

SCI China Market Update – October 2014

Dear Friends,

October 1st is China's National Day and is celebrated during a weeklong paid holiday. Probably because of the beautiful fall season, the Chinese call this holiday "Golden Week". The weather in early October is normally very nice making Golden Week a time of major tourism in China. This holiday has become especially valuable to the families of Chinese workers and farmers because most do not receive any annual vacation. Thus Golden Week has become a great time for family vacations, and millions of Chinese travel within China and abroad. Of course, this means it is also a time for video reports of huge traffic jams all over China. Literately millions of cars and buses are flooding the highways, the main streets of all the major cities, and all the famous tourism destinations. If you plan to tour the Forbidden City, the Great Wall or Beijing's well-known museums, beware of traffic and immense crowds.

Why, in 1999, did Beijing change what was traditionally a one-day National Day into a Golden Week holiday? Answer: the market economy. Instead of encouraging the Chinese people to continue to amass savings, as is so traditional, Beijing finally realized that spending money is more important to economic growth – i.e. keep the Chinese banks and financial system under a reasonable and controllable level of pressure and keep factory inventories low. Golden Week gives Chinese families time to spend money – travel, shop, dine, entertain, etc. This weeklong holiday actually helps to improve the overall Chinese economy and improve the productivity of Chinese companies.

I just returned home from Beijing on September 26th. Once again I witnessed Beijing's huge problem with traffic jams. One cause of this problem is, of course, the fact that more and more Chinese families are buying cars. But I think another key reason is that Beijing has the world's largest central government system, plus the Beijing City government. These are huge bureaucracies. Government officials and their families are a big part of Beijing's population. Further, each province and each major city has a big office in Beijing for intelligence, "guanxi" development and lobbying the central government for support for local projects. For example, my hometown of Tianjin has two permanent offices in Beijing to deal with the Chinese government system. And then there are also all kinds of national and international organizations and systems located in Beijing, as well as China's largest exhibition and convention centers. And many top Chinese universities are there as well, including Beijing University, Qinghua University, Beijing Aerospace University, Beijing Normal University, People's University, Beijing University of Medicine, and so on. Most of the top Chinese hospitals are in Beijing - Beijing Union Hospital, Capital Hospital, Army Hospital No. 301. Beijing Airport's Terminal 3 is the largest

single terminal in Asia, and still not big enough. China's largest sports stadiums are also there attracting big events and large numbers of visitors (the "Birds Nest", the "Water Cubic" from the Olympics). China's largest railway stations, theaters and museums are all located in Beijing. So, on one hand Beijing represents the world's largest centralized state, and on the other terrible traffic jams and air pollution. Without a major change in China's centralized state power system, Beijing's traffic jams will be there forever. Most of China's provincial capital cities – like Shenyang, Xi'an, Nanjing, Guangzhou and Wuhan - suffer from similar problems.

Below is some of the latest news on the Chinese economy taken from a variety of public sources:

China's economy to grow 7.5 percent this year: ADB

Though several key activity indicators of Chinese economy weakened in the third quarter, the Asian Development Bank (ADB) has stuck to its forecast that China's GDP will grow 7.5 percent in 2014 and 7.4 percent in 2015, with lower inflation. The ADB released its forecast in its annual economic bulletin, Asian Development Outlook 2014 in Beijing on Thursday, about six months after it first released the forecast.

Chinese economy takes 12.3% of world total in 2013

The Chinese economy comprised about 12.3 percent of the world total in 2013, according to the National Bureau of Statistics (NBS). From 1953 to 2013, China's GDP increased 122 times at comparable prices, with annual average growth of 8.2 percent.

Factory Activity Across Much of Asia Stumbles in September

Factory activity across much of Asia staggered in September, with slowdowns in India, Japan and Taiwan and decline in South Korea handing a setback to hopes for higher global growth this year. The downbeat performance buoyed the US dollar, pushing it above 110-yen level for the first time since mid-2008.

Data from a government-compiled Purchasing Managers' Index (PMI) survey and a separate HSBC/Markit survey showed that China's manufacturing activity held steady in September. The two polls threw up readings of 51.1 and 50.2 respectively. The 50 threshold divides expanding activity from a contraction.

China to start direct currency trading with euro

China will begin direct trading between its Yuan currency and the euro, the national foreign exchange market's operator said, as Beijing seeks to broaden the unit's global usage. The China Foreign Exchange

Trade System already offers a platform for Yuan-euro transactions but direct trading means the US dollar will not be used as an intermediary currency to calculate rates, according to a statement released Monday.

Alibaba Founder Jack Ma is Richest Man in China Following World's Biggest IPO

Jack Ma, the founder and executive chairman of e-commerce company Alibaba, is the richest man in China following his company's gargantuan £15bn IPO last week, according to the country's annual rich list report.

The Hurun Report estimated the net worth of Ma, 50, to be around £15.2bn; nearly six times what it was last year. Ma owns 6% of Alibaba, valued at £103bn, and has 46% stake in the company's electronic-payment affiliate Alipay.

GlaxoSmithKline China Ex-Boss Mark Reilly to Be Deported to UK after Guilty Plea

Mark Reilly, former boss of GlaxoSmithKline China, will be deported to the UK from China after he pleaded guilty to bribery charges in the country.

Reuters, citing a source with direct knowledge of the matter reported that Reilly, who was given a three-year suspended prison sentence, will not face jail time in the country. "Reilly will be deported so he won't be in detention in China," the source told the news agency.

Earlier, the company's China subsidiary was fined £297m (\$488.8m, €376m) by the Changsha Intermediate People's Court in Hunan Province, China, after it was found guilty of bribing non-government personnel for commercial gains. In the lawsuit, a number of GSK China employees were sentenced to jail terms between two and four years. Following a one-day trial behind closed doors, Reilly was given a three-year jail term, but it was suspended for four years.

Reilly had been banned from leaving China for the past year, after he was accused of heading a £300m bribery scheme to lure doctors to prescribe GSK drugs. He and his Chinese girlfriend were also allegedly featured in a sex tape that was emailed to GSK senior executives in March. China's Ministry of Public Security earlier accused GSK executives of routing 3bn Yuan (\$488m) in bribes to doctors through 700 travel agencies and consultancies over six years. In connection with the allegations, Chinese authorities have taken several GSK executives into custody and claim a number of them admitted to criminal charges of bribery and tax law violations. GSK earlier said it was acknowledging the court verdict, and apologized to the Chinese people.

Intel to invest 1.5 billion USD in China mobile chipmakers

Intel on Friday said it had agreed to buy a 20 percent stake in two Chinese mobile chipmakers for 9 billion Yuan (1.5 billion U.S. dollars). The investment will be via a new holding company under Tsinghua Unigroup, which owns mobile chipmakers Spreadtrum Communications and RDA Microelectronics. Unigroup is a subsidiary of state-owned Tsinghua Holdings Co. run by Beijing's Tsinghua University. The investment represents a 170-percent premium for Unigroup who acquired the two companies for 2.7 billion U.S. dollars less than a year ago. The matter is still subject to regulatory approval, but the two sides expect to close the deal early in 2015.

Chinese cinema set for record year

Chinese cinema box office revenue has surged 32% in the first nine months of the year, figures show. Takings have reached 21.6bn Yuan (£2.16bn) so far, already nearly equaling 2013's full-year total of 21.8bn (£2.18bn) Yuan.

The best performing movie of 2014 to date is Transformers: Age of Extinction, which took 1.98bn yuan (£198m).

The top 10 was split evenly between domestic and Hollywood blockbusters. Fantasy 3D epic The Monkey King, directed by Hong Kong's Poi Soi Cheang, was the highest grossing domestic movie with 1.04bn Yuan (£104m). Bryan Singer's X-Men: Days of Future Past was the third biggest movie of the year taking 724m Yuan (£72.6m), with comic book film Captain America: The Winter Soldier fourth with 721m Yuan (£72.3m) in box office receipts. Sequels Dawn of the Planet of the Apes and The Amazing Spider-Man 2 also featured in the top 10.

China is the second biggest film market in the world and last year became the first international market to gross more than \$3bn (£1.85m) at the box office. It is thought the country's box office receipts could exceed 30.7bn Yuan in 2014 with some big releases still to come.

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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