

## SCI China Market Update – September 2014

Dear Friends,

This Labor Day weekend I noticed that all the grocery stores in Philadelphia's Chinatown were selling all kinds of Moon Cakes. I suddenly realized that the Mid-Autumn Festival is coming! Just as turkey is the Thanksgiving icon, moon cake is the "logo" of the Mid-Autumn Festival for Chinese all over the world. You do not need to be in Shanghai, Beijing and Hong Kong; you can find many different styles of moon cake in almost all Chinese grocery stores in all major cities in the U.S. and Canada – e.g. Guangdong style, Shanghai style, Tianjin and Beijing styles, Suzhou style and more! But one thing is always the same: moon cakes are always round in shape just like a full moon. In the Chinese culture, especially in Buddhism, the round shape means "perfection". Our lives are inevitably circular from birth, growth, maturity, old age, and death, and then to rebirth again -- it circles just like a perfect full moon, forever. The Mid-Autumn Festival is truly the most important Chinese festival only after the Spring Festival (the Chinese New Year). Next Monday, September 8<sup>th</sup>, is the 2014 Mid-Autumn Festival for Chinese people everywhere. It's a time for family get together. It's a time for extending our warmest greetings to relatives, teachers, friends and classmates. So it's an important festival for China's "Guanxi" system. Many Chinese companies, government departments, organizations, and so on, buy moon cakes to give to their employees as symbols of caring and thanks.

The Mid-Autumn Festival and moon cake tradition is not limited to the global Chinese culture. Other Asian countries like Vietnam and Singapore share the same tradition, although some just call it the Moon Festival. The Mid-Autumn Festival tradition goes back a thousand years in China, even before the Song Dynasty. In many cities and regions, Chinese people not only buy moon cakes to celebrate the harvest but also decorate with lanterns and enjoy lion and dragon dances as part of the celebration. Emails are already "out" in China's daily communication system. I've already received many photos and even video greetings from relatives and friends on my iPhone's WeChat application. The Mid-Autumn Festival is just a one-day holiday in China. But note that October 1<sup>st</sup> is a national holiday in China. Then comes the weeklong "golden week" holiday, which we will talk about next month.

Below is some very recent China market news taken from a variety of public sources for your information:

**Growth in Chinese manufacturing activity slowed in August**

The official purchasing managers index (PMI) came in at 51.1 last month, the National Bureau of Statistics said in a statement. The figure was down from 51.7 in July, and the first decline since slipping to 50.2 in February, according to previous data. Readings above 50 indicate growth, while anything below points to contraction.

**China remains world's largest trademark holder**

China continues to top the world in the number of trademarks registered, driven in part by government encouragement to improve innovation and competitiveness. The number of valid trademarks registered in China totaled 7.61 million by the end of June, data from the State Administration for Industry & Commerce (SAIC) showed on Tuesday.

**China's FDI inflows falter again in July**

Foreign direct investment (FDI) into the Chinese mainland fell sharply again in July, slumping 16.95 percent from a year earlier to \$7.81 billion, the Ministry of Commerce said recently. The sharp decline was in contrast with a mere 0.2-percent seen in June, according to the ministry. For the first seven months, the FDI, which excludes investment in the financial sector, stood at \$71.14 billion, down 0.35 percent from the same period last year, it said.

**Coal gas boom in China holds climate change risks**

Deep in the hilly grasslands of remote Inner Mongolia, twin smoke stacks rise more than 200 feet into the sky, their steam and sulfur billowing over herds of sheep and cattle. Both day and night, the rumble of this power plant echoes across the ancient steppe, and its acrid stench travels dozens of miles away. This is the first of more than 60 coal-to-gas plants China wants to build, mostly in remote parts of the country where ethnic minorities have farmed and herded for centuries. Fired up in December, the multibillion-dollar plant bombards millions of tons of coal with water and heat to produce methane, which is piped to Beijing to generate electricity.

It's part of a controversial energy revolution China hopes will help it churn out desperately needed natural gas and electricity while cleaning up the toxic skies above the country's eastern cities. However, the plants will also release vast amounts of heat-trapping carbon dioxide, even as the world struggles to curb greenhouse gas emissions and stave off global warming. If all of the plants start up, the carbon dioxide they'd release would equal three-quarters of all energy-related carbon emissions in the U.S., according to U.S. government data and energy experts from Duke and Stanford universities. That is far more than now produced in China by burning coal, the country's main source of power. So far, China is running only two pilot plants to produce methane, which is also known as synthetic natural gas, in the

provinces of Inner Mongolia and far western Xinjiang, with another 21 approved. Building all 60 plants would cost an estimated \$65 billion.

### **Coal giants axe output amid prolonged malaise**

Winter for China's coal mine industry may be longer and more severe than expected as a third coal mine behemoth announced plans to reduce production amid plunging prices. Datong Coal Mine Group, based in coal-rich Shanxi province in North China, said it would cut coal production and sales by 10 million tons for the second half of the year. Many Chinese coal producers have been struggling with falling prices since 2012. Prices for coal used in power generation, the country's benchmark, had fallen from 610 Yuan per ton at the beginning of the year to 479 Yuan as of Aug 20.

### **China using more natural gas**

China's natural gas consumption is on the rise and large investment in domestic gas production will increase that demand significantly in the future, a new report says. China's shift from coal to natural gas has led the government to spend more on infrastructure to develop the country's own gas production, which is "likely to underpin a significantly larger role" in the country's total energy consumption, said the Energy Information Administration (EIA), an agency under the US Department of Energy.

China's natural gas consumption has outstripped domestic supply since 2007, triggering rising imports of both liquefied natural gas (LNG) and pipeline gas. China's natural gas consumption rose at an average annual rate of 17 percent from 2003 through 2013. In 2012, natural gas only made up 4.9 percent of China's total energy consumption, but the Chinese government said this number will climb to about 8 percent by 2015, and to 10 percent by 2020, the EIA said. To meet growing demand, the country has more than tripled natural gas production in the last decade, producing 3.8 trillion cubic feet in 2012, with aims to reach 5.5 trillion cubic feet a year by the end of 2015, according to the EIA. China's natural gas imports have increased from 0.6 trillion cubic feet in 2010 to 1.8 trillion cubic feet in 2013, according to EIA data.

### **Sinopec Ranked No. 1 Revenue Generator in China for 10th Straight Time**

State-owned oil giant Sinopec was ranked first for the tenth consecutive time on a list of top 500 Chinese enterprises based on 2013 revenues. In the latest edition of the Top 500 Chinese Enterprises list released by the China Enterprise Confederation and the China Enterprise Directors Association, Sinopec claimed the top spot with total revenues of 2.95tn Yuan (\$478.48bn, €364.36bn, £288.1tn). Another oil company, China National Petroleum Corporation, was ranked second, while China's largest electric utilities company, State Grid, became No. 3. The top three companies had 2013 revenues more than 2tn Yuan.

The top 10 list, comprised entirely of state-owned enterprises (SOEs), also include another oil giant, a construction group, a telecom operator and four major banks.

### **Nuclear power plant projects to be initiated in Liaoning**

Two nuclear power plant projects will be initiated in Northeast China's Liaoning province to optimize the energy structure in the northeastern area, according to an action plan released on the State Council's website recently.

The plan states that the Hongyanhe nuclear power plant project will move into phase-two construction and that the Xudabao nuclear plant will be started in a suitable time. Comprised of various measures to assist the northeastern region's economy, the nuclear projects will also help create a diversified clean energy system in the area.

### **China's new energy car output surges**

China's production of new energy vehicles surged by 280 percent year on year in the first seven months thanks to government support for the fledgling sector. Total production in the January-July period stood at 25,946 units, the Ministry of Industry and Information Technology said in a statement. During the period, output of pure electric passenger cars soared nearly 700 percent from a year earlier to 13,829 units and that for plug-in hybrid passenger cars climbed about 10 times to 5,027 units. Pure electric and plug-in hybrid commercial vehicles were up by 46 percent and 60 percent, respectively, the statement said.

### **China Issues Tax Breaks for Green Cars to Tackle Air Pollution**

China has introduced tax breaks on sales of electric cars, in an attempt to reduce pollution in the world's most populous country. The measure is targeted at sales of energy efficient cars made by Chinese manufacturers.

The country's Ministry of Industry and Information Technology reported that 17 vehicles from 11 manufacturers would be affected by the changes.

China is seeking to boost sales of electric vehicles, as well as hybrid vehicles that run on a combination of electricity and another source of power, such as petrol or diesel. Electric vehicles sales are already subsidized by Beijing, amid concern over air pollution levels in the country.

In February Chinese scientists warned that toxic smog was so bad it resembled a nuclear winter and threatened the country's food supply. In its 'new energy' program for electric powered vehicles, China pays a subsidy of 60,000 Yuan (\$9,767, £5,876, €7,434) towards purchases of battery cars, while

offering 35,000 Yuan for hybrid cars. Government officials were ordered to increase their usage of electric and hybrid cars in July, while China's president Xi Jinping has urged state agencies to increase purchases of domestic brands. Meanwhile, the government is considering a new tax on gasoline in a bid to fund its green energy push.

### **Lenovo's \$2.3bn Acquisition of IBM Server Unit Cleared by US**

International Business Machines (IBM) has said the US authorities have cleared the sale of its server unit to China-based PC maker Lenovo, after reviewing the deal for national security. The company added that the approval of its \$2.3bn (£1.4bn, €1.7bn) sale to Lenovo would enable it to focus on system and software innovations in areas such as cognitive computing, Big Data and cloud. In addition, current x86 customers will have better clarity and confidence under Lenovo.

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

Shiqiang Gu  
Vice President & COO

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Sino Consulting (SCI)  
One Tower Bridge  
100 Front St., Suite 1460  
West Conshohocken, PA 19428  
U. S. A.  
Tel: (610) 828 8061  
Fax: (610) 828 8801  
Web: [www.s-c-i.com](http://www.s-c-i.com)