SCI China Market Update – September 2011

My September China trip was not only very productive for our client in terms of sales negotiations from Hunan Province to Shanghai, but once again very eye opening and even a little nostalgic. Chinese manufacturing continues to expand and engineering capability gets stronger. But I was especially interested to visit Tianjin Tianduan Hydraulic Press Company. In the 1970s during China's notorious Cultural Revolution, I was assigned to this company as a technical worker. And after some 30 years, they invited me back for a visit. When I worked there, Tianduan was considered a leading hydraulic press company in China, but its equipment was backward and its products were limited to presses at the level of a few hundred tons. On my recent tour of the factory and its design institute, I found huge advances from those days. Today's Tianduan has sold sophisticated presses at the level of many thousands of tons to Brazil, Russia, Spain, Argentina, Italy and top Japanese and US companies. Right now, in fact, they are designing a 17,000 ton hydraulic press for a well-known US manufacturer for deployment here in the US. I'd like to invite you to tour Tianduan's website in English: www.tianduan.com/english/index.asp.

Tianduan and other top Chinese companies are all investing heavily in high quality imported materials, equipment and technology from the US, Japan and Europe, and they are paying quickly in hard currency. In fact, most of our infrastructure-related clients are working at or near capacity, and China is a major business driver. So, China still boasts great opportunities for many US companies. Below is a brief market update, gathered from a variety of sources, for your info:

Power crunch predicted for this winter

Power shortages plagued many of China's provinces earlier this year and are likely to return this winter as coal prices soar and some power plants find it difficult to store coal, an industry expert said. "The problem might become serious this winter as many power plants may have to suspend production due to a coal shortage, which will lead to a massive electricity crunch," said Lin Boqiang, an energy professor with Xiamen University.

According to Lin, many power plants' coal inventories have dropped sharply, which he attributes to financial difficulties at these companies, a dwindling coal supply and a reluctance to boost production because of the gap between government-set electricity prices and market-oriented coal prices. The Bohai Rim Steam Coal Price Index, China's government-run coal price gauge, has expanded gains for the second consecutive week after rebounding from a nine-week fall.

Soaring coal prices are sucking up the profits of many power generating companies, even in coal-rich provinces such as Shanxi.

IMF puts China's growth at 9.5% in 2011

The International Monetary Fund (IMF) said on Sept 21 that China's economic growth was expected to remain robust at 9.5 percent this year after growing 10.3 percent in 2010. Investment growth had decelerated with the unwinding of the country's fiscal stimulus, but it remained the principal contributor to growth, said the IMF in its latest World Economic Outlook (WEO) report. Although inflationary pressure persisted, property price inflation and credit growth had softened from recent record levels due to efforts to withdraw credit stimulus, the report said. These efforts included administrative limits on credit growth, higher interest rates and tighter reserve requirements, said the report, adding that China also set loan-to-value limits in mortgage credit and restrictions on multiple home purchases to rein in property prices. The Fund also predicted China's output would grow 9.0 percent in 2012.

China's imports jumped and trade surplus tumbles

China's trade surplus contracted sharply to $17.8 billion in August, down from $31.5 billion in July, as imports rose to a new record high, according to official data. The trade surplus is a perennial point of contention for China's key trade partners, the United States and Europe, who seek better market access to the world's second-biggest economy.

China's August exports rose 24.5 percent year-on-year to $173.3 billion, the customs agency said in a statement. But imports jumped 30.2 percent to $155.5 billion in August, breaking the previously monthly record of $152.2 billion set in March.

Boeing: China will need 5,000 new planes by 2030

US aviation giant Boeing said last week that it estimated China would need 5,000 new planes worth $600 billion by 2030, as growing wealth among the middle class triggers an air travel boom. Randy Tinseth, vice president of marketing for Boeing's commercial airplane section, said the company had revised up its expectations from last year, when it predicted China would need 4,330 new planes by 2029.

Tinseth told reporters in Beijing the upgrade comes after the company enjoyed "a better year" than expected in China and also reflects greater demand for air travel among Chinese. "Sustained strong economic growth, growing trade activities, increasing personal wealth and income, as well continued market liberalization will be the driving forces in shaping China's air travel market," he said. Boeing predicts that over the next 20 years, Chinese airlines' fleet of planes will increase from the current 1,750 to 5,930. Of the new planes, 16% will be replacements for ageing aircraft and 84% extra purchases, Tinseth said. China's air travel is booming. A total of 267 million air passenger trips were recorded in the country in 2010, up 15.8% from the previous year, official figures show.

Tinseth said Boeing aimed to maintain its 51 to 52% share of the Chinese market. But the planned launch of the China-made C919 commercial plane in 2016 could make this difficult, as it will compete directly with the Boeing 737 and Airbus 320.

GM bets on fast-growing China auto market

General Motors said Wednesday China would be the world's fastest growing auto market over the next decade, as it unveiled its latest bid to give it a greater slice of the clean energy vehicle segment. GM executives made the forecast at the opening of a centre in Shanghai, where the company's international operations are now based, to develop new technologies to make autos lighter and batteries for electric cars.

This comes a day after the US giant signed an agreement with its Chinese partner SAIC Motors, the biggest domestic auto maker, to develop electric vehicles in China. "It's the fastest growing car market in the world in the next 10 years," GM China Group president Kevin Wale told reporters. GM chairman and chief executive Dan Akerson said the technical facility was "symbolic of how important China is to General Motors." The centre will grow to include a design studio, as well as development of vehicle engineering, power train and manufacturing processes in its second phase, scheduled to open in the next 12 months.

China overtook the United States to become the world's top auto market in 2009 and has been increasingly important for global carmakers like GM, which have been hurt by slowing markets in America and Europe. Wale said China's total auto sales were expected to reach about 19 million units this year, marking growth of around five percent from the record 18.06 million units sold last year. GM's sales in China hit 205,885 units in August -- a record for the month -- up 13.4 percent from a year ago, despite a slowdown in China's auto market as Beijing phased out incentive policies introduced during the financial crisis.

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 or Dr. Tim Weckesser at 610-828-8060.

Best regards,

Shiqiang Gu
Vice President & COO

Sino Consulting, Inc. (SCI)
Tel: (610) 828 8061
Web: http://www.s-c-i.com