

SCI China Market Update – October 2018

Dear friends,

I just returned home from Beijing. During my two-week trip I found the Chinese companies that I visited in both North and South China are doing well even if they are suffering from the U.S.-China trade war. In fact, one major auto parts company I visited has seen a sharp increase in its export sales to major U.S. OEMs, mainly due to the OEMs' fear that tariffs may soon go up from the current 10% to 25%.

I also found the major Chinese manufacturers that I visited are busily preparing to participate in trade shows in Germany, Dubai, Russia, India, Japan and even Brazil to open new markets to deal with the U.S.–China trade war.

Although the weeklong National Day holiday week was over by the time I arrived in Beijing on Oct. 7th, high-speed trains and flights were still full of passengers traveling for business or simply tourism. Nights in Shanghai, Suzhou, Beijing and my hometown, Tianjin, are still bright and colorful.

The companies I visited and talked with are doing well in both domestic and export sales, although they do believe the increasing trade tensions and tariffs imposed by both the U.S. and China could become a major drag on global economic growth, and they fear the Chinese stock market performance will continue to be poor unless an end to the trade war is in sight. In fact, the sell off of the U.S. stocks picked up steam too partially due to the trade war fears and growth worries mount.

To me, the highlight of the Chinese economy in October is about a bridge opening. This is not a mental “bridge” but actually the world’s longest sea-crossing bridge and tunnel, linking the financial center of Hong Kong, the gambling hub of Macau and western reaches of the Pearl River Delta at the heart of southern China’s economic boom. This incredible structure snakes across the Pearl River Delta from Hong Kong’s Lantau Island and passes Macau’s glitzy casinos. It is made up of nearly 35-km (22-mile) of bridge and road sections, and a 6.7 km (4-mile) tunnel between artificial islands to allow ships to pass unhindered.

President Xi Jinping presided over the inauguration on Tuesday but said little except to declare the bridge officially open to a burst of fireworks projected onto a screen behind him. Vice premier Han Zheng said the bridge would help drive China’s strategic blueprint for a “Greater Bay Area” around the Pearl River Delta modeled on other global economic dynamos like San Francisco Bay and Tokyo Bay. According to Chinese media, authorities will use facial recognition systems to detect yawning drivers on the bridge, as a safety measure. If a driver yawns three times, an alarm will go off, media has reported.

Hong Kong authorities have defended the bridge’s cost of HK\$120 billion (\$15.31 billion), saying it would consolidate Hong Kong’s position as a regional aviation and logistics hub. Some critics see the bridge as a white elephant that is part of a multi-pronged push by China to exert greater control over Hong Kong, which returned from British to Chinese rule in 1997 amid promises to preserve the city’s high degree of autonomy and individual freedoms denied in mainland China.

Some 40 years ago, Deng Xiaoping’s “Open-Door & Reform” policy transformed Guangdong Province and created the “Shenzhen Miracle”. Many hope that the new bridge will take the HK bay area to new heights. I use and enjoy the very convenient Chinese high-speed train system more and more during my trips to China. I am really looking forward to travel to Zhuhai from HK on this new bridge in the near future.

When will the U.S.–China trade war end? Who knows? The only good news right now is that President Trump and President Xi will meet at the G-20 summit in November in Argentina, as just confirmed by Larry Kudlow, Director of the National Economic Council. One source said the two leaders would meet November 29, the day before the summit formally gets under way. If it happens, it would be the first face-to-face meeting between the two leaders in nearly a year, and it suggests both Washington and Beijing may be ready to de-escalate trade tensions. So, let’s keep our eyes open to see what happens at this high profile summit in late November.

For more information about today’s China market and opportunities please visit our website at www.s-c-i.com or call me at (610) 828-8061.

Best regards

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