

## SCI China Market Update – June 2013

Dear Friends,

A historic meeting between Chinese President Xi Jinping and Barack Obama is scheduled this week at a private estate in California. This is quite a change from previous meetings between US and China heads of state. Where all previous meetings have been surrounded by much fanfare and formality, this one is intentionally fashioned as “private.” The two presidents are likely to try to establish a strong rapport for long-term Sino–U.S. relations at the meetings. We can expect this summit in California to be “casual”, but not relaxed.

It will no doubt include a meeting between the popular Chinese “First Lady” Peng Liyuan and Michelle Obama, which is sure to catch the attention of press cameras. As we mentioned in an earlier newsletter, Madame Peng was a famous singer with the People's Liberation Army (she holds the rank of “general.”) and was, in fact, better known to the public than her husband. Until Madame Peng, there was in fact no concept of “first lady” in China.

Many consider Xi Jinping, both president and party boss, to be different from his predecessors. Mr. Xi began to promote his “Chinese Dream” as soon as he took the reign of power. What, exactly, is this dream? According to Xi, it is about “realizing a prosperous and strong country, the rejuvenation of the nation and the well-being of the people.” The state-run news agency Xinhua says that this means that all workers should “combine their personal dreams ... with the national dream and fulfill their obligations to the country.” Xi seems to be trying to soften Deng’s famous saying of some 40 years ago that “It is glorious to get rich,” as this philosophy has led to both fantastic growth and vast inequities in society. The American Dream celebrates individualism: work hard and you will reap the rewards. But the Chinese Dream seems to celebrate the collective state: work hard and China will reap the benefits. So, let’s see how Xi’s “Chinese Dream” fares. Here is some recent China market news for your information from various sources:

### **IMF cuts 2013 China growth forecast to around 7.75%**

The International Monetary Fund cut its 2013 growth forecast for China to "around 7.75%", citing a sluggish global recovery that hurts exports.

The organization had previously predicted growth of 8.0% in the world's second-biggest economy this year. "The Chinese economy is expected to grow at around 7.75% this year and at about the same pace next year," David Lipton, IMF first deputy managing director, told reporters in Beijing.

**China manufacturing rebounds in May**

Manufacturing activity in China unexpectedly rebounded in May from the previous month, official data showed, pointing to stabilization in the world's second largest economy. The purchasing managers' index (PMI) grew to 50.8 in May, from 50.6 the month before, according to the National Bureau of Statistics. The PMI is a widely watched indicator of the health of the Chinese economy, with a reading above 50 indicating expansion while anything below that pointing to contraction. The reading was higher than an average forecast of 49.8 by analysts polled by Dow Jones Newswires.

**China migrant population growing, pay rises slowing**

China's vast army of migrant workers continued to expand last year but the rate of their pay increases slowed, a government report showed, as growth in the world's second-largest economy decelerated. The movement from China's countryside to its booming cities over recent decades has been one of the greatest human migrations of all time. The number of migrant labors totaled 262.6 million in 2012, up 3.9% from the previous year, a survey by the National Bureau of Statistics (NBS) found.

The average monthly income of those who worked outside their hometowns rose 11.8% year-on-year to 2,290 Yuan (\$374), it said -- but the rate of the increase was down 9.4 percentage points from 2011. In contrast, the starting salaries of 69% of new college graduates in June 2012 were less than 2,000 Yuan, according to a survey.

**Home prices continue to rise in major cities**

Property prices in major cities rose for the 12th consecutive month in May, according to figures released on Monday by the China Index Academy, a Beijing-based real estate research institute. The average price of new homes in 100 cities monitored by the academy was 10,180 Yuan (\$1,642) per square meter during May, up 0.81% over the previous month.

**China's energy demand to peak in 20 years: expert**

China will see its energy demand peak between 2030 and 2035 on the back of expanding industrialization and urbanization, forecasted by Zhong Ziran, chief engineer of the Ministry of Land and Resources. The country's energy consumption will grow at an annualized pace of 4.5% in the next 20 years, with the accumulative demand for coal, oil and natural gas at 82.6 billion tons, 12 billion tons and 5.8 trillion cubic meters, respectively, Zhong said at a work conference.

In 2012, China, the world's largest energy user, consumed 3.62 billion tons of standard coal equivalent, up 3.9% year on year, official data showed. Over 60% of the power driving China's economy comes from coal, which has resulted in serious pollution problems that are forcing China to explore cleaner sources of energy. Oil and natural gas accounted for roughly 20% of the energy consumption. China's

dependence rates on imports of crude oil and natural gas stood at 56.6% and 29%, respectively, posing severe challenges for the country's energy security.

### **China's cement industry to face tougher emission rules**

China is mulling a tougher national standard on nitrogen oxide (NOx) emissions from cement factories amid public calls to clear up both air pollution and the sector's excess production capacity. The new standard drafted by the Ministry of Environmental Protection is expected to be issued on July 1, 2013. The cement industry produces about 11.6% of all NOx emissions across China's industrial sectors, and therefore, it has been targeted in the country's move to address air pollution, particularly after hazardous smog repeatedly blanketed skies in the country since the beginning of this year. The drafted new standard will sharply cut the amount of NOx emitted by an existing cement factory to below 450 mg for every normal cubic meter of cement produced from an average emission of 880 mg among cement makers now, the report said. For those newly built cement production lines, the emission standard would be capped below 320 mg, it said.

### **China's Shuanghui buys US pork icon Smithfield**

China's Shuanghui International has agreed to buy US pork icon Smithfield Foods in a deal valuing Smithfield at \$7.1 billion. Shuanghui, which controls China's largest food-processing company, will pay \$4.7 billion in cash and assume the debt of Smithfield, one of the largest meat processors in the United States. That represents \$34 a share for each for the outstanding shares of Smithfield, a premium of 31% over Tuesday's closing price. In opening trade Wednesday Smithfield shares were up 24.6% to \$32.36.

"The acquisition provides Smithfield the opportunity to expand its offering of products to China through Shuanghui's distribution network," said Shuanghui chairman Wan Long in a statement. "Shuanghui will gain access to high-quality, competitively-priced and safe US products, as well as Smithfield's best practices and operational expertise," he said. Shuanghui is a Hong Kong-based investment group with holdings in food and logistics, including a controlling interest in Henan Shuanghui Investment & Development, China's largest meat processor, according to the company.

### **Alibaba, partners establish national logistics network**

China's e-commerce giant Alibaba Group Holding Ltd, in tandem with industry partners, announced the establishment of a 100 billion Yuan (\$16.3 billion) logistics network that aims to make 24-hour domestic deliveries possible. The project, China Smart Logistic Network, is expected to improve efficiency through streamlined warehouse and logistics infrastructure, said Alibaba Chairman Jack Ma in Shenzhen.

The new company, known as Cainiao Network Technology Co Ltd, plans to complete the network in 5-8 years. By teaming up with industry players like the retailer China Yintai Holdings Co Ltd, private conglomerate Fosun Group and major express delivery companies including SF Express (Group) Co and Yunda Express Service Co Ltd, the network is expected to support transactions worth 10 trillion Yuan a year within the next decade. Alibaba and its partners will set up warehouses across the country and build a data system tracking trade and delivery information. The network will be open to manufacturers, online sellers, delivery services, and third-party service providers to help build the end-to-end chain, which will allow 24-hour deliveries across China. A combined 60% of all express-delivered parcels in 2012 - or 12 million units per day - were from Alibaba's two major trading platforms, Taobao and Tmall.

### **China's pharmaceutical distribution sales exceed 181 billion USD**

Sales in China's pharmaceutical distribution industry surpassed the 1-trillion Yuan mark for the first time to hit 1.12 trillion Yuan (181.2 billion U.S. dollars) in 2012, according to a report released by the Ministry of Commerce. The industry is growing rapidly, though the pace has slowed somewhat, the report said, as the year-on-year growth of 18.5% registered in 2012 was 4.5% lower than that of 2011. The report shows that drug sales at the grassroots level are expanding, the retailing industry is continuing to grow, but with low levels of chain sales, and effective new service modes have appeared. The country's pharmaceutical distribution industry will have stable growth amid a series of structural adjustments, transformation and upgrading, the report forecast.

### **UPS eyes China's medical products**

UPS, the world's largest package delivery company by revenue, is betting on China's growing demand for healthcare products after opening a specialist facility in Hangzhou, capital of Zhejiang province, to handle shipments of medical products. In 2011, China overtook Germany to become the third-largest pharmaceutical market, with an estimated value of RMB 64 billion (\$10.4 billion), and it is expected to overtake Japan to become the second-largest market in 2015.

The new Hangzhou facility consists of 22,000 square meters of storage space and is designed to meet the demands of specific storage of medical devices, biological and pharmaceuticals, and distribution needs of pharmaceutical companies, said Jim Barber, UPS' international president. MSD - sometimes known as Merck Sharp and Dohme - the world's second-largest drug maker, is the first partner company in this facility. In comparison with the US or Europe, China is a very fragmented market and its State-owned enterprises play a big role in this industry. However, the market is big and the nation's healthcare logistics distribution model will change from internal operation to outsourcing services.

**Air Liquide reveals deal in Chinese nylon production**

French industrial gases group Air Liquide has won a "major" long-term contract with a group in China accounting for 12% of the production of nylon for the Chinese textile industry. The contract is to supply a site operated by Chinese Group Fujian Shenyuan involved in the production of nylon. The value of the contract was not divulged, but Air Liquide said that it would invest in a complex of eight units making industrial gases on the site operated by the Chinese company at Fujian in southeastern China.

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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