

SCI China Market Update – March 2012

Dear Friends,

I just returned from another productive trip to China for our clients. I think the biggest news came when China's Premier Wen Jiabao announced that the country's GDP growth target for 2012 was being lowered to 7.5% from 8%. This sent a shockwave through the global economy. Wen was recognizing the huge challenges presented by an uncertain global economy, and acknowledging that China needs to alter its growth model if the country's economic miracle is to continue. We hope that the adjustments, though painful in short term, will be positive for the long term by keeping China on a path of sustained economic development.

On this trip I was left with the impression that China does need to slow down in a proper manner to resolve its too-rapid urbanization, monumental traffic problems, severe pollution, and sky-rocketing costs of real estate and living. Below is some very recent China market news for your information:

China says manufacturing activity expanded in Feb

China's manufacturing activity expanded for the third straight month in February as export orders improved, raising hopes for a soft landing. The official purchasing managers index (PMI) rose to 51 in February from 50.5 in January, with most sectors showing signs of improvement, the China Federation of Logistics and Purchasing said. A reading above 50 indicates industry is expanding while a reading below 50 suggests it is contracting. Imports and new export orders showed a "distinct" improvement in February from the previous month, the statement said.

China's economic growth has been slowing as the Eurozone crisis and weakness in the United States erode demand for Chinese exports and property prices fall as a result of tight restrictions on purchases. In February the central bank cut banks' reserve requirement ratio for the second time in three months as policymakers moved cautiously to ease credit limits and spur economic activity. Beijing has pledged to "preemptively adjust and fine-tune" economic policy to prevent a hard landing that could trigger widespread job losses in the key manufacturing sector and trigger social unrest.

China leverages tax tool to promote green vehicles, ships

The Ministry of Finance (MOF) announced that China will promote the use of environmentally friendly vehicles and ships by offering tax cuts. Beginning at the start of the year, the country has decided to halve vehicle taxes for users of energy-saving cars and ships. Vehicle taxes for users of new-energy cars and vessels will also be removed, according to the announcement. The State Administration of Taxation said late last year that the newly-adjusted Vehicle and Vessel Tax Law, effective January 1,

will levy moderately higher taxes on passenger vehicles with an engine size between 2 and 2.5 liters, as well as much higher taxes on those with an engine size above 2.5 liters.

China overtook the United States as the world's largest auto market in 2009 after selling 13.64 million vehicles that year. Both car sales and production volume witnessed astonishing growth in 2009 and 2010 before slowing to a 2.4% growth in 2011 with the conclusion of stimulus policies. China remains the world's largest auto market. Car sales last year hit 18.5 million units.

Green automobile to meet industrialization boom

China's new energy automobile industry will surf in its first high tide of industrialization in around 2015, said Ouyang Minggao, the head of general expert panel for the "863" Program of the Major Energy Conservation and New Energy Automobile Project.

According to analyses, between 2013 and 2015, Chinese automobile enterprises are expected to launch more new energy automobile types built in mass production successively. In around 2015, the sales volume of purely electric automobiles will reach between 200,000 and 25,000 vehicles. Adding the part of other types of new energy automobiles such as the hybrid vehicles, it is quite possible that the scale of new energy automobiles will exceed 1 % of the total automobile sales.

"Generally speaking, if the market share exceeds the threshold of 1 %, it will strengthen the market confidence and stimulate enterprises to increase investments, and then the new energy automobile industry will enter a period of relatively rapid development." However, Ouyang also believes that China's new energy automobile industry will not enter the phase of commercial use before 2020. He said that the new energy automobiles of mass production will still need the market examination and the mainstream commercial mode will still need to be improved as well.

China leads world in power generation

China has taken a lead in power generation by producing a total of 4.8 terawatts of electricity last year, an energy official said. China also has the world's second largest installed generation capacity, which currently stands at 1.06 gigawatts, said Wu Xinxiong, chairman of the State Electricity Regulatory Commission (SERC).

China targets 21% less energy use

China aims to cut its energy consumption per unit of industrial value-added output by 21% during the 12th Five-Year Plan period (2011-2015), the Ministry of Industry and Information Technology. China is expected to save the equivalent of 670 million tons of coal during the five years,

according to the country's industrial energy conservation plan for the 2011-2015 period posted on the ministry's website.

The plan also sets detailed targets for cuts by several energy-intensive sectors. The steel, non-ferrous, petrochemical and electronics industries are required to reduce their energy use per unit of value-added output by 18 % from 2010. The chemical engineering, building materials and textile sectors must cut their energy consumption per unit of output by 20 %, while the machinery industry should target a 22-% fall in energy use per unit of output, according to the plan.

The government has adopted a slew of measures to promote energy savings and emission reductions and to ease its increasing thirst for energy, including phasing out polluting industries and building energy-saving buildings. Thanks to the nation's efforts, energy consumption per 10,000 yuan (1,587 U.S. dollars) of industrial value-added output dropped from 2.59 tons of coal equivalent in 2005 to 1.91 tons in 2010, said the plan.

China takes localization step in nuclear power

China has taken another step in localizing key nuclear power equipment for its steadily growing nuclear energy program. A key piece of equipment for the passive core cooling system of the AP1000 -- a two-loop pressurized water reactor manufactured by Westinghouse Electric Company -- has been developed by China's Dongfang Electric Corporation. The equipment, China's first domestically produced passive residual heat exchanger, was shipped from southern Guangdong Province to the Haiyang Nuclear Station in northern Shandong Province on Feb. 29.

The heat exchanger has a direct bearing on the safety of the reactor, a Dongfang Electric spokesman said in Guangzhou. "The new heat exchanger produced by our company is a step forward in the localization of nuclear equipment," the spokesman said. The Haiyang Nuclear Station, with a total investment of 80 billion yuan (12.7 billion U.S. dollars), plans to build six reactor units. Dongfang Electric Corporation will supply heat exchangers and stabilizers to two units.

China's first nuclear power station at Qinshan in Zhejiang Province was based on Chinese design and construction. Since then, several nuclear plants have used reactor technologies from France and the United States, among others.

Beijing will build a new airport soon

As the construction on the new airport in Beijing is soon to begin, many analysts predict that the area surrounding the airport will become a new hot spot for real estate development, National Business Daily reported Tuesday.

According to statistics from the transportation authority of Lang Fang, in North China's Hebei province, the airport is to be built in the area between the junction of Beijing and Langfang city. The airport, which will be the world's largest once completed, will be equipped with nine runways and is expected to handle over 130 million passengers and 5.5 million tons of cargo annually, the report said. Langfang City is located just in between Beijing and Tianjin.

Sincerely,

Shiqiang Gu
Vice President & COO

Sino Consulting (SCI)
One Tower Bridge
100 Front St., Suite 1460
West Conshohocken, PA 19428
U. S. A.
Tel: (610) 828 8061
Fax: (610) 828 8801
Web: www.s-c-i.com