

## SCI China Market Update – June 2018

Dear friends,

I returned home smoothly from Beijing on May 30th after some two weeks in Taiwan and mainland China to secure the best qualified vendors for our clients. The trip was hot and busy but highly productive. Taiwan has quality auto parts manufacturers but mainland China counterparts are catching up quickly to become competitive players, primarily because the mainland has advantages in both resources and pricing.

One privately owned Chinese auto parts company was especially representative of China's development in this regard. It's factory looked almost like a garden that was surrounded by sea of bamboo maintains, green and beautiful. The company ended its power point presentation with a slide that said, "Cooperate with peers, Grow up with customers". With its ISO certifications and its well established ERP and EDI systems, the company has become a quality supplier to major OEMs and aftermarket players worldwide. Its new product development capability, and its world level of testing and quality control systems impressed us greatly.

Believe it or not, the last week of May was a paid holiday for all employees. The company even paid for a cruise from Shanghai to Japan for employees who have been with the company for 10 years. For employees of 5 years, the company paid for a weeklong tour through beautiful Guilin in Guangxi Province. And for three-year employees, the company paid for a weeklong tour of Shanghai. What's a Chinese auto parts company!

The company also provides a free lunch to all employees. One retired American engineer that has more than 30 years experience in this field has been working in this Anji Company for over two years. He told me that Anji is so beautiful and he really enjoys his retirement work here.

Because more and more Chinese companies have become long-term vendors to major Western companies, a trade war will surely hurt both parties, so I still believe such a war is unlikely. It's interesting that soon after my return home the new round of US-China trade negotiations ended (on Sunday). Neither side said if the Beijing meeting reached any major agreement on such a hurtful trade war.

China said that "Positive progress [was] seen in Sino-US trade talks". But we noticed the very unusual move made by Beijing this time to pave the way for possible follow-up negotiations. Xinhua News

Agency published Chinese government's statement even before the U.S. delegation returned to D.C. saying "any agreements reached on trade and business between the two countries will be void if Washington implements tariffs and other trade measures". Xinhua News' translated this strong statement this way: "All the trade achievements between China and the US should be on the premise that the two countries will not launch a trade war".

The statement referred instead to a consensus they reached last month in Washington, when China agreed to increase significantly its purchases of U.S. goods and services. Both countries have threatened tariffs on goods worth up to \$150 billion each.

Experts said, "China's statement is targeting Trump's capricious attitude toward bilateral trade disputes, which has aroused much concern. This round of Beijing meetings may be positive to push China open its door wider to U.S. exports. If so, it will benefit all of us." Anyway, it seems neither President Trump nor President Xi really want a trade war, but let's keep our eyes open for the next steps. Here is some very recent China market news from various public sources:

### **China May factory growth at 8-month high, but tight funding hits smaller firms**

China's vast manufacturing sector grew at the fastest pace in eight months in May, blowing past expectations and easing concerns about an economic slowdown even as risks from trade tensions with the United States and a crackdown on debt point to a bumpy ride ahead.

The official Purchasing Managers' Index (PMI) released on Thursday rose to 51.9 in May, from 51.4 in April, and remained well above the 50-point mark that separates growth from contraction for the 22nd straight month. Analysts surveyed by Reuters had forecast the reading would dip slightly to 51.3. Production expanded at the fastest rate in six months in May while growth in new orders rose to an 8-month high, helped by rising commodities prices.

The strong manufacturing sector readings defy concerns about an expected loss of momentum in the world's second-biggest economy, as policymakers navigate debt risks and rocky trade relations with the United States. In particular, export orders improved from the previous month. Some economists suspect that Chinese firms have been front-loading shipments due to the Sino-U.S. trade frictions.

### **China to cut import tariffs for some consumer goods from most favored nations**

China will lower import tariffs for some consumer products from most favored nations from July 1, the finance ministry said on Thursday, as part of efforts to open up the consumer market.

The reduced tariff will apply to 1,449 items, with the average rate dropping to 6.9 percent from 15.7 percent, the finance ministry said in a statement on its website. The ministry said it would also scrap temporary tariff rates on 210 imported products from most favored nations from July 1, 2018.

The news comes a day after China's state council, or cabinet, said it would reduce import tariffs on a range of consumer goods such as cosmetics, apparel and home appliances to force its industries to upgrade and boost competitiveness.

### **China launches DRAM chip price probe into Samsung Electronics, SK Hynix and Micron**

China has launched a probe into Samsung Electronics, SK Hynix and Micron Technology, the three semiconductor makers who control the market for DRAM memory chips.

Beijing is investigating price-fixing allegations as DRAM prices have risen sharply, the first such probe by China, said a source with knowledge of the matter.

"The investigation has kicked off in earnest," the source said, requesting anonymity due to the sensitivity of the matter. The move comes at a time when Seoul and Beijing have just gotten back on a more even footing after bilateral tensions last year, but analysts said the matter was separate from past spats as well as the current U.S.-China trade disputes.

Rather the high cost of chips has hurt many electronics makers, with Chinese manufacturers among the hardest hit as they operate at lower margins than rivals. A senior South Korean government official said Samsung and SK Hynix contend that there has been no price-fixing.

### **GM China raises new-energy vehicle target to 20 models through 2023**

GM is accelerating the pace of electric vehicle (EV) launches in China as policymakers in the world's biggest auto market continue to promote EVs as an alternative to gasoline cars.

Matt Tsien, head of GM's China operations, said in Shanghai on Tuesday the U.S. automaker plans to launch 10 heavily electrified vehicle models in China from 2021 through 2023, adding to the 10 it has already planned for 2016 through 2020.

"Clearly, we have a strategy in place and there is an implementation in place to do that," Tsien told a small group of reporters, referring to GM's new-energy vehicles being developed and deployed by its two joint ventures in the China marketplace.

**Chinese shipyard delivers another gigantic container vessel**

A 20,000 TEU container vessel was delivered by Shanghai Waigaoqiao Shipbuilding Co., Ltd. (SWS) to COSCO SHIPPING Lines Co., Ltd after a naming ceremony on May 29. It was the third mega ship delivered by the SWS this month, following two 40,000-ton Very Large Ore Carriers (VLOC).

The vessel has a length of nearly 400 meters and a width of 58.6 meters. With a maximum draft of 16 meters, the vessel can sail as fast as 22.5 sea miles per hour and load up to 200,000 tons. The area of the vessel's deck is four times the size of a standard soccer field.

However, the ship's gigantic size is not at the sacrifice of its economic efficiency. The vessel is equipped with large-diameter and highly efficient propellers, as well as a full balance, energy-saving rudder, actually lowering energy consumption during operation.

So far, a total of 79 vessels above 19,000 TEU have entered operation in the world, and 58 more have been ordered. China received 17 of these orders, accounting for 30 percent of the global share.

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 (610) 828-8061.

Best regards,

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