

SCI China Market Update – June 2015

Dear friends,

During my recent three-week trip to China I found two things that were quite different from the U.S. One I really love and the other I really dislike.

The one I love is China's high-speed train system. Not long ago I wondered about the safety and performance of these trains and felt there was a certain risk in traveling on them. Then, two years ago, I rode the high-speed link between Tianjin and Beijing and...WOW! It is so convenient, so fast, so comfortable, and so frequent - about every 20 minutes. This beautiful "Made in China" train takes less than 30 minutes to arrive to Beijing, and a "1st class" ticket is just \$14, and includes free drinks and snacks.

During my last trip, the high-speed train system really helped me to travel around the nation easily and efficiently. I went from Tianjin to Shenyang, from Beijing to Suzhou, and from Wuxi back to Tianjin. All the trains were on time. To go to Shanghai from Suzhou by high-speed train is so convenient now. You do not even need to schedule or book your ticket in advance. Whenever you want, simply go to the Suzhou Station to buy a ticket for the next train, normally leaving every 20 minutes or so. The cost? Even the very comfortable "1st class" seat is only \$10. Importantly, the train is really smoke free. Smart phones and high-speed trains are really changing the way people live and the quality of their lives. And, so far, the safety record of China's high-speed train system is good.

The thing I really dislike is smoking. While China has developed so fast, it has not yet shaken loose from some dangerous habits that were part of the old tradition and culture. Today you still see people, young and old, smoking in restaurants, hotel lobbies, during meetings, and *even in elevators!* I think this is especially true in the smaller cities. In fact, this popular habit that has taken a serious toll on the country's health and image.

The good news is that China's new president Xi Jinping has also seen this problem and has decided to try to fix it. I was pleased to learn that China just launched a campaign to "snuff out" smoking in Beijing as an example to other cities. Last week, red-uniformed volunteers, propaganda banners and no-smoking signs were scattered all over Beijing to start this aggressive program. Smoking is now banned in restaurants, hotels, schools, hospitals, and in other public places. Anyone caught violating the new rules is subject to a 200 Yuan fine (\$32.25). And if you get caught three times, you will also be named and

shamed on a government website. Businesses can be fined up to 10,000 Yuan (\$1,600) if they don't stop smoking on their premises.

To this I say: Three cheers! Smoking has created serious respiratory and heart problems in China, with some 300 million smokers and millions more exposed to secondhand smoke. I'm glad to see the government has finally woken up to the problem, even though smoking was a huge tax generator for Beijing until now. I hope that the next time you visit Beijing you will no longer be troubled by someone smoking just in front of you or behind you.

Here is some very recent China market news from various public sources:

China HSBC PMI at 49.2 in May, contracts third month, export orders near 2-year low

Activity in China's vast factory sector shrank for a third consecutive month in May as export orders contracted at the sharpest rate in nearly two years, a private survey showed on Monday, suggesting China remains locked in an economic cool down. The final HSBC/Markit Purchasing Managers' Index (PMI) stood at 49.2 in May, below the 50-point level that separates an expansion from a contraction in activity on a monthly basis.

That is little changed from a preliminary reading of 49.1, and up a touch from April's 48.9. However, we found another "official" report saying that China's official manufacturing index hit a six-month high in May but the industry still faces multiple strains, the government said Monday. The Purchasing Managers' Index (PMI) released by the National Bureau of Statistics (NBS) came in at 50.2 for May, the strongest since 50.3 in November and the third consecutive month of expansion.

China's Yuan no longer undervalued, says IMF

The US has long suggested that China has manipulated the value of the Yuan to boost its exports. Undervaluation has been a problem in the past, says the IMF in a statement, but this is no longer the case. Substantial "appreciation over the past year has brought the exchange rate to a level that is no longer undervalued", it says. The IMF says China should focus on creating full exchange rate flexibility so that the value of the Yuan adjusts as the country grows. "We urge the authorities to make rapid progress toward greater exchange rate flexibility, a key requirement for a large economy like China's that strives for market-based pricing and is integrating rapidly in global financial markets." The IMF believes that China should aim to achieve a floating exchange rate within the next two or three years. Beijing has said that it wants the Yuan to become an alternative reserve currency to the US dollar.

Yuan still undervalued: US Treasury secretary

The United States still believes China's Yuan currency is undervalued, unlike the International Monetary Fund, US Treasury Secretary Jack Lew said Wednesday. "We continue to think it's undervalued," Lew said in a talk at the London School of Economics University.

China slashes tax to promote green vehicles, ships

China announced that new energy cars and ships will be exempted from vehicle and vessel tax in a bid to save energy and combat pollution. Cars exempted include pure electric commercial cars, plug-in hybrid vehicles and fuel-cell commercial cars, according to a joint statement by the Ministry of Finance, State Administration of Taxation and the Ministry of Industry and Information Technology. In addition, vehicle and vessel tax will be halved for users of energy-saving cars and ships, said the statement. China's new energy vehicle production jumped threefold year on year to 25,400 in the first quarter of 2015 thanks to intense government promotion and support. In March, the Ministry of Transport set a target of 300,000 new energy vehicles on China's roads by 2020: 200,000 new energy buses and 100,000 new energy taxis and delivery vehicles. The Ministry of Commerce also announced earlier this year that China will continue to encourage the construction of charging facilities in cities and implement tax exemptions and subsidies for car purchases.

China to spend \$182 billion to boost Internet by end of 2017

China will spend more than \$182 billion to boost Internet speeds by the end of 2017, a top government body said, as Beijing moves towards a more service-driven economy to boost growth. The State Council said the government will invest more than 430 billion Yuan (\$69.3 billion) this year on network construction, with at least another 700 billion Yuan (\$112.8 billion) spent over the following two years. The goal is to accelerate the development of fiber optic broadband and high speed 4G mobile networks, the governing body said on its website. China ranked 82nd in the world for average Internet connection speed, slower than Malaysia, Thailand and Taiwan, according to cloud computing services provider Akamai's State of the Internet report for the fourth quarter of 2014.

China's coal production falls 6.1 percent

Coal production in China, the world's largest producer and consumer of the mineral, declined 6.1% in the first four months this year as the impact of the government's clean air and renewable energy policies began to weigh on the industry. Coal consumption accounts for about 66% of China's primary energy consumption, 35 percentage points higher than the world average. The country aims to bring its share of non-fossil energy to 15% by 2020 and 20% by 2030.

China discovers huge oil deposit

China National Petroleum Corporation (CNPC) announced that it has discovered a major "tight oil deposit" in northwest China's Shaanxi Province. Tight oil is an unconventional energy, which exists in petroleum-bearing formations like shale or sandstone. Commercial production usually requires similar technology to shale gas production. The CNPC estimated the reserve in the deposit is around 100 million tones, the largest one ever discovered in China, and will produce 700,000 tones of tight oil annually. China is one of the world's largest oil buyers, and nearly 60% of its oil consumption comes from imports. To keep external dependence under 61%, the government is assessing solar and wind power as well as unconventional energy including shale gas and tight oil.

Alibaba-backed Internet bank approved to open

China has approved the opening of Alibaba-backed Internet bank "MYbank", in the latest development of a pilot program to bring in private players in the state-dominated sector. MYbank, mainly funded by Zhejiang Ant Small and Micro Financial Services Company owned by Alibaba Chairman Jack Ma and his colleagues, has a registered capital of 4 billion Yuan (655 million U.S. dollars), according to the approval document by Zhejiang Banking Regulatory Commission. Previously, China has only one private bank, China Minsheng Bank, which was founded in 1996 in Beijing. Listed in both Shanghai and Hong Kong, Minsheng was the country's first national bank founded by private capital.

Chinese employees witness average salary increase of 9%

A report released by National Bureau of Statistics finds that Chinese employees witness average salary increase of over 9% in the year of 2014, with salary in private sectors increasing faster than non-private sectors.

According to the National Average Salary in 2014 released by the BNS, the average salary of employees surveyed was 49,969 Yuan. The annual average salary of urban non-private units was 56,339 Yuan, attaining year-on-year growth of 9.4% and growth of 7.1% in real terms. The annual average salary of private units was 36,390 Yuan, attaining year-on-year growth of 11.3% and growth of 9% in real terms.

The data shows that the growth rate of private units' average salary was faster than non-private units. The absolute gap continues to expand, while the relative gap has slightly narrowed. The annual average salary of urban non-private units was 19,949 Yuan higher than that of private units, with the gap expanding by 1172 Yuan over the previous year. However, the annual average salary of private units was 65% of the non-private units in 2014, an increase of 1% over the previous year.

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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