SCI China Market Update – May 2012

Dear Friends,

I just returned home from Beijing on May 13th. This time I took the Beijing-San Francisco-Philadelphia route to return home by dinner time. As usual, UA888 (what a lucky number to Chinese!) from Beijing to San Francisco was truly full of passengers but pretty much on time. Airfares have increased a lot for all U.S.- China flights during this summer vacation period due to heavy business and tourism travel. For many Chinese citizens, it is now much easier to obtain visas from the U.S. embassy, so more and more Chinese families are coming to the U.S. to tour, shop - and maybe visit some universities for their child. I found that, although the financial crisis hurt the economy significantly, the people are still strongly interested in learning more about America and seeing it for themselves.

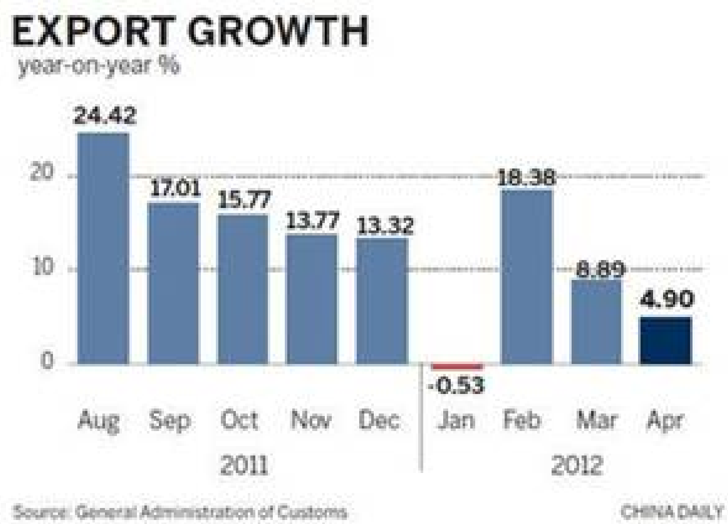
Invited by the Tianjin Municipal Commission of Science & Technology, I gave an unexpected seminar about exploring business cooperation opportunities with U.S. companies. I expected a small and informal discussion but some 65 officials showed up from almost all of Tianjin's hi-tech industrial parks, economic and technical development areas and 'Incubators" for this two hour "seminar". They are indeed eager to learn about how to do business with U.S. companies as the culture and way of thinking are often quite different.

The highlight of the trip was that, despite the economic slowdown, we were able to secure major new orders for one of our clients in the cable & wire industry. My general impression is that while China's exports are slowing, imports are increasing –good news for many of our clients. Below is some very recent China market news for your information:

Trade growth slows

China's import and export growth slowed in April leading to increased pressure on the government to implement further monetary easing. Imports last month rose just 0.3%, from a year earlier, to $144.83 billion, according to a statement by the General Administration of Customs. This was in marked contrast to a 5.3% rise in March. Exports last month recorded a healthier rate of growth, hitting $163.25 billion for an increase of 4.9%. But even that was down from the 8.9% for the previous month. The trade surplus stood at $18.4 billion in April.

"Both imports and exports were weaker than expected," Dong Xian'an, chief economist at Peking First Advisory, said. This was not surprising as both the US and European economies are still struggling, he said. Further, as part of China's 12th Five-Year Plan (2011-15), the government has pledged to shift the growth model from exports to domestic consumption.



China to cut RRR by 0.5 percentage points

China will lower banks' reserve requirement ratio (RRR) by 0.5 percentage points starting May 18, the country's central bank announced Saturday. The cut is the second of its kind this year and will drop the RRR for the country's large financial institutions to 20% and the medium- and small-sized financial institutions to 16.5%, according to the People's Bank of China. Analysts say the central bank's move is to further release liquidity against the backdrop of current slowdown in economic growth. The cut will release an estimated 400 billion yuan ($63.49 billion) in capital into the market. China had previously lowered the RRR by 0.5 points on February 24. The central bank in December cut the RRR by 0.5 points for the first time since December 2008, after hiking the RRR six times last year in an effort to check inflation.

Power plants see 13b Yuan loss in Central China

The Center China Bureau of State Electricity Regulatory Commission recently released a report stating that in 2011, thermal power enterprises in Central China experienced widespread losses totaling 13.64 billion Yuan ($2.16 billion).The report covers six provinces and municipality of Hubei, Hunan, Henan, Jiangxi, Sichuan and Chongqing. Four of the five State-owned power generation groups saw a deficit in the region, Economic Information Daily reported Monday.

In 2011, the six provinces' power plants saw a loss of 8.3 billion Yuan, up 6.45 billion Yuan from a year earlier. Thermal power enterprises witnessed a loss of 13.64 billion Yuan, 5.096 billion Yuan higher than the previous year. Hydropower plants earned a total profit of 15.49 billion Yuan with a year-on-year decrease of 1.313 billion Yuan.

An officer from the Center China Bureau of State Electricity Regulatory Commission claimed that the thermal power companies' recession started in 2008 as the price of coal has continued rising in recent years, so the operating conditions of those enterprises went from bad to worse. Although the on-grid power tariff was increased three times in the last year, the report said that it was still unable to offset the price hike of raw materials, which is the main reason leading to the widespread loss by coal-fired power plants. Among the five national power generation groups, only China Huaneng Group has maintained a stable profit.

China's imported oil dependence continues rise

China's dependence on imported oil is continuing to rise, threatening the country's energy security, the Ministry of Land and Resources said recently. Dependence on oil imports rose to 56.7% in 2011 from 54.8% in 2010 and 52.6% in 2009, according to statistics from the ministry.

Oil consumption climbed 2.53% year-on-year to 445 million tons last year, while crude oil output inched up 0.5% to 204 million tons, the ministry said. Financial input for prospecting oil and natural gas has increased, growing by 6.9% in 2011 from one year earlier, the ministry said.

China has invested a significant amount of resources to move its oil drilling operations into deep waters in response to globally high oil prices and the increasingly fragile state of China's oil reserves. The country's first deep-water drilling rig went into operation in the South China Sea on Wednesday.

China to expand high-end equipment sector

China is looking to triple the sales revenue of its high-end equipment manufacturing industry to 6 trillion Yuan ($951 billion) by 2015, according to the sector's 12th Five-Year Plan (2011-15) published on Monday by the Ministry of Industry and Information Technology. Sales of high-end equipment will account for 15% of the overall revenue of the equipment manufacturing industry in three years, compared with 8% in 2010, and will also have a larger share of the global market, according to the plan on the ministry's website. The proportion of revenue is expected to further expand to 25% by 2020, when high-end equipment manufacturing becomes a pillar industry of the world's second-largest economy.

The industry mainly includes aviation equipment, satellite and applications, railway transportation equipment, marine engineering equipment, and smart manufacturing equipment. Aircraft manufacturing will be one of the key growth areas, as the plan vowed to introduce a new regional-aircraft research project, while seeking annual sales of 100 planes in the next three years by accelerating the innovation and promotion of existing models such as the ARJ-21 and MA 60. Meanwhile, China will continue to invest in high-speed railway innovation and the exploration of global markets to establish its railway transport industry as the world leader. China's equipment manufacturing industry has been growing at more than 25% annually over the past decade.

BMW sales up 31% in April

BMW AG sold 27,197 BMWs and Mini vehicles in China in April, a number up 31% from a year ago, Linda Croissant, company spokeswoman, said on Monday by phone. In the first four months of 2012, the Munich-based automaker delivered 107,211 automobiles in China, a number up 35% year-on-year.

GM says China sales hit record high for April

US auto giant GM said that it saw record sales in China in April, despite a broader slowdown in the world's biggest car market. GM sold 227,217 vehicles in April, up 11.7% from the same month last year, it said in a statement. GM also registered a sales record for the month of March. For the first four months of the year, GM's China sales rose 9.4% year-on-year to 972,369 units.

GM China Group president Kevin Wale said sales would top a million in May, the earliest it has reached that landmark figure in China. "It has put us on track to once again set a new sales mark for the year as a whole," Wale said in the statement. GM sold more than 2.5 million vehicles in China last year. Foreign car makers such as GM have been able to ride out an overall slowdown in China's auto market, the world's largest since 2009, helped by name recognition and perceptions of higher quality. China's nationwide sales rose just 2.5% to 18.51 million units in 2011, compared with an annual increase of more than 32% in 2010.

Vehicle sales in China fell 3.4% year-on-year to 4.79 million units in the first three months of this year, according to an industry group. But many of the world's carmakers remain confident of steady growth in this Asian nation, where three out of every four new car purchases are by first-time buyers.

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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