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SCI China Market Update – June 2014

Dear friends,

While preparing our monthly newsletter, a bit of news caught my eyes and reminded me of a personal story: "China becomes top mobile phone market"! Chinese shoppers will buy more than 400 million smartphones this year alone! As of last year, more than 500 million Chinese were using mobile devices - primarily smartphones - to connect to the Internet. The penetration rate of mobile Internet users rose to a record 81% of the population in 2013.

I told my partner, Tim, that this piece of news really means a lot to me, and surely to many others, in terms of the magnitude and speed of change in China. We recalled the first time we worked together in 1986. I was assigned by the Tianjin Science & Technology Commission to work at the well-known University City Science Center (UCSC) in Philadelphia as a "management intern" for nine months. This is where Tim and I met for the first time and became friends. Tim was responsible for the Worldwide Services Division of UCSC. During my internship, I exchanged airmail letters with my wife, Lin Lu, in Tianjin twice each month. This was the only way I could communicate with my family, because almost no Tianjin family had a phone and, of course, fax machines were not yet available. It was in one of these letters that I was thrilled to learn that we were expecting our first child to arrive around the New Year. Thrilled, but there was no way for me to call my wife to learn how she was doing – just airmail.

Christmas parties came and went, but no news from Tianjin about the new baby. The New Year's fireworks celebration at Philadelphia's Penn's Landing came and went, but no news from Tianjin. Even though Tianjin is one of China's largest cities, it still took two weeks to deliver airmail from Philadelphia. So my colleagues at the Science & Technology Commission visited Lin to see if there was any good news for me. And finally, on January 7th, 1987, UCSC received a telex from the Tianjin Science & Technology Commission: "Mr. Gu got a boy! Both mother and the boy safe and healthy."

I was so thankful to be from a big city like Tianjin where there was at least company-to-company telex, if you were lucky. It was possible to make an international phone call from the Tianjin Central Post Office, but it was extremely expensive and extremely difficult. So I was lucky to get this piece of good news by telex. I was eager to talk with my family and to see my new son. In February, my internship ended and I returned to Tianjin. Before returning home, Tim organized a big party at his home to celebrate my son's birth and to say "Goodbye".

In the early 1990s, home telephones started to become popular in China. Around the same time, Motorola invested billions in my hometown, Tianjin, to make pagers, and then cell phones for export back to the West. But by the mid-1990s, to the delight of Motorola and Nokia, China's domestic cell phone market became bigger than their export markets. In fact, cell phone growth made it basically possible for China to "skip" landline phones. Mobile phone sales skyrocketed, as did the growth of service providers China Mobile and China Unicom, and infrastructure manufacturers like Huawei and ZTE. Jumping ahead, a couple of years ago Apple and Samsung replaced Motorola and Nokia to become the new "smart phone" stars – not to mention the rise of other internet-smart products like iPads, MacBooks, etc. Today, no matter whether the government likes it or not, the impact of all this on both domestic and international communications has been really huge. For example, violence in remote Xinjiang province is almost instantly communicated to Shanghai and to the world, even if not condoned by "official" channels. This would have been unheard of even 10 years ago. While it may be difficult to predict where this trend may lead, it is for sure that it will continue.

The name of that "boy" I mentioned is Zheng Gu. Lin and I just attended his graduation ceremony at UC Berkeley's Engineering School. From inside Hearst Creek Theater, I sent photos and even videos of Zheng accepting his Ph.D. hood from his professor to my relatives in Tianjin by email and by WeChat. No problem.

Below is the latest China market news gathered from a variety of sources.

China manufacturing up in May

China's manufacturing activity strengthened to a five-month high in May, the third straight month of improvement amid slowing overall growth in the world's second-largest economy. The official purchasing managers index (PMI) reached 50.8 in May, the National Bureau of Statistics said in a statement, up from 50.4 in March.

The index tracks manufacturing activity in China's factories and workshops and is a closely watched indicator of the health of the economy. A reading above 50 indicates growth. The result beat the median forecast of 50.6 in a survey of eight economists by Dow Jones Newswires.

Expected salary of college graduates drops

This year's report on the employment pressure of Chinese college graduates shows that in spite of the growing number of graduates, job pressure has not worsened, but rather eased. On the other hand, the expected monthly salary has dropped to its lowest in 4 years - an average of 3680 Yuan, a decrease of 2000 Yuan compared with that of three years ago. According to the report, 49.6% of students prefer to work in provincial capitals, and only 6% are willing to work in urban counties.

China steel output continues to rise, prices fall
China's steel output continues to rise and prices of steel products have kept falling, underlining difficulties to ease overcapacity in the sector, according to data from the National Development and Reform Commission (NDRC).

During the January-April period, the steel price index came in at 95.97, down 9.78 percentage points from the same period last year, according to the NDRC. Notably, exports jumped 29 percent year on year to 25.87 million tons as producers cut prices to boost trade in the industry that is still reeling from overcapacity. The export prices went down 8.1 percent year on year to $795 per ton, the lowest level since 2011.

China signs 30-year deal for Russian natural gas
China signed a landmark deal to buy Russian natural gas worth about $400 billion, giving a boost to diplomatically isolated President Vladimir Putin and expanding Moscow's ties with Asia. Price negotiations on the 30-year deal continued into the final hours of a two-day visit by Putin to China, during which both sides had said they hoped to sign an agreement. The supplies will help to ease gas shortages in China, the world's second-largest economy, and curb reliance on coal.

China Outspending US in Pursuit of Shale Gas Revolution
China is preparing to establish its own shale gas revolution as it attempts to overtake the US by spending four times as much as the States in developing fields. The world's most populous nation and its second-largest economy is also the largest holder of natural gas confined in shale rock formations. State-owned Sinopec's estimate that it will spend an average of $10m per well at its Fuling site is almost four times the amount spent on a well in parts of the US, where costs on the lower-side hover at $2.6m a well, according to a report by Bloomberg New Energy Finance (BNEF). However, Sinopec's drilling costs are expected to drop as it increases production to meet Beijing's target of 6.5 billion cubic meters of gas a year by 2015.

China schedules new nuclear power reactors
A new generation of nuclear reactors is set to boost China's nuclear power plants along the country's east coast, with the first such system due to start operation in 2015. An AP1000 pressurized water reactor, introduced from a US company and improved by Chinese researchers, is going through tests and is scheduled to be connected to the grid by the end of next year. It is hoped that another reactor of this kind will start operation in another nuclear plant at the beginning of 2016.

Hunan reactor ready to resume construction

A nuclear power plant in central China's Hunan province is set to resume construction, Xinhua News Agency reported. The Taohuajiang power station likely will become the first nuclear project to be built in an inland area after Beijing suspended the approval of new nuclear power projects due to the Fukushima nuclear power plant disaster in Japan in 2011. Two other inland projects - the Pengze nuclear power plant in Jiangxi and the Dafan plant in Hubei - are still under suspension.

By the end of 2013, China had a total of 17 nuclear power plants in operation, with a total installed capacity of 14.83 million kilowatts. The nation is building a further 31 reactors, accounting for about 40% of the world's nuclear power plants in current construction, according to the National Energy Administration.

China to take 6 million older vehicles off roads

China's government plans to take 6 million older, polluting vehicles off the road this year in an effort to revive stalled progress toward cleaning up smog-choked cities. The plan also calls for filling stations in Beijing, Shanghai and other major cities to switch to selling only the cleanest grades of gasoline and diesel. The order comes after China failed to meet official pollution-reduction goals for 2011-2013, the statement said. It said vehicles registered before 2005 that fail to meet cleaner emissions standards will be "phased out," though it did not say how.

Plans call for retiring 5 million older, polluting vehicles in Beijing, the nearby port of Tianjin and the deltas of the Yangtze River, around Shanghai, and the Pearl River, around the southern business center of Guangzhou, according to the statement. It gave no details on where the remaining 1 million vehicles due to be taken off the road were. China has about 240 million vehicles on the road, and half are passenger cars, according to the Ministry of Public Security. China is the world's biggest auto market by number of vehicles sold. Sales rose 15.7% last year to 17.9 million vehicles. Sales growth is slowing but analysts still expect an increase of 8 to 10% this year.

China to close over 2,000 coal mines by 2015

China plans to shut down over 2,000 small-scale coal mines by 2015 in an effort to eliminate outdated capacity and improve work safety, according to the State Administration of Work Safety. Coal mines in the provinces of Liaoning, Heilongjiang, Jiangxi, Hubei, Hunan, Sichuan, Yunnan and Guizhou, as well as Chongqing municipality, will be major targets, the administration said. It will gradually weed out coal mines with an annual output at or below 90,000 tons, and shut down those that do not meet safety standards.

China Bright Food to buy majority stake in Israel's Tnuva

China's state-owned Bright Food will take a majority stake in Israel's biggest food producer Tnuva, it said recently in the latest step of an overseas buying spree. Bright Food, which controls British cereals firm Weetabix, has signed a preliminary agreement with London-based private equity firm Apax Partners to acquire a 56 percent stake in Tnuva, the Chinese firm said in a statement. It did not provide any financial details but Israeli media had said the deal would value Tnuva at 8.6 billion shekels ($2.5 billion).

2.1m Chinese to visit US this year

An estimated 1.8 million Chinese tourists visited the US in 2013, and that number is expected to grow by 21 percent in to 2.1 million this year. Travel and tourism were responsible for $1.5 trillion in economic activity across the US last year, supporting 8 million jobs, according to Obama. The ease of applying for US visas in the past two years has encouraged more Chinese to come to the country. Wait time for a visa in China on average has been cut to less than five days on average from as many as 100 days. According to the US Travel Association, Chinese visitors to the US spent some $8.8 billion in 2012, averaging about $6,000 per person. The Commerce Department put the total number of Chinese tourists that year at 1.5 million.

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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