China's 2013 GDP growth to exceed 8%**

Lu Zhongyuan, deputy director of the Development Research Center, a state think tank under the State Council, has forecast China's GDP growth to exceed 8% this year. He also projected that inflation will be greater than in 2012. He said there is no doubt China's economy will grow by more than 8% and the government should focus more on promoting sustainable growth and containing inflation. China's economy has begun a turn-around since June of last year, buoyed by the country's economic restructuring, innovation incentives and the market's self-stabilizing forces, Lu said. He said that this momentum will continue to drive growth this year.

### **December boost for manufacturers**

China's manufacturing recovery maintained a steady pace in December, further consolidating a solid base for economic recovery. The manufacturing Purchasing Manager's Index in December remained at 50.6, unchanged from November and indicating that expansion momentum has stabilized.

This is according to the National Bureau of Statistics and China Federation of Logistics and Purchasing. It is the third consecutive month the PMI reading registered more than 50, the point separating expansion from contraction in manufacturing operational activities.

The December PMI based on a survey from HSBC Holdings Ltd. rose to a 19-month high of 51.5 from November's 50.8, the fourth straight monthly rise and the second above-50 reading since October 2011, the bank said.

"It confirmed that China's manufacturing sector is gaining momentum, as domestic demand continues to strengthen thanks to the filtering through of Beijing's continuous pro-growth policy efforts," said Ma Xiaoping, an economist in China with HSBC.

### **China's Yuan unlikely to appreciate sharply in 2013**

China set the Yuan's central parity rate against the U.S. dollar at 6.2855 on the last trading day of 2012, up 154 basis points from the same day of the previous year. The Chinese Yuan appreciated 0.25 percent against the U.S. dollar last year, with two-way fluctuations and increasing flexibility. Experts believe that the Yuan's exchange rate will maintain its moderate upward trend this year, but the room for further Yuan appreciation will be limited despite increasing flexibility, given the macroeconomic situation and policy tone.

### **China to slightly ease monetary policy in 2013**

China may fine-tune its monetary policy in 2013 by reducing interest rates and the reserve requirement ratio (RRR) to support economic growth. A small interest rate cut at the right time could substantially decrease financing costs and improve expectations for profitability, said researchers from the China Development Bank, the State Information Center and the Shanghai Securities News who have worked together to forecast key economic indicators and policies in 2013. Inflation will likely hit 3% this year, lower than the 3.3% maximum interest rate that lenders are currently allowed to set for one-year deposits, creating room for further interest rate decreases, the researchers predicted.

The researchers also said they expect moderate reductions for the RRR, or the amount of money banks must set aside as reserves, to prevent a pessimistic economic outlook from taking hold. The central bank trimmed benchmark interest rates and the RRR twice in the first seven months of 2012 to spur growth. But it has since resisted further cuts, preferring to use open market operations instead.

Other economic indicators are expected to improve slightly from last year, with fixed-asset investment expected to rise by about 22% in 2013, greater than the year-on-year growth of 20.7% recorded in the first 11 months of 2012. Value-added industrial output is likely to expand by 10.5% in 2013, the

researchers noted, up slightly from the 10% rate recorded in the first 11 months of 2012. Retail sales adjusted for inflation will increase at nearly the same pace as last year, while foreign trade will maintain slow growth of around 7.8%, they said.

### **Salaries stifled amid sluggish exports**

About 65% of small- and medium-sized enterprises (SMEs) did not increase salaries for their employees in the fourth quarter of 2012, as they chose to survive tough times through controlling labor costs, a quarterly survey on 1,000 SMEs in China showed Tuesday. Only about 35% of the surveyed firms said they raised employees' salaries in the past quarter, compared to 70% in the first quarter of 2012, the Standard Chartered Bank said in a report sent to the Global Times Tuesday. The survey was conducted in the fourth quarter of 2012, covering 1,000 SMEs in 20 cities, mainly in the manufacturing and logistics sectors. Fewer employers in central and western China raised salaries, compared to those in eastern and southern regions, where labor costs have kept rising, the report said.

The decrease in salary growth signals that SMEs cannot afford rising labor costs in the short term. If the sluggish global economy continues to weigh on China's exports, the country's business owners are less likely to raise salaries for employees, the report said. China's average salary level is expected to increase by 8.6% in 2013, lower than 9.8% in 2012, according to figures from 51job.com. Recruitment Company Career International estimates the country's average salary level will rise by 9.43% this year, the lowest level since 2010.

### **China to further promote energy-efficient vehicles**

China expects to have 39,700 energy-efficient and “new-energy” vehicles in operation by the end of March 2013, according to a statement from the Ministry of Science and Technology on Sunday. A total of 27,400 energy-efficient and new-energy vehicles are currently running in 25 cities including Beijing, Shanghai and Shenzhen, with 23,000 buses, vans and cars used in the public service sector and another 4,400 in private use, the ministry said.

In September 2012, the central government earmarked 4 billion Yuan (\$641.9 million) for the continued development of new-energy vehicles and key components such as batteries, said Zhao Yuhai, an official with the ministry.

China currently has 174 charging stations and 8,107 charging posts. The country has also established relevant technical standards and an inspection system, Zhao added. From 2005 to 2012, China applied for 8% of the world's patents for energy-efficient, environmental-friendly vehicles, tying Germany and the Republic of Korea for third place.

### **China remains world's largest energy producer**

China remained the world's largest energy producer for a fifth year in 2012, China's energy authority said Wednesday. The National Energy Administration (NEA) said in a statement on its website that the country's total installed power generation capacity reached 1.14 billion kilowatts (kw) by the end of 2012. Installed hydropower capacity stood at 249 million kw, the world's greatest. The country's wind power also led the world with an installed capacity of 63 million kw by the end of last year, the statement said. Crude oil reserves and production steadily increased, while natural gas production saw rapid development last year, according to the statement. China has been the world's largest energy producer since 2008.

### **China's 'biggest' nuclear plant construction resumes**

China has resumed construction on a "fourth generation" nuclear power plant, suspended after the 2011 Fukushima disaster, which will be its biggest-ever nuclear facility, state media said recently.

Construction on the coastal Shidao Bay nuclear plant in Rongcheng, a city in eastern China's Shandong Province, resumed last month, the state-run China Internet Information Center reported. It is "China's biggest planned nuclear project".

The plant, which will be cooled by high temperature gas, will become "the world's first successfully commercialized fourth generation nuclear technology demonstration project", the report said. A spokesman from the China Huaneng Group, the biggest investor in the plant, said the plant is designed to be safer and reduce costs. It is expected to begin supplying electricity to the grid by 2017, and will have a final generating capacity of 6,600 megawatts. The reactor's outlet temperature is able to hit 750 degrees Celsius, compared with 1,000 degrees Celsius, that can be reached by the very-high-temperature gas-cooled reactor, an international-accepted 4G reactor concept. It can also raise electricity generation efficiency to around 40% from 30% now of 2nd- and 3rd-generation reactors, the statement said. If it is commercially successful, the reactor's technology and equipment can be exported to other countries in the future, said an HSNPC official. "That will be a great boost to China's nuclear industry, as a very high percentage of the equipment is produced domestically instead of being imported," the official told Xinhua.

The project is part of HSNPC's broader plan to build a 6.6-gigawatt nuclear power plant that will require an investment of around 100 billion Yuan over 20 years. If completed, it would be China's largest nuclear power plant, said the official. The plan, which has not yet been approved by regulators, also includes four 1.25-GW AP1000 pressurized water reactors and a 1.4-GW CAP1400 pressurized water reactor. There are 15 operational commercial nuclear reactors in China, with 27 reactors under construction near coastal areas, according to the World Nuclear Association. China's Ministry of

Environmental Protection said in a report in October that the country's nuclear safety situation was "not optimistic", and that the use of differing types of reactors in Chinese plants made the sector "difficult to manage".

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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