

SCI China Market Update – March 2015

Dear Friends,

The Chinese New Year holiday is over. The Year of Sheep has begun. Just as last year and every year before that, millions of Chinese headed back to their hometowns for their traditional and very important family get-togethers. Authorities estimated that more than 2.8 billion trips were taken on all forms of transport over the New Year period. Although Beijing has been trying to lower the economic growth rate to improve the quality and efficiency of production and to reduce pollution, still the size of the consumer marketplace is huge and growing. In fact, McKenzie estimates that nearly half of China's 1.3 billion population will have entered the "middle class" by 2022, just 7 years from now. This will include some 78% of urban households, up from a mere 4% in 2000.

The Lantern Festival (Yaunxiao Festival) of 2015 falls on March 5th. It's a very popular festival but not a holiday. Traditionally, the Lantern Festival also signifies the end of the Chinese New Year celebrations. Falling on the 15th day of the first lunar month, the Lantern Festival is the first significant feast after Spring Festival. Every family will eat Yuanxiao (a round ball made by glutinous rice flour stuffed with different sweet fillings) at dinner to celebrate the festival. It is said that the Lantern Festival already has a history of over 2,000 years. During the festival, you can see hundreds and thousands of red lanterns in the street and in shopping centers. Typically, during the night of the festival, family members sit together to taste Yuanxiao, appreciate the full moon, and to wish everyone a healthy and prosperous new year.

Below is more business news for your information, selected from a variety of public sources.

China manufacturing improves in February: HSBC

China's manufacturing activity in February improved more than initially thought, HSBC said on Monday, but weakening foreign demand and declining prices signaled the world's second-largest economy still faces multiple woes. The British bank's final purchasing managers' index (PMI) for the month came in at 50.7, up from its preliminary reading of 50.1 and the highest since July's 51.7, the firm said in a statement. PMI readings above 50 point to expansion, while anything below suggests contraction.

China's central bank cuts rates again to boost economy

China's central bank cut interest rates for the second time in three months Saturday, adding to signs the country's leaders are worried the economic slowdown is deepening too sharply. The People's Bank of China announced a rate cut on one-year loans by commercial banks by 0.25 percentage point to 5.35 percent. The interest rate paid on a one-year deposit was lowered by 0.25 point to 2.50 percent.

Rates were last cut on Nov. 22. The new rates take effect Sunday.

Last year, China's economic growth fell to 7.4 percent — the lowest since 1990. It is expected to decline further this year, and a steep economic decline can raise the risk of politically dangerous job losses.

China foreign investment jumps 29.4% in January

Foreign investment into China accelerated in January, with overseas firms pumping more cash into the country's services sector as the manufacturing industry slows. Inward investment rose 29.4 percent year-on-year to \$13.9 billion, the biggest increase for four years, the commerce ministry said. It is also marginally up from December's \$13.3 billion. The services sector drew \$9.2 billion in FDI, an increase of 45.1 percent from a year earlier, accounting for 66 percent of the total.

Guangdong to raise minimum wage by 19%

South China's Guangdong province is to raise the minimum wage by an average 19 percent from May to combat a labor shortage and rising living costs. The pay raises will go into effect in all parts of Guangdong except Shenzhen on May 1, the provincial department of human resources and social security said in a press release. Guangdong last raised the minimum salary in May 2013. The minimum monthly pay for full-time workers in Guangzhou, the provincial capital, will be raised by 22.2 percent to 1,895 Yuan (\$300), the highest of four levels in the province.

Authorities in Shenzhen, which borders Hong Kong, separately announced a raise in the minimum monthly salary for full-time workers of 12.3 percent to 2,030 Yuan (\$320), the highest nationwide, from next month. China is facing severe labor shortage due to tough birth control policies over the past three decades. Rising labor costs, coupled with falling orders, have left many manufacturers struggling and driven some to relocate to Southeast Asian countries.

Shanghai tops China's disposable income list, gap remains

Per capita disposable income in Shanghai, the nation's financial hub, hit 47,710 Yuan (\$7,611) last year, eclipsing Beijing to secure the first place nationwide. The Beijing and Shanghai are immediately followed by Zhejiang province, all three exceeding 40,000 Yuan in 2014 with a growth rate of around

8.9 percent from a year earlier. Gansu province in western China came in at the bottom of the list, with per capita disposable income standing at 20,804 Yuan during the same period – slightly above the national average of 20,167 Yuan.

China overhauls industry gas pricing

China will set an equal, fair natural gas pricing structure for all industrial users to allow market forces to lead the energy sector, the top economic planner announced on Saturday. The National Development and Reform Commission (NDRC) previously launched a market-oriented energy pricing mechanism on July 10, 2013, assigning a different pricing system for existing and new factories. This meant that old users enjoyed relatively low prices compared with new comers. To fulfill its promise to gradually level the price gap, the NDRC raised the wholesale gas price for old users on Sept. 1, 2014, for the first time since the measure was put in place.

On Saturday, the NDRC announced that the wholesale price for old users would be increased for the second time, by 0.04 Yuan (less than one U.S. cent) per cubic meter, and new users would pay 0.44 Yuan less starting on April 1. After the adjustment, the price for both groups will be the same, and rise and fall in a uniform way. Since the international crude price dipped to a near five year low, many factories had turned to oil as an alternative energy.

The NDRC also plans to initiate a pilot scheme, which will allow gas producers and major factory users to set the energy price. Currently, gas price is controlled by the state and local economic planning bodies. One of the world's largest energy users, China consumed over 180 billion cubic meters of natural gas last year.

China's CSR to buy British underwater robot maker

A subsidiary of China's leading train maker CSR said that it had signed a deal to buy the entire share capital of British SMD, one of the world's leading subsea equipment manufacturers.

The deal, worth about 130 million British pounds (\$198.08 million), was signed on Feb 5 in Britain between Zhuzhou CSR Times Electric Co and Specialist Machine Developments (SMD) Ltd. It is still awaiting the approval of the regulatory authority. This will pave the way for Zhuzhou CSR Times Electric into the high-end subsea equipment sector and will support business in areas such as maritime wind power and engineering, said an official from Zhuzhou CSR Times Electric, which is subordinate to CSR Zhuzhou Institute Co Ltd.

From 2013 to 2017, subsea remotely operated vehicle (ROV) operational expenditure will be about \$9.7 billion, according to the forecast of Douglas-Westwood, a leading provider of market research and consultancy services to the energy industry.

Chinese insurer buys Dutch SNS Reaal's insurance arm

China's Anbang Insurance Group has acquired Dutch insurance company Vivat from nationalized banking group SNS Reaal, the Dutch Finance Ministry and the bank said. Under the agreement, Anbang will pay 150 million euros (\$171 million) for 100 percent of the shares of Vivat, formerly known as Reaal NV, SNS Reaal said in a statement.

In addition, the Chinese company will inject 770 million to 1 billion euros to recapitalize the insurer and pay off 552 million euros in internal loans to SNS Reaal. "I am pleased with the results so far," Dutch Finance Minister Jeroen Dijsselbloem said in a separate statement.

Chinese investor buys Australian island resort

Chinese investors have bought a tropical island resort off the east coast of northern Australia for \$30 million, local media reported recently. The Shanghai-based China Capital Investment Group (CCIG) will purchase Queensland's Daydream Island Resort in mid-March 2015, subject to government approval. The 4.5-star Daydream Island Resort and Spa has 296 rooms and suites, while the island's "Living Reef" is a popular attraction with about 80 species of fish and 50 coral varieties.

China's C919 plane to roll off assembly lines this year

China's C919 large passenger aircraft will roll off assembly lines this year, the manufacturer announced recently. The Commercial Aircraft Corporation of China has completed basic assembly of the aircraft, the company said. Earlier this month, the C919's vertical fin and the back end of the rear fuselage were delivered to the State-owned aircraft maker from domestic manufacturers.

The company has secured orders for 450 C919 planes from 18 customers. With 168-seat and 156-seat layouts, the C919 will compete with Boeing and Airbus in the medium-range aircraft sector. The C919's first test flight is planned for this 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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