

SCI China Market Update – January 2015

Dear friends,

Our changing world and uncertain economy roll into 2015. Although China has more than 3,000 years of rich history, the past 30 have changed the nation dramatically and very fast. Just 30 years ago, in 1985, while my hometown of Tianjin was establishing a “Sister City” relationship with Philadelphia, an “official delegation” from the City of Brotherly Love traveled to China to try to open the “Door of Opportunity”. The Philadelphia delegation included the former president and EVP of the University City Science Center (UCSC) - one of the most successful urban research parks in the world - the former EVP of Drexel University, a former PIDC leader, and a well-known Chinatown leader.

As a project manager of the Tianjin Science & Technology Exchange Center with Foreign Countries (TSTEC), I was assigned to help Tianjin host the delegation. So I went to Wuhan to pick up the delegates and escort them to Tianjin. In 1985, travel by air inside China was almost impossible because there were only a few flights from Beijing to Shanghai or Guangzhou. So, I bought “soft sleeping berth” on the train for the Philadelphia delegates. The journey was some 11 hours long, and very boring! Worse, the EVPs from UCSC and Drexel were very tall Americans and the sleeping berths were just too short for them. It was quite a difficult trip, and they never forgot it.

Today China has a complete network of domestic flights, a nationwide highway system, and even boasts the world’s longest high-speed train system. So, today, that very same trip we took with the Philadelphia delegation would take only about 5 hours and 2 hours by air. Today, high-speed trains leave Beijing for Shanghai about every 20 minutes. It’s only about a five and a half hour trip. And from my hometown Tianjin to Beijing, it’s just 30 minutes – a trip that 30 years ago took some 3 hours on back roads shared by cattle and sheep.

I still remember that the Philadelphia delegation stayed at Tianjin Guest House No. 1 where Chairman Mao had stayed. In 1985 there was not yet a single Western hotel in Tianjin. Nor were there any telephones except in the homes of some very high-ranking officials. It was so difficult to call the US from the Guest House that TSTEC had to send a Telex to inform Philadelphia that the delegation had arrived safely and was on schedule. Now China has 618 million Internet users and about 500 million smartphone users!

I just returned home from Chile. On two occasions the tour buses we took were made in China - King-Long brand and pretty good. I also saw Chinese BYD brand cars in Santiago. Although Beijing is facing

huge anti-graft and environmental challenges, it seems undeniable that China's development over the past 30 years has vindicated Deng Xiaoping's "Reform & Open the Door" policy.

Here is some very recent China market news taken from a variety of public sources.

China manufacturing growth at lowest in 2014

China's manufacturing growth dropped in December to its lowest level of 2014, as the sector struggled with weak domestic demand.

China's official Purchasing Managers' Index (PMI) released by the National Bureau of Statistics (NBS) came in at 50.1 last month, down from 50.3 recorded in November. The index, which tracks activity in factories and workshops, is considered a key indicator of the health of China's economy, a major driver of global growth. A figure above 50 signals expansion, while anything below indicates contraction.

China's central bank surprised economists in November by cutting benchmark interest rates for the first time in more than two years, in a move interpreted as an attempt to shore up flagging growth. The People's Bank of China lowered its one-year rate for deposits by 25 basis points to 2.75 percent and its one-year lending rate by 40 basis points to 5.6 percent. The decision came after a string of disappointing statistics showed the Chinese economy is struggling with not just stalling factory growth, but also other problems including soft exports and the weakening property market. Authorities had for months used various kinds of limited stimulatory measures such as targeted cuts in bank reserve requirements -- aimed at freeing up funds for lending -- and a cash injection into the country's five biggest banks for re-lending.

Beijing to get third airport to reduce congestion, delays

China has green-lighted a third airport for the capital Beijing in a bid to reduce congestion and chronic delays. The massive new airport will be located 46 kilometers (29 miles) south of the city center and take five years to build, according to the China Daily newspaper and other outlets.

When completed, it will handle 72 million passengers per year, taking the pressure off Beijing Capital International Airport in the city's northeast that is the world's second-busiest, handling more than 83 million passengers last year.

China is splashing out on specific infrastructure as part of efforts to limit its economic slowdown. Beijing's is the third airport to get the go-ahead in just the last month, while feasibility studies for five other projects were approved in October. State planning agency the National Development and Reform

Commission has set the airport's construction budget at just over \$13 billion dollars. Designed by Netherlands Airport Consultants B.V., it will have a 700,000-square meter (7,500,000 square foot) main terminal and capacity to process 2 million tons of cargo per year.

The airport will be connected to Beijing by a 66-kilometer (41-mile) light rail line with travel times under 30 minutes.

China's fast growing air travel market is the world's second biggest, but the heavy air traffic and tight control of airspace by the military have given it the world's worst record for flight delays. Flight cancelations and delays have sparked frequent incidents of air rage aboard Chinese flights and at airports.

China drafts new law to fight air pollution

China plans tougher pollution limits and heavier penalties in a revision of its air pollution law, state-run news agency Xinhua said, as the government battles to reduce smog that takes hundreds of thousands of lives each year. The Standing Committee of the National People's Congress is this week considering a draft that would impose fines of up to 1 million Yuan (\$160,000) or even shut down factories that exceed emission limits.

China's current law came into force in 1987, and despite a 2000 revision has not been updated to address the nation's recent rapid economic growth, which has left major urban centers choked by smog. Last month, a study by green group Natural Resources Defense Council said that pollution from the coal industry alone killed 670,000 people in China in 2012.

The revised law will set stricter standards for China's 264 million vehicles as well as for the coal industry and heavy-polluting manufacturing. It will also include an early-warning system and contingency procedures for when pollution spikes in particularly affected areas, such as in the Beijing-Hebei-Tianjin region, which in the third quarter of 2014 suffered from pollution 45 percent of the time, Xinhua said.

Some of the measures outlined in the draft have already been put into place, although environmental policies are difficult to implement in China, partly because local agencies often lack the authority to penalize powerful state-owned companies.

A new environmental protection law entered into force on Jan. 1, 2015 giving more power to environmental authorities to enforce pollution laws.

China firms fined record \$26m for polluting river

Six Chinese companies have been fined \$26 million for discharging tens of thousands of tons of waste chemicals into rivers, state media said, the biggest such penalty ever in China.

The firms in Taizhou in the eastern province of Jiangsu were sued by a local environment protection organization and were found to have dumped 25,000 tons of waste hydrochloric acid into two rivers, the Xinhua news agency reported.

A court in the city ordered the companies to pay 160 million Yuan (\$26 million) in fines earlier this year, the highest ever penalty in Chinese environmental public interest litigation, and a higher court upheld the punishment. In August 2014, 14 people involved in the case were sentenced by another court to prison terms of two to five years for causing environmental pollution, it added.

The previous heaviest penalty for polluting the environment was a fine of 37.14 million Yuan meted out to three defendants in neighboring Shandong province, also for contaminating rivers, according to an earlier report by the Southern Weekly newspaper.

Three decades of rapid and unfettered industrial expansion have taken a heavy toll on China's environment, and Communist leaders have been concerned by an increasing number of angry protests over the issue.

70,000 officials punished for violating frugality rules

A total of 71,748 Chinese officials were punished in 2014 for violating the eight point anti-graft rules, the top anti-graft body said Wednesday. At a press conference summing up China's sweeping counter-corruption campaign, deputy secretary of the Communist Party of China's (CPC) Central Commission for Discipline Inspection (CCDI) Huang Shuxian, said offenders were involved in 53,085 violations and 23,646 had received serious party and government penalties.

China also brought back from overseas more than 500 fugitive corrupt officials and recovered more than 3 billion Yuan (483 million U.S. dollars) in a campaign targeting those that had fled the country, said Huang, adding that China had inked deals with several countries to support global corruption cooperation, including the United States, Canada and Australia.

Sino-US investment treaty sees major progress

China and the United States are finalizing text checks on a bilateral investment treaty and will formally exchange negative lists at the beginning of 2015, China's Vice Finance Minister Zhu Guangyao said

recently. The BIT negotiations are considered the most important issue in the two nation's economic relationship.

Zhu underlined that the two countries sought a transparent investment treaty that was free of discrimination. China and the United States both wish to complete negotiations within Obama's term, Zhu said at an economic forum in Beijing

Talks on the treaty began in 2008 as both countries sought to increase mutual investment, which only accounted for a tiny share of their overseas investment. Last year, bilateral trade volume increased to \$520 billion, and outstanding two-way investment rose to \$100 billion.

US chip giant Intel set for \$1.6bn China investment

American electronic chipmaker Intel has announced plans to invest \$1.6bn in its factory in China. The upgrade at the company's factory in the Western Chinese city of Chengdu would see some of the company's top technology being brought to the country. In exchange for using its most advanced chip-testing technology, Intel will be assisted by the local and regional government. "Deploying our newest advanced technology in China shows our commitment to innovating jointly with China," said William Holt, Intel's executive vice president, in a statement.

The upgrade was announced three months after the company bought a minority stake in a state-run semiconductor company to jointly design and distribute mobile chips. Intel's growing relationships in China appear markedly different to those of some of its rivals, such as Qualcomm. The US company is expected to announce a record breaking settlement in the coming days in its battle with antitrust regulators in China.

China's Xiaomi raises more than \$1 billion in funding: report

China's top smartphone seller Xiaomi Corp. is raising more than \$1 billion in a fresh round of funding, a move which would raise its valuation above \$45 billion.

Private-equity firm Yunfeng Capital that is affiliated with Alibaba Group Holding Ltd. chair Jack Ma, was also taking part.

Established only four years ago, Xiaomi was valued at \$10 billion in a previous round of funding in August 2013. Mainland China is the world's largest smartphone market, and Xiaomi's cheap, feature-packed handsets ousted Samsung as the top seller there in the second quarter.

China aiming to triple patents by 2020

China is aiming to triple the number of patents it files by 2020 as Beijing looks to boost the country's high-tech economy in areas from agriculture to pharmaceuticals, according to a notice from the central government. China is targeting 14 invention patents per 10,000 habitants by 2020 compared to four in 2013. It published 629,612 patents in 2013, over 200,000 more than the United States, according to a Thomson Reuters study in December.

Beijing wants to become a bigger player in high technology industries as the country grapples with slower growth and rising costs for its manufacturing base. This is likely to raise a challenge to global players operating in China and abroad who have typically dominated in more innovative sectors.

It added that by 2020 China would have boosted its legal environment for IP protection and management, often an area of contention for foreign firms who say that IP law in China sometimes favors local players. Beijing is also looking to reduce the length of the review process for patent and trademark applications. Patent reviews will decline to 20.2 months in 2020 from 22.3 months in 2013, while trademark reviews will fall to 9 months from 10 months.

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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