

## SCI China Market Update – November 2014

Dear Friends,

Since Deng Xiaoping opened China to the outside world, we all know how well so many Western giants have positioned themselves there - like Coke, Motorola, DuPont, GM, Ford, NIKE, Adidas, Polo, Disney, Wal-Mart, Starbucks, Pizza Hut, McDonalds, KFC, and even the NBA! But less well known is how much U.S. culture and even holidays have rubbed off on China as well. If you go to Beijing or Shanghai in about a month, you may be surprised to find elaborate Christmas decorations in so many fine hotels, often out-doing their Western counterparts. On Valentines Day, roses sell like crazy in Shenzhen, Guangzhou, Shanghai and Suzhou. Although Chinese don't really eat turkey much (and don't even know how to roast the big bird), still you can find more and more Thanksgiving Parties in the big cities – but maybe serving seafood instead of turkey.

Believe or not, last Friday even Halloween became an issue in Beijing. Although this huge nation has no land for growing real pine trees for Christmas or real pumpkins for Halloween, it is quite good at manufacturing first-rate plastic look-alikes. Last week, Beijing police warned people they might face arrest for wearing fancy Halloween costumes on the subway as it may cause crowds to gather and lead to "trouble". It seems the authorities fear that scary costumes in the already too crowded Beijing subway and train stations can trigger panic and disorder.

The Chinese translation for both Christmas and Thanksgiving sound nice and carry very much the same meaning as they do in English. However, the Chinese translation for Halloween is "Ghost Festival". Although no Chinese can really understand why people spend money to buy "Made in China" gravestones and skeletons to "decorate" a beautiful house for a "festival", still more and more young people have a great deal of fun with this very different "Western culture festival". So, you may never see any real pumpkins in China for this purpose, but the plastic ones are getting pretty popular. It seems Halloween is becoming yet another growth business in China.

Here is some very recent China market news from various public sources:

### **China October manufacturing at tepid three-month high: HSBC**

China's manufacturing growth picked up to a three-month high in October, a closely watched private survey confirmed Monday, but did little to counter a picture of slowing growth in the world's second-largest economy. British bank HSBC's final purchasing managers index (PMI) came in at 50.4 last

month, above the 50-point level that separates expansion and contraction and the strongest since July's 51.7. The index tracks activity in factories and workshops and is considered a key indicator of the health of China's economy, a major driver of global growth.

### **Chinese Yuan use in global payments rises 13% from previous month to new record**

For more than 40 years the dollar has served as the primary reserve currency and largest singular medium for trade in the global economy. But as the world begins to reject the dollar in light of years of devaluation and its use as an economic weapon, one currency is beginning to accelerate its acceptance in direct trade, and that is the Chinese Yuan.

On Oct. 29, a new report came out which announced that China's use of the Yuan in global payments rose over 13% from the previous month to 1.72%, and is expected to rise much higher in light of a new agreement made earlier this week between themselves and Singapore to facilitate direct trade using each nation's own currencies, thus bypassing the dollar completely.

In less than one year, use of the Yuan to function as a primary trade currency has risen over 72%, and has lifted China from 13th in the world to now being in the top 10 where they are expected to reach a top five ranking very quickly.

### **China and 20 other countries sign up to regional bank**

China and 20 other countries moved forward towards setting up an Asian infrastructure lender seen as a counterweight to Western-backed international development banks. The signatories put their names to a memorandum of understanding to establish the Asian Infrastructure Investment Bank (AIIB) at a ceremony in the Great Hall of the People in Beijing.

The institution, whose development has been driven by China, will be based in Beijing according to the official news agency Xinhua, and is expected to have initial capital of \$50 billion. It is intended to address the region's burgeoning demand for transportation, dams, ports and other facilities, officials say. The Japanese government has expressed concern, while the United States is reportedly fiercely opposed to the AIIB.

### **China raises resource tax to 6% for crude oil, natural gas**

China will raise a resource tax on crude oil and natural gas from 5 percent to 6 percent starting on Dec 1, in an effort to boost energy conservation, according to taxation authorities.

**Beijing IPR court to open this month**

A special court for intellectual property rights (IPR) cases will open in Beijing early this month, said the Supreme People's Court (SPC) here Monday. Two similar courts in Shanghai and Guangzhou will open by the end of this year, said Wang Chuang, deputy head of the IPR division with the SPC. Chinese courts hear about 110,000 IPR cases annually and the number will continue to increase.

**Chinese Firms Flexing Muscles Overseas as Foreign Investment Rockets**

China is set to increase its investment in foreign countries by at least 10% per year over the next five years, according to a senior official at the ministry of commerce. China has stepped up its acquisition of foreign assets, focusing on energy and resources, in a bid to fuel the world's biggest economy. Overseas investment in September was up 90.5% compared to the same month in 2013, reaching \$9.79bn (£6.1bn, €7.7bn) for the month.

**China extracts more coalbed gas in Jan-Sept**

Coalbed methane extracted by China in the first nine months of the year rose 9% from a year earlier to 12.6 billion cubic meters, new data showed Saturday. The country put 5.5 billion cubic meters of coalbed gas into use during the same period, accounting for 42.65% of the total output, the National Energy Administration (NEA) said in a statement on its website.

Gas production from drilling stood at 2.7 billion cubic meters, while the remaining 9.9 billion cubic meters were extracted from coalmines. China's coalbed methane reserves are estimated at 36.8 trillion cubic meters, ranking as the third largest in the world after Russia and Canada.

**Fall in oil price shuts down small refineries**

Several local refineries in China have been forced to shut down due to declining oil prices. After the oil price fell on Oct 17, most local refineries in China started reporting a drop in revenue. China announced a cut in the retail price of gasoline by 300 Yuan (\$48.78) per ton and a reduction in diesel by 290 Yuan on Oct 17; the sixth decline since July.

**China and Russia Planning \$230bn Moscow-Beijing High Speed Rail Link**

The respective governments of China and Russia are seriously considering the idea of building a high-speed railway line between their two capital cities, according to reports. The Beijing Times said that the line, which would be over 7,000 kilometers but cutting the Trans-Siberian railway journey from six days to two, would cost in excess of \$230bn (£142.9bn, €179.5bn) if it is to connect Moscow and Beijing via a high-speed railway line. If it were to be completed, it would be triple the length of the world's longest high-speed line, which runs from Beijing to Guangzhou.

**Coming to a Boston Subway Near You: Made-in-China Trains**

Boston transport authorities awarded China CNR Corp. (6199) a \$567 million contract to supply trains for the city's subway system, the first deal of its kind for a Chinese company in the U.S. The deal would put CNR's products in all of the world's six continents, the company said in a statement today. The proposal is for CNR to supply 284 cars for the Boston subway's orange and red lines, with an option for 58 more, according to the Massachusetts Department of Transportation's website.

CNR equipment will replace 32-year-old cars on the orange line and 44-year-old cars on the red line, which connects Cambridge to downtown Boston. Delivery of the cars will begin in 2018 and finish in 2021, the Massachusetts Bay Transportation Authority said in an Oct. 21 statement on its website. CNR will dedicate two manufacturing lines at a Chinese facility and build a 150,000 square-foot facility in Springfield, Mass. to assemble the vehicles, according to the statement.

**In China, high demand for robots but too many robot manufacturers**

China wants domestic companies to buy more locally made robots to lift productivity, but industry insiders have warned its policies are over-stimulating the market and that robot manufacturers were "coming up like mushrooms." In its five-year economic plan for 2011-2015, Beijing specifically targeted robotics as a key sector for development, hoping to create four or five domestic robotics "champion" firms to meet an annual production target of about 13,000 robots.

The official Xinhua news agency reported that China now has 420 robot companies, adding that more than 30 industrial parks devoted to robotics were being built or were already functioning around the country. According to the China Robot Industry Alliance, about 37,000 robots were sold in China in 2013, almost three-fourths of them manufactured overseas.

**China completes first mission to moon and back**

China completed its first return mission to the moon early Saturday with the successful re-entry and landing of an unmanned probe, state media reported, in the latest step forward for Beijing's ambitious space program. The probe's mission was to travel to the moon, fly around it and head back to Earth. China currently has a rover on the surface of the moon. The craft called the Jade Rabbit and launched as part of the Chang'e-3 lunar mission late last year, has been declared a success by Chinese authorities, although it has been beset by mechanical troubles.

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.

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