

SCI China Market Update – January 2020

Dear Friends,

Happy Year of the Rat!

Finally, the “Phase One” trade deal between US and China was signed in the White House by President Trump and China’s Liu He on Jan. 15th – just 10 days before the upcoming Chinese New Year, the Year of the Rat, January 25th, 2020.

Why is this “Phase One” deal important? Because it cuts tariffs and boosts Chinese purchases of U.S. products while addressing some disputes over investment and protection of IP rights. Also, it can be an important step to move forward to a possible “Phase Two” agreement to further correct U.S. and China trade and economic imbalances.

What's in the US-China Phase One deal?

- China has committed to increasing its US imports by at least \$200bn over 2017 levels, boosting purchases of agriculture by \$32bn, manufacturing by \$78bn, energy by \$52bn and services by \$38bn;
- China has agreed to take more action against counterfeiting and make it easier for companies to pursue legal action over theft of trade secrets;
- The US will cut by half, to 7.5%, the tariff rate it imposed on Sept 1 on a \$120 billion list of Chinese goods;
- U.S. tariffs of 25% on \$250 billion worth of Chinese goods put in place earlier will remain unchanged for now. These could be rolled back as part of a Phase 2 trade negotiation;
- Tariffs that were scheduled to go into effect on Dec. 15 on nearly \$160 billion worth of Chinese goods, including cellphones, laptop computers, toys and clothing, are suspended indefinitely. China’s retaliatory Dec. 15 tariffs, including a 25% tariff on U.S.-made autos, have also be suspended.

To me, the major benefit of the “Phase One” agreement is that trade war uncertainty is going away from business.

Under the new “Phase One” agreement, I am personally confident that the exchange rate between USD to RMB can be kept stable around USD1 = RMB6.90 during 2020.

What's new with the Chinese economy today? Below are some very recent China market and economic news from various public sources:

China's forex reserves near 3.11 trln USD

China's foreign exchange reserves came in at 3.1079 trillion U.S. dollars at the end of 2019 Beijing data shown. The amount increased by 12.3 billion dollars, or 0.4 percent from the end of November, according to the State Administration of Foreign Exchange (SAFE). China's gold reserves came in at 95.4 billion U.S. dollars in December 2019, up 3.9 billion dollars from the end of November.

China's per capita GDP to cross \$10,000

China's GDP is expected to near 100 trillion yuan (\$14.37 trillion) in 2019, with per capita GDP of more than \$10,000, Ning Jizhe, deputy head of the National Development and Reform Commission, said at the annual meeting of China's macro economy in Beijing.

China's foreign trade rises 3.4% to 32t yuan

China's foreign trade volume in 2019 stood at 31.54 trillion yuan, growing 3.4 percent year-on-year, data released by the General Administration of Customs show.

The country's exports rose by 5 percent to 17.23 trillion yuan and imports grew by 1.6 percent to 14.31 trillion yuan last year, while its trade surplus increased by 25.4 percent to 2.92 trillion yuan. In the meantime, the European Union, ASEAN, the United States and Japan remained China's top four trading partners.

Private firms become leading force of China's foreign trade

Private enterprises have surpassed foreign-invested enterprises and become the leading force of China's foreign trade for the first time in 2019. Imports and exports of private enterprises totaled 13.5 trillion yuan (about \$2 trillion) in 2019, an increase of 11.4 percent, accounting for 42.7 percent of China's total foreign trade value, an increase of 3.1 percentage points over 2018.

Among them, exports totaled 8.9 trillion yuan, up 13 percent year on year, and imports totaled 4.6 trillion yuan, up 8.4 percent year on year.

The number of private enterprises engaged in import and export reached 406,000 in 2019, according to Zou Zhiwu, deputy head of the General Administration of Customs,

adding that this was an increase of 8.7 percent over the previous year. In 2019, imports and exports of private enterprises increased by 11.4 percent, and driving foreign trade growth by 4.5 percentage points.

Tesla's China Speed

The \$2 billion Tesla Inc factory started delivering cars in just 357 days, a record for global automakers in China. The first 10 customers from the public received their China-made Model 3 sedans in Shanghai recently.

Tesla signed an agreement with the Shanghai municipal government in July 2018 to build the factory. In October 2018, the company was granted approval to use an 864,885-square-meter tract of land in Lingang for its Shanghai plant.

Tesla's Shanghai plant has manufactured nearly 1,000 vehicles available for sale and reached a production capacity of more than 3,000 vehicles per week. Tesla has said it wants to eventually make 500,000 cars a year in Shanghai. Its current capacity is 3,000 Model 3s a week.

Mercedes-Benz to build smart brand cars with Geely in Xi'an

Mercedes-Benz will build smart-branded electric cars with Zhejiang Geely in the Chinese city of Xian from a base with annual capacity of around 150,000 vehicles. Geely and Mercedes-Benz said they would each invest 2.7 billion yuan (\$388.8 million) in a China-based venture to build "premium and intelligent electrified" vehicles under the Smart brand.

Ford's vehicle sales in China tumble 26.1% in 2019

Ford Motor Co. said that its China vehicle sales in 2019 fell 26.1% from a year earlier to 567,854 units, as the U.S. automaker continues to battle a prolonged sales decline in its second-biggest market. Ford delivered 146,473 vehicles in China in the fourth quarter, down 14.7% year-on-year, Ford said in a statement.

China's auto market is set to contract by 2% in 2020 for the third year of decline. Over 28 million vehicles were sold in 2018, down 3% from the prior year, while 2019 sales are likely to have declined 8% from the prior year.

China aims to add 2,000 km high-speed railways in 2020

China plans to increase its high-speed railway network, already the world's biggest, by adding 2,000 km of new lines in 2020, according to the country's railway operator. By the end of 2019, the country's high-speed railway operation mileage reached 35,000 km, which increased more than 5,000 km from one year earlier and accounted for nearly 70 percent of the world's total, according to the China State Railway Group Co Ltd. The country plans to expand its railway network by more than 4,000 km in 2020, up from 139,000 km at the end of 2019, the company said. A total of 3.85 billion passenger trips are expected to be made by railways in China in 2020, up from 3.57 billion in 2019.

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Happy New Year!

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