

## SCI China Market Update – May 2015

Dear friends,

I've been traveling in China for business since early May. It seems that Beijing's efforts to curb pollution may be making headway - the weather has been nice and I've been lucky to see sunny and blue skies from Tianjin to Suzhou. I can't remember the last time I could say that. However, the economy is a different story. I can feel that the economy is so sluggish during the visit, with slowing in most industrial sectors from steel to power generation equipment. This situation makes it hard for both foreign and domestic Chinese companies to realize their ambitious goals. I have been talking with manufacturers and government officials and they all say the same thing – China is under pressure, especially with oil and coal prices so low and the Euro so cheap.

Whatever its disadvantages, the one-party government has an advantage when it comes to timely policy adjustments to stimulate change. The recent policy to cut bank rates aimed at pumping more money into small and medium sized businesses, and a new round of rate cuts became effective this week to create further stimulus. China is so big! And China's market demand is so big that a slowdown affects the entire world. This means the Chinese government and government-controlled banks are so powerful. Beijing's currency reserves are huge, which gives the government a great tool to work with. It is critical for the Chinese economy to maintain growth at 7+ percent to keep employment at a "safe" level. We believe the 2<sup>nd</sup> half of this year will see a better GDP growth rate in China.

After 30 years of high-speed economic development, it's not a surprise to see China's GDP growth slowing down. And the current rate of over 7% is not so bad considering the size of the economy. Beijing needs to work harder and smarter to keep the economy steady and growing for its own sake and for the entire world.

Below, is some recent news taken from a variety of public sources.

### **China April exports down 6.4% in new sign of weakness**

China's exports fell unexpectedly in April as imports posted their sixth straight monthly decrease, official data showed, with analysts calling for more stimulus to bolster the world's second-largest economy. The country's exports dropped 6.4 percent year-on-year in April to \$176.3 billion, the customs authority said -- well below the median forecast of a 0.9 percent rise in a Bloomberg News poll of economists.

The fall was accompanied by a 16.2 percent drop in imports to \$142.2 billion, the sixth monthly decline in a row, suggesting sustained weakness in domestic demand. The export and import figures for April showed a trade surplus of \$34.1 billion, Customs said, compared with \$18.5 billion a year ago. Analysts said the disappointing figures reflected persistent frailty in the Chinese economy and provided more evidence that further policy loosening is needed.

### **China cuts rates for 3rd time in 6 months to boost economy**

China cut interest rates Sunday for the third time in six months to boost sluggish economic growth and announced that it is giving banks more flexibility in setting rates paid to depositors in a new step to make its financial system more market-oriented.

The central bank's rate cut reflects the communist leadership's growing urgency about reversing a deepening slump that threatens to cause a politically dangerous spike in unemployment. Economic growth has fallen to its lowest level since the aftermath of the 2008 global crisis, and exports fell by 6.2 percent in April. Surveys of manufacturers showed factory employment in April fell to its weakest level in a year. Citing "downward economic pressures," the People's Bank of China said Sunday that it would cut the rate on a one-year loan by commercial banks by 0.25 percentage point to 5.10 percent. The interest rate paid on a one-year deposit was lowered by 0.25 point to 2.25 percent.

Interest rates were also cut on Nov. 22 and then again on March 1.

Beijing has been expected to ease monetary policy since the Communist Party leadership promised to shore up growth following a meeting two weeks ago.

### **'Crucial year' for nuclear energy sector**

Eight new nuclear reactors will go online this year and six to eight others will be approved according to Beijing. The nation's installed nuclear capacity will soon approach 50 gigawatts. There are 23 nuclear reactors in operation and 26 under construction.

Last year, nuclear generation rose 18.9 percent to 130.6 billion kilowatt-hours, but that figure only accounted for 2.4 percent of the country's total power generation, leaving room for growth. However, nuclear power will play a bigger role in optimizing China's energy mix, coping with climate change and cutting air pollution. China's total investment in completed nuclear power projects dropped 6.6 percent to 56.9 billion Yuan (\$9.3 billion) in 2014, according to the association.

**China to start building 3rd generation nuclear reactor**

Construction of China's first "third generation" nuclear reactor will start on Thursday, a state-run company said, as Beijing attempts to export its atomic energy designs globally. Unit five of the Fuqing nuclear power plant in Fujian province will incorporate an ACP1000 reactor developed by the China National Nuclear Corporation (CNNC), the firm said Wednesday.

The ACP1000 is one of a "third generation" of reactors designed to extract more energy from a given amount of uranium fuel than previous technologies, and in a safer way. Other third-generation reactors are under construction elsewhere, with competing designs by French group Areva, Westinghouse of the US, and South Korea's Kepco, among others. ACP1000 has been exported to Pakistan, and a deal was signed in February for a sale to Argentina. Nuclear power is a key element of China's attempts to tackle its chronic pollution, with the use of coal for energy blamed as a major cause of the problem.

**SunPower, Apple to build solar projects in China**

Solar panel maker SunPower Corp said it would partner with Apple Inc. to build two solar power projects in China's Sichuan province with total capacity of 40 megawatts.

The projects, when complete, will be co-owned by Apple and Sichuan Shengtian New Energy Development Co Ltd, SunPower's project development joint venture. Completion of the projects, which are expected to provide up to 80 million kilowatt-hours per year, is expected in the fourth quarter of 2015, SunPower said.

Shares of SunPower, which is majority owned by French energy giant Total SA, were up 1.4 percent at \$33.85 in early trading on the Nasdaq on Thursday.

China set a higher-than-expected target for solar power installations for 2015 last month as it seeks to boost renewable energy use. China said it aims to install 17.8 gigawatts (GW) of solar power capacity this year, up nearly 20 percent from the original goal of 15 GW, with nearly 70 percent from the 10.52 GW of solar generation capacity China installed last year. Apple, which uses renewable energy to power its data centers, said in February it would buy about \$850 million of power from First Solar Inc.'s California solar farm to cut its energy bill.

**Xiaomi-backed Chinese firm acquires iconic scooter maker Segway**

Chinese transportation robotics firm Ninebot said on Wednesday it has acquired U.S. rival Segway Inc., the company behind the self-balancing scooter that became a technological marvel when it was launched in the early 2000s but whose hype then faded.

Financial details of the deal were not disclosed, but Ninebot Chief Executive Gao Lufeng said at a press briefing in Beijing that Chinese smartphone maker Xiaomi Inc. and venture capital firm Sequoia Capital China, among others, had invested \$80 million into Ninebot to help finance the acquisition.

### **Coca-Cola to buy Chinese protein drinks business**

Coca-Cola has agreed to buy a Chinese plant-based drinks business, renewing its push into the China market after authorities in 2009 blocked its bid for a juice company. Coca-Cola said it would pay about \$400 million in cash to acquire Xiamen Culiangwang Beverage Technology Company, a producer of plant-based protein drinks sold in China. Xiamen Culiangwang is owned by Hong Kong-listed China Culiangwang Beverages Holdings, which valued the deal at \$400.5 million. The investment holding company separately announced Friday a stock issue to bolster the development of its multi-grain consumer foods business.

The Atlanta-based Coca-Cola has been moving beyond carbonated beverages and bottled water into coffee, with Keurig Green Mountain and energy drinks, like Monster Beverage.

### **KFC rivals Starbucks in China**

Coffee is going to be big part of KFC's future—and the ambition goes far beyond the stunt of testing an edible coffee cup. Thousands of KFC restaurants in China, where the fried chicken purveyor is already the single largest fastfood chain, will start selling freshly ground coffee this year in a bid to become a lower-cost "premium" alternative to Starbucks. Trying to beat Starbucks on higher-quality coffee in China makes more sense than it might seem for KFC, which has a long-established breakfast menu featuring such local fare as congee—a rice porridge with pickles and preserved egg. Starbucks, meanwhile, has spent the past 16 years spreading the concept of "coffee culture" and cultivating demand for high-price brews throughout China.

KFC started rolling out its new premium coffee in its most developed Chinese markets in December. "And we were very pleased with the results," said Pat Grismer, chief financial officer at Yum Brands, KFC's parent. So far the new coffee has helped boost KFC's breakfast and afternoon business. The company will offer premium coffee in 2,500 KFCs in China by year's end—a footprint that already surpasses all the 1,500 Starbucks locations in the country.

China has about 4,500 KFC outlets, leaving yet more room for the chain to expand. McDonald's, with more than 2,000 locations in China, also sells coffee and McCafé products.

**US retailer Wal-Mart to add 115 China stores: report**

Wal-Mart, the world's biggest retailer, said it plans to add 115 stores in China, Bloomberg News reported on Wednesday, after earlier missteps in the massive market.

It currently has more than 400 stores and the opening would represent an increase of over 25 percent, Bloomberg quoted a statement as saying. The new outlets will include both "supercentres" and members-only Sam's Club stores. The US retailer will also spend 370 million Yuan (\$61 million) to renovate around 50 existing stores in China, the report said.

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 the number below, or Dr. Tim Weckesser at 610-828-8060.

Best regards

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