

SCI China Market Update – September 2022

Dear Friends,

I haven't returned to China for business or personal reasons since the COVID pandemic began over two years ago. Beijing still insists on its “dynamic zero” COVID control policy nationwide - partially because of the party congress which will select China's new leaders, including Xi Jinping. For example, my hometown of Tianjin, with a population of 14 million, is now subject to travel restrictions because of just 19 positive COVID tests were found on Aug. 30th. From Shanghai to Sichuan, Tibet, Hainan, Suzhou, Guangzhou, Shenzhen, Heilongjiang and Beijing, people must take the nucleic acid test frequently to make sure the dynamic zero policy is enforced.

Beijing finally confirmed that the 20th communist party congress will begin on October 16th. Most people believe that Xi, 69, will secure his third term as party boss at the congress. I believe that, soon after the congress, Beijing will begin a step-by-step loosening of the tough dynamic zero policy in order to boost the economy and free-up travel, both domestic and international. I plan to travel to China as soon as the “7+3 days” quarantine requirement is lifted.

The performance of the Chinese economy in the first half of 2022 was poor and the RMB has weakened. The exchange rate has been lowered to \$1 = 6.91yuan RMB on the 30th. Further, the extremely hot summer and power shortages in Sichuan and other provinces slowed production and delivery a great deal. So, Beijing must work even harder to boost the economy during the remaining months of 2022 to prove that Xi's policies work.

I think the very tough “dynamic zero” COVID policy hurt service industries, like travel and transportation, more than manufacturing. Based on severe travel restrictions, China's three biggest airlines, namely Air China, China Eastern and China Southern, posted a combined 28.4 billion yuan (\$4.12 billion) second-quarter loss, worse than the first quarter.

Now, Beijing is issuing new policies to inject money and cut taxes to boost the economy. After a revenue decline in April and May due to value-added tax credit rebates, China's fiscal revenue rose in June due to eased COVID restrictions with 25

provinces seeing revenue growth. On top of a raft of policy support measures, the country is also stepping up infrastructure spending to spur the economy which narrowly escaped a contraction in June.

What else is new in the China economy? Below is some of the latest news culled from various public sources:

China cuts benchmark lending rate LPR

China cut the market-based benchmark lending rate in a bid to shore up growth. The one-year loan prime rate (LPR) came in at 3.65 percent last Monday, down from 3.7 percent, according to the National Interbank Funding Center.

The over-five-year LPR, on which many lenders base their mortgage rates, was lowered by 15 basis points to 4.3 percent. The reduction followed the cut in the over-five-year rates in May.

China's August factory activity contracts for second month - official PMI

China's factory activity contracted less than expected in August, shrinking for the second straight month, as COVID flare-ups, power rationing amid the worst heatwaves in decades and the embattled property sector pressured manufacturers. The 50-point mark separates contraction from growth on a monthly basis.

The official manufacturing Purchasing Managers' Index (PMI) edged up to 49.4 in August, from 49.0 in July, data from the National Bureau of Statistics (NBS) showed on Wednesday.

China's industrial profits down 1.1 pct in first 7 months

Profits of China's major industrial firms fell 1.1 percent year on year in the first seven months of 2022, official data showed on Saturday. Industrial firms each with annual main business revenue of at least 20 million yuan (about 2.92 million U.S. dollars) saw their combined profits reach 4.89 trillion yuan in the period, the National Bureau of Statistics said.

China to promote advanced coal production capacity

China's advanced coal production capacity has been expanded by a total of 490 million tons per year since September, the National Mine Safety Administration told a press conference on Friday. The administration said 147 coal mines have attained the

necessary qualifications for advanced production capacity since the beginning of this year.

China's power supply, energy structure tested in extreme drought amid transition to cleaner energy future

As the rare triple-dip La Nina treks the globe leaving behind it extreme weather phenomena and disasters, some regions in southern China are experiencing a severe drought that only happens once in decades, which has challenged the country's power supply and storage system.

Southwest China's Sichuan Province, which largely relies on hydropower, has been facing the severest difficulties in history in ensuring power supply in recent weeks due a triad of challenges of extreme high temperatures, record low precipitation, and high power demands in the same period.

In 2021, China's power generation volume rose 8.1 percent year on year to 8,112.2 billion kWh, ranking first in the world, according to the National Bureau of Statistics (NBS) of China. Statistics from 2021 also show that China's coal-powered electricity generation accounted for 68 percent of the country's total power generation, while hydropower covered 15.7 percent.

Nationally, South China's Guangdong Province is the largest power generator in China, with an annual generation of 611.5 billion kWh, mainly relying on coal and nuclear power. However, Guangdong still has the biggest electricity shortage among all provincial regions in China because of its large-scale industrial production and large population. Eastern provinces such as Shandong and Jiangsu face a similar situation. Therefore, northern Chinese regions, such as Inner Mongolia, Shanxi, Xinjiang and Ningxia, and southwestern provinces like Sichuan and Yunnan exported the most surplus power to more populous and developed eastern regions, forming China's "west-to-east" power supply grid.

Along the coast, from Northeast China's Liaoning to South China's Hainan, 54 nuclear power units were in operation as of July 2022, the second-largest number in the world following the US, the Global Times learned from the Ministry of Ecology and Environment.

Resources, since July, most parts of the Yangtze River Basin have experienced high temperatures and low precipitation, with rainfall 45 percent lower than the same period in previous years. The water storage of reservoirs in some provinces along the Yangtze River, including Sichuan, is at least 10 percent less than previous years. The drought-hit region is also China's traditional agricultural region, which is at a critical juncture for autumn grain harvest.

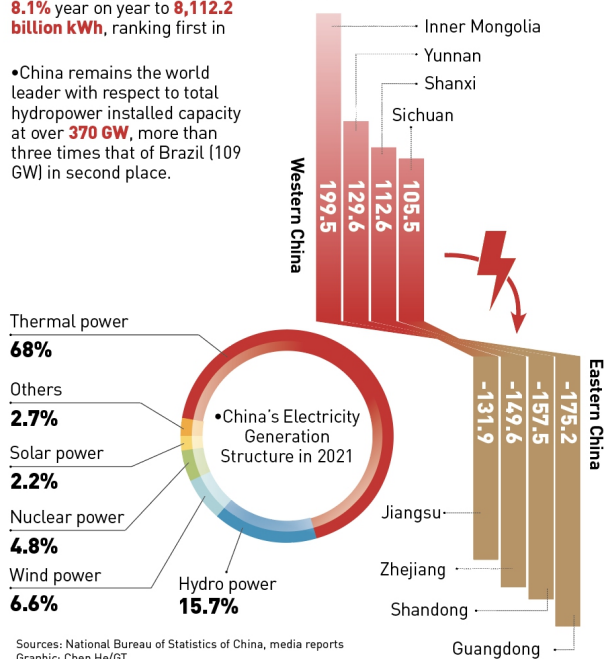
By the end of 2021, the installed hydropower capacity in Sichuan had reached 88.87 million kW, accounting for 77.7 percent of the province's capacity; the installed capacity of thermal power and wind power only accounted for 16 percent and 4.6 percent respectively. China should build up pre-warning systems against extreme weather phenomena and invest in a more stable power grid and more scientific reservoir joint dispatch mechanisms. The public would certainly show more support to the development of new energy.

► **Power generation at a glance**

• In 2021, Chinese mainland's power generation volume rose **8.1%** year on year to **8,112.2 billion kWh**, ranking first in

• China remains the world leader with respect to total hydropower installed capacity at over **370 GW**, more than three times that of Brazil (109 GW) in second place.

• Surplus electricity across China
Unit: billion kWh



Sources: National Bureau of Statistics of China, media reports
Graphic: Chen He/GT

Graphic: GT

China's second domestically built large cruise ship starts construction

A steel sheet cutting ceremony of the nation's second homegrown cruise ship was held at Shanghai Waigaoqiao Shipbuilding Co Ltd on Monday, indicating the Chinese shipbuilding industry has basically mastered the core technologies in cruise design and construction.

The second vessel will not be a simple duplication of the first one; instead, it will be built based on a series of optimization, said Zhou Qi, vice-general manager of Shanghai Waigaoqiao Shipbuilding, a unit under the world's largest shipbuilder the China State Shipbuilding Corp.

The 142,000-gross-ton vessel will measure 341 meters long, or 17.4 meters longer than the first version, and 37.2 meters wide. It will have 2,144 passenger rooms, 19 rooms more than the first.

The first domestically built large cruise ship, or the 135,500-gros-ton Vista-class vessel, took a floating in the shipyard at the Shanghai Waigaoqiao Shipbuilding last December and is currently in its second-half phase of interior decoration and system debugging.

China issues over 2.71m certificates of origin from January-July

Over 2.71 million certificates of origin were issued by Chinese authorities during the first seven months of the year, involving \$233.31 billion, up 23.7 percent year-on-year, official data showed on Monday.

This shows that China has maintained a steady foreign trade momentum, Sun Xiao, spokesperson for the China Council for the Promotion of International Trade, told a press conference.

China's rail cargo volume up 5.9 pct in first seven months

China's rail freight volume, a key indicator of economic activities, rose 5.9 percent year on year in the first seven months of the year, continuing the trend of expansion in the first half of 2022, official data showed.

More than 2.89 billion tons of cargo were transported via China's railways during the period, according to the Ministry of Transport.

In July alone, China's railways handled 414.33 million tons of cargo, up 12.3 percent from the same period last year, said the ministry.

The data also showed that during the Jan.-July period, the turnover volume of cargo traffic through China's railways went up 9.2 percent year on year to top 2.05 trillion tons kilometers.

10,000 China-Europe freight train trips made in 2022

The number of China-Europe freight train trips in 2022 reached 10,000 on Sunday, 10 days earlier than last year, data from the China State Railway Group Co., Ltd. (China Railway) shows. The trains have carried 972,000 twenty-foot equivalent units of goods this year, up 5 percent over a year ago, according to China Railway.

With 82 routes, the trains now reach 200 cities in 24 European countries, forming a transport network covering the whole of Europe. The trains transport more than 50,000 types of goods across 53 categories, such as automobiles and parts, clothing and accessories, and grain and timber.

China's air cargo traffic back to normal: official

China's air cargo traffic has returned to normal recently after posting a V-shape recovery in the first half of this year, a civil aviation official said Thursday.

In July, the civil aviation industry transported a total of 539,000 tonnes of cargo and mail, an increase of 28.3 percent compared with April, Liang Nan, director of the transport department of the Civil Aviation Administration of China, told a press conference.

During the January-July period, the industry as a whole completed 163,000 freight transport flights, including 117,000 international flights.

Liang said the capacity of air cargo to support industrial and supply chains has been significantly enhanced as many aviation logistics firms have expanded targeted services for firms in need of the unimpeded delivery of supplies during COVID-19 outbreaks. The Ezhou Huahu Airport in central China's Hubei Province, the first professional cargo hub airport in Asia and the fourth of its kind in the world, was put into operation in July, which will enhance the international competitiveness of China's aviation logistics, according to Liang.

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