

## **SCI China Market Update – March 2020**

Dear Friends,

The impact of the COVID-19 outbreak and global spread has been huge. Today's headline is really scary: Oil crashes, stocks crater on coronavirus, crude war fears. Yes, US stocks have plummeted today, March 9, 2020, on Coronavirus fears! The Dow is down more than 2,000 points, S&P down 7.7%!

Also, on March 9<sup>th</sup>, Beijing reported no new locally transmitted coronavirus cases on mainland China for the second day outside the epicenter of Hubei province. But Korea, Italy, Iran, France, Germany, Spain, Japan and the US together with the oil and supply chain have become major concerns.

China had 40 new confirmed cases of coronavirus infections as of Sunday, the National Health Commission said, down from 44 cases a day earlier, and the lowest number since the health authority started publishing nationwide data on January 20<sup>th</sup>. Of the new cases, 36 were in Wuhan, the provincial capital of Hubei, and four in Gansu province in people arriving from Iran. But no new confirmed COVID-19 cases have been found for days since then in Beijing, Shanghai, Guangzhou, Shenzhen, Suzhou, my hometown Tianjin, or other cities outside of Wuhan.

Why is the Year of the Rat's coronavirus' impact and damage so much greater than SARS in 2002?

I think this is mainly because the Chinese economy today is so much larger than in 2002. Last year, despite the US-China trade war tension, China's GDP growth still reached to 6.1%. Importantly, GDP Per Capita in 2019 in this nation of 1.4 billion people passed USD10,000. China plays an important role not only in the global supply chain but is also a huge marketplace for the whole world - cars, planes, oil, gas, iron ore, cellphones, PCs, agriculture, tourism, education and even movies and entertainment.

Beijing is under huge pressure to stop the spread of COVID-19 and resume production and normal living. I believe Beijing will soon use its money supply and policies to

stimulate the economy by investing heavily in key projects, including high speed trains, 5G, clean power and so on to stabilize employment. If so, the 2nd half of 2020 will likely see the market catch up to previous growth. Some 78 million migrant workers, or 60% of the total who left for the Lunar New Year holiday, have returned for business hoping for the best.

If China can prevent new spreading from the overseas successfully, I trust life and business in China including Wuhan will back to normal around mid April - it's no need and not required to wearing face mask to travel and to go to work. What's new with today's Chinese economy and market in the face of this COVID-19 disaster? Below are some very recent China market and economic news from various public sources:

#### **Shanghai: 97% of large industrial enterprises resume operation**

As the spread of the novel coronavirus pneumonia slows down in Shanghai, the city's production and operation in most industries have been gradually restarted, with 97 percent of large-scale industrial enterprises having returned to work, an official said.

The municipal government has offered various supporting measures to aid business resumption, including cutting taxes and fees by more than 11 million yuan (\$1,583,759) for privately and individually-owned businesses in a single month, issuing 35.7 billion yuan loans to 3,049 enterprises via commercial banks in Shanghai as of March 3, as well as granting rental cuts or relief to 14,000 small and medium-sized enterprises as of Sunday.

#### **Over 90% of self-employed business owners resume work in Guangdong**

More than 90 percent of self-employed business owners have resumed work in south China's Guangdong Province, local authorities said. Guangdong has the largest number of individual industrial and commercial businesses in the country, with about 7.1 million self-employed people, the provincial market supervision bureau said Thursday. Government-run online platforms also offer targeted services to individual businesses and small- and micro-businesses to address difficulties that they are facing in resuming production.

#### **China's daily mask output exceeds 110 million units**

China's daily output of face masks reached 116 million units, 12 times the figure reported on Feb. 1, as production expansion moves into top gear.

By the end of February, the daily production capacity of masks in China more than quintupled from Feb. 1 to 110 million units that came in medical and non-medical calibers, the National Development and Reform Commission said. The consistent rise in both capacity and output further narrowed the supply deficit. By now, the daily output of N95-rated medical masks reached 1.66 million units to ensure medical staff at the forefront of the battle against the novel coronavirus are well-equipped, the commission said.

China produces about half of the world's masks with a daily output of 20 million units before the epidemic. The country had to launch massive production expansion to secure supply given the explosive growth in demand.

### **U.S. excludes Chinese face masks, medical gear from tariffs as coronavirus spreads**

The U.S. Trade Representative's office in recent days granted exclusions from import tariffs for dozens of medical products imported from China, including face masks, hand sanitizing wipes and examination gloves, filings with the agency showed on Friday.

Many of the exclusion requests for medical products appear to have been expedited amid the rapidly spreading coronavirus outbreak, with approvals granted just over one month past a Jan. 31 application deadline. The tariff rate on the medical products was initially set at 15%, but was lowered to 7.5% on Feb. 15 as part of the Phase 1 U.S.-China trade agreement. The deal leaves in place tariffs on about \$370 billion worth of imports from China, including 25% duties on goods valued at around \$250 billion.

### **China January-February exports tumble, imports slow as coronavirus batters trade and business**

Overseas shipments fell 17.2% in January-February from the same period a year earlier, customs data showed on Saturday, marking the steepest fall since February 2019. That compared with a 14% drop tipped by a Reuters poll of analysts and a 7.9% gain in December.

Imports sank 4% from a year earlier, but were better than market expectations of a 15% drop. They had jumped 16.5% in December, buoyed in part by a preliminary Sino-U.S. trade deal.

### **Apple sells fewer than 500,000 smartphones in China in February amid coronavirus**

Apple sold fewer than half a million smartphones in China in February, government data showed on Monday, as the coronavirus outbreak halved demand for all such devices.

China placed curbs on travel and asked residents to avoid public places in late January, just ahead of the Lunar New Year festival, a major gift-giving holiday. Those restrictions stayed largely in place through most of February. In total, mobile phone brands shipped a total of 6.34 million devices in February, down 54.7% from 14 million in the same month last year, data from the China Academy of Information and Communications Technology showed (CAICT).

**As one of China's 'Detroit's' reopens, world's automakers worry about disruptions**  
Automakers across the world face the possibility of extended supply chain disruptions as factories in China stutter back to life after closures due to the coronavirus outbreak. The car industry is especially exposed as Wuhan - the epicenter of the outbreak - is known as one of China's 'Detroit's', accounting for nearly 10% of vehicles made in the country and home to hundreds of parts suppliers.

Non-essential factories in Wuhan and other cities in Hubei province remain on lockdown at least until Wednesday. When they reopen on March 11, or whenever authorities give the go-ahead, it is not clear if companies will have the raw materials or workers to get back to normal operations.

### **Starbucks reopens 90% of its stores in China**

Starbucks Coffee Company has opened 90 percent of its stores in China, although under modified hours and conditions.

The company expects to open about 95 percent of its stores in China by the end of second quarter of fiscal year 2020, according to a note written by Kevin Johnson, president and CEO of Starbucks Coffee Company, to the shareholders on March 5. At peak time in early Feb, about 80 percent of its stores in China were closed. The company has a total of 4,300 stores that employ 58,000 people.

### **Sinochem to build polymer plant in Thailand**

Sinochem International Corp, the international arm of Beijing-based Sinochem Group, announced on Monday it will build a polymer additives plant in Rojana Industrial Park in Thailand – the firm's first overseas production base of this kind.

The company said the new plant covers an area of 64,000 square meters, with a total investment of 290 million yuan (\$41.77 million). The facility is expected to be operational by the end of this year. Upon completion, it will have an annual production capacity of 25,000 metric tons of rubber antioxidant, which will fill the gap in the production of rubber antioxidant in Southeast Asian countries and provide local supplies to the company's downstream clients in the region.

### **LyondellBasell finalises \$2.6 billion China petrochemicals joint venture**

Houston-based chemical and plastics firm LyondellBasell Industries said on Friday it had signed “definitive agreements” with a Chinese refiner on a \$2.6 billion joint venture to produce petrochemicals in northeast China’s Liaoning province.

LyondellBasell will take a 50% stake alongside Liaoning Bora Enterprise Group, one of a number of independent Chinese oil refiners known as “teapots”. The joint venture will operate a 1.1 million tonnes per year ethylene cracker and polyolefin derivatives complex in the coastal city of Panjin.

The estimated \$2.6 billion cost marks the biggest investment yet in petrochemicals by a Chinese “teapot” looking to diversify away from the saturated local fuel market. “The complex will produce products that serve the growing demands of various industries in China, including packaging, transportation, building and construction, and healthcare and hygiene,” LyondellBasell said in a statement.

### **Tesla wins approval to sell longer-range China-made Model 3 vehicles**

Tesla Inc has secured Chinese government approval to sell longer-range China-made model 3 vehicles in China, the Ministry of Industry and Information Technology said on Friday.

The vehicles will have a driving range of more than 600 kilometers before they need to be recharged, the ministry said in a statement, while the current China-made Model 3 has a standard driving range of more than 400 kilometers. Tesla started delivering cars in December from its \$2 billion factory in Shanghai.

### **Toyota plans new \$1.2 billion EV plant in Tianjin with FAW – document**

Japanese automaker Toyota plans to build a new electric vehicle plant in the Chinese city of Tianjin with its local partner FAW Group, a document from the local authorities showed.

The joint venture between Toyota and FAW plans to invest around 8.5 billion yuan (\$1.22 billion) in the planned car plant in Tianjin, according to a document issued by authorities of the China-Singapore Tianjin Eco-city. The plant will have manufacturing capacity of 200,000 new energy vehicles a year, the document showed. In China, new energy vehicles include battery-only, plug-in hybrid and fuel-cell vehicles.

Last year, despite China's overall auto market dropping 8.2%, Toyota sold 1.62 million Toyota and premium Lexus cars in China, the world's biggest auto market, a 9% sales jump compared with a year earlier. It is also expanding car manufacturing capacities in its Guangzhou-based venture with another partner GAC.

### **Nuclear power unit with China-developed reactor design completes key test**

China's first nuclear power unit using Hualong One technology, a domestically developed third-generation reactor design, has completed a key test, according to China National Nuclear Corporation (CNNC).

The successful hot functional test on the power unit, which was completed in the eastern Chinese city of Fuqing, marked an important step in the development of the unit before the process of fuel loading, according to CNNC. Hualong One reactors were jointly designed by two nuclear power giants, China General Nuclear Power Group and the CNNC, and passed inspection by a national panel in August 2014.

The nuclear power unit, which began construction in 2015, is expected to start operation this year. At present, CNNC has five Hualong One nuclear power units under construction.

### **China's Tianjin launches cargo truck service to Europe**

North China's Tianjin Municipality has launched a direct cargo truck service to Europe, providing strong logistics support for production resumption of enterprises amid the novel coronavirus epidemic.

A cargo truck loaded with aircraft parts departed from Tianjin on Wednesday and will arrive in Germany after traveling over 10,000 km in about 14 days. The cargo truck takes less than half of the transportation time of China-Europe freight trains and costs 40 percent less than air freight, according to Dai Daobin, general manager of Sino-Europe Trucking (Tianjin) Logistics Service Co. Ltd.

### **China expects over 550,000 5G base stations running by 2020**

China has entered into a critical period of 5G network construction with more than 550,000 5G base stations expected to be put in operation nationwide by the end of 2020, Wang Zhiqin, deputy director of the China Academy of Information and Communications Technology (CAICT), said in an article published Wednesday.

China's three major telecom operators have built about 156,000 5G base stations as of early February, according to the article, which also estimated total investment on 5G network construction will reach 1.2 trillion yuan (about 173.3 billion U.S. dollars) by 2025. With a solid industrial foundation and maturing commercial products, the CAICT is expecting China's 5G industry to directly create over 3 million jobs as of 2025, with aggregate information consumption brought by 5G commercialization surpassing 8.3 trillion yuan.

For more information about doing business with China please visit our website at [www.s-c-i.com](http://www.s-c-i.com) or call me at 610-457-8380. Thanks!

Best regards,

Shiqiang Gu  
President & CEO

-----  
Sino Consulting (SCI)  
8010 Fairview Lane  
Eagleville, PA 19403  
U. S. A.  
Tel: (610) 457 8380  
Email: [sgu@s-c-i.com](mailto:sgu@s-c-i.com)  
Web: [www.s-c-i.com](http://www.s-c-i.com)