

## SCI China Market Update – September 2021

Dear Friends,

The good news is that the Chinese mainland reports no new locally transmitted COVID-19 cases today. However, August 31 saw 19 new imported cases, 6 in Guangdong, 4 in Yunnan, 3 in Shanghai, 2 in Tianjin, and 1 each in Beijing, Zhejiang, Fujian and Guangxi.

Just a month ago, the powerful COVID-19 Delta Variant forced China to shutdown Nanjing, Yangzhou, Huaian and districts of Shanghai, Beijing, Chengdu, Wuhan and Zhengzhou. Now it seems that normal travel is resuming by air and highspeed train. The National Health Commission said that about 890 million people have been fully vaccinated in the Chinese mainland. The country appears to be winning this round of the fight with the Delta variant and no city is now under lockdown. Hopefully our market reps can travel for business again safely.

The current USD to RMB exchange rate is around \$1 = RMB 6.46 yuan. What else is new in the China economy? Below is some of the latest news culled from various public sources:

### **China says maintaining 'normal communication' with U.S. on trade**

China is maintaining "normal communication" with the United States on trade, the Chinese government said on Thursday, one of the few areas the world's two largest economies have refrained from confronting each other over this year.

Washington and Beijing signed a so-called Phase 1 trade deal in January 2020, before the widespread outbreak of COVID-19. The pact calls for China to increase its purchases of U.S. exports by \$200 billion over two years. Economists say Beijing is behind in meeting that target, partly due to the pandemic. The pact is set to expire by the end of 2021.

One bright spot is closer cooperation in tackling the threat of climate change. U.S. climate envoy John F. Kerry is expected to travel to Tianjin, China soon for high level meetings.

### **China wants families to have three children. But many women aren't convinced**

For more than 35 years, the ruling Communist Party strictly enforced a one-child policy, as the country tried to address overpopulation and alleviate poverty. But as the economy boomed, China found its population aging and its labor force shrinking. Many argued that raising three children would be prohibitively expensive, and out of reach for most urban couples, many of whom face stagnating wages, fewer job opportunities, and grueling hours at work. China's birth rate, paralleling trends in South Korea, Thailand and other Asian economies, already was falling before the one-child rule. The average number of children per mother tumbled from above six in the 1960s to below three by 1980, according to the World Bank.

Meanwhile, the number of working-age people in China has fallen over the past decade and the population has barely grown, adding to strains in an aging society. A once-a-decade government census found the population rose to 1.411 billion people last year, up 72 million from 2010.

Statistics show 12 million babies were born last year, which would be down 18% from 2019's 14.6 million. Chinese over 60, who number 264 million, accounted for 18.7% of the country's total population in 2020, 5.44 percentage points higher than in 2010. At the same time, the working-age population fell to 63.3% of the total from 70.1% a decade ago.

### **China's GDP expected to be 8.2% this year: Report**

China's GDP growth is expected to be 8.2 percent this year, and global investors will still increase their holdings of Chinese assets over the long term, Shenzhen Economic Daily reported, citing predictions by an economist.

### **China's economy under pressure as factory activity slows in Aug, services contract**

China's businesses and the broader economy came under increasing pressure in August as factory activity expanded at a slower pace while the services sector slumped into contraction, raising the likelihood of more near-term policy support to boost growth.

The official manufacturing Purchasing Manager's Index (PMI) fell to 50.1 in August from 50.4 in July, data from the National Bureau of Statistics (NBS) showed on Tuesday, holding just above the 50-point mark that separates growth from contraction. Analysts polled by Reuters had expected it to slip to 50.2.

### **China Sees Skilled Labor Shortages Worsening Amid Tech Push**

China expects shortages of skilled workers will worsen over time as the government develops its high-tech industries, focusing attention on the need for better training and education. While the share of skilled workers has risen to about 30% of workforce, it remains low compared with other manufacturing powerhouses.

The economy is facing a structural contradiction of a shortage of skilled workers and high and rising joblessness among young people. Businesses in the eastern coastal regions of the country have reported difficulties in recruiting workers, while the unemployment rate of those aged 16-24 is more than three times the national rate of 5.1%. China aims to add 55 million urban jobs by 2025 and cap the unemployment rate at 5.5%, according to the plan.

### **China's power generation increases 13.2 pct in Jan-July**

China's power generation continued to see double-digit growth in the first seven months of 2021, with power generated by clean energy growing rapidly. Power generated by major firms in the country increased 13.2 percent year on year to 4.6 trillion kilowatt-hours during the January-July period, according to the National Bureau of Statistics.

The volume rose 12.2 percent from the same period in 2019, putting the average growth of the past two years at 5.9 percent. In July, China's power generation rose 9.6 percent year on year to 758.6 billion kilowatt-hours. Wind and nuclear power generation respectively surged 25.4 percent and 14.4 percent year on year in July.

### **Sinopec to invest 30b yuan in hydrogen related business**

China Petroleum and Chemical Corp, which is known as Sinopec and is the world's largest refiner by volume, plans to invest 30 billion yuan (\$4.64 billion) during the 14th Five-Year Plan (2021-2025) period in hydrogen related business, the company said on Monday.

The investment in the hydrogen sector, including hydrogen refueling stations and hydrogen storage facilities construction, is believed will achieve carbon dioxide reduction of more than 10 million tons, it said.

The company also plans to build 1,000 hydrogen refueling stations, 5,000 charging and battery swap stations and 7,000 distributed photovoltaic power generation sites during

the 14th Five-Year Plan period. It has already built 21 hydrogen refueling stations in 14 provinces and cities, including Guangdong, Shanghai and Hainan.

Sinopec reported a 39.15 billion yuan net profit for the first six months of 2021 on Sunday, compared with a 23 billion yuan loss during January-June last year as the coronavirus pandemic walloped fuel demand and knocked oil prices. Revenue in the first six months rose 22.1 percent from last year's low base to 1.26 trillion yuan, following a recovery in global oil prices and robust demand for fuel and petrochemical products.

### **China's natural gas output up 9.8 pct in July**

China reported an increase in its natural gas output in July, official data shows. The country's natural gas output totaled 15.8 billion cubic meters last month, rising 9.8 percent year on year, according to the National Bureau of Statistics (NBS).

The volume rose 15.1 percent from July 2019, putting the average growth of the past two years at 7.3 percent. In the first seven months, China's natural gas output amounted to 120.2 billion cubic meters, increasing 10.7 percent from the same period a year earlier, the NBS said. Imports of natural gas grew rapidly in July, with the volume jumping 27 percent from a year earlier to 9.34 million tons.

### **China's NEV market penetration rate at 5.4 pct in 2020: industry report**

The market penetration rate of new energy vehicles (NEVs) in China was 5.4 percent in 2020, indicating strong growth momentum in the sector, according to an annual report released by the Ministry of Industry and Information Technology on Thursday. NEV sales in China increased 10.9 percent year on year to 1.37 million units in 2020, amid government efforts to encourage their use and ease pressure on the environment.

### **Power battery recycling, management to be improved**

China will further improve the recycling and management mechanism of power batteries and accelerate the release of urgently needed national standards for echelon utilization requirements, product markings, and discharge regulations, according to a statement by the Ministry of Industry and Information Technology on Tuesday.

Power batteries, commonly used in new energy vehicles, are seeing rapid development in China. In the first six months, power battery production in China reached 74.7 gigawatt-hours, up 217.5 percent year-on-year. Total capacity of power batteries sold

during the period amounted to 58.2 GWh, a rise of 173.6 percent year-on-year, and installed capacity was 52.5 GWh, an increase of 200.3 percent year-on-year, according to the China Electric-Vehicle Battery Industry Innovation Alliance.

### **China's coal use expected to drop to 51% by 2025**

The proportion of coal consumption in China is expected to drop to about 51 percent by 2025, according to a latest report released by China Electric Power Planning & Engineering Institute. The 14th Five-Year Plan period (2021-2025) is a key period to realize the goal of peaking carbon dioxide emissions by 2030. During this period, as the country strides into a new phase in high-quality development, China's national economy is expected to continue stable growth, and the low-carbon transformation of the energy structure will be more obvious, the Report on China's Energy Development 2020 said. Last year, China's coal consumption reached 4.04 billion tons, accounting for 56.8 percent of the total energy consumption and down 0.9 percent from the previous year. Power consumption totaled 7.5 trillion kWh, up by 3.1 percent year-on-year. Nonfossil energy accounted for 15.9 percent of China's primary energy consumption in 2020, up 0.6 percent from a year earlier.

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