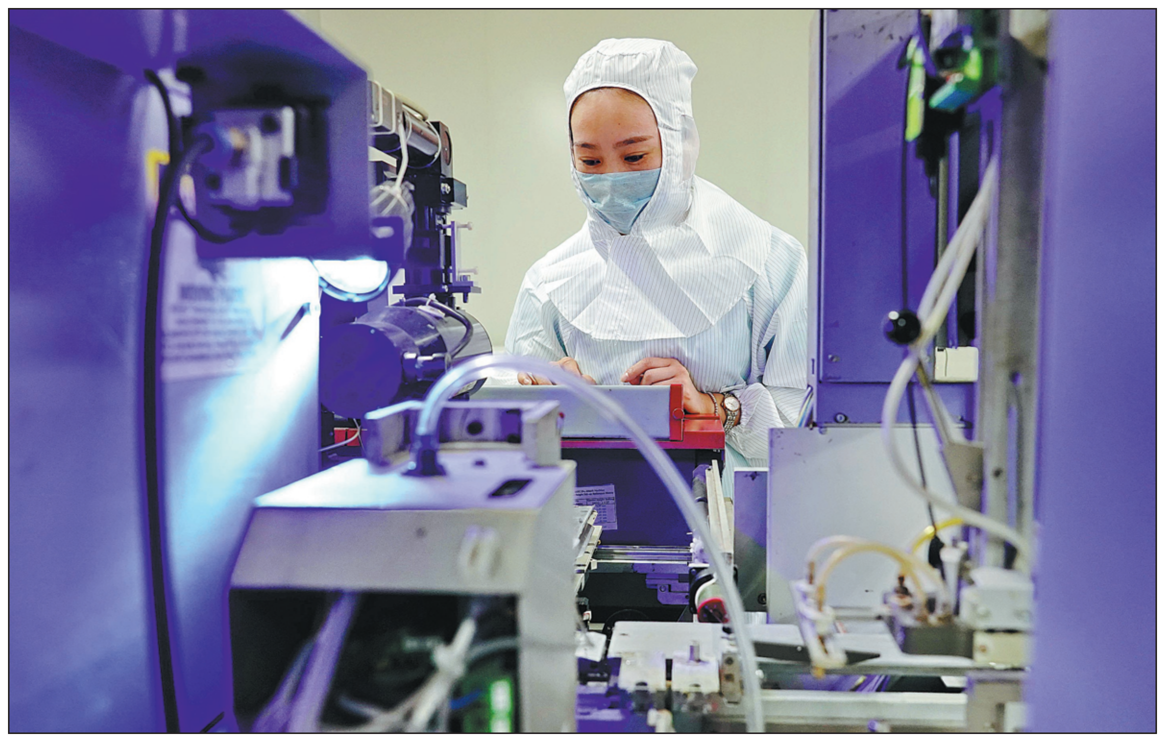
Chip shortage may cripple vehicle output

Pandemic-caused uncertainties lead to supply chain constraints for companies

By LI FUSHENG and MA SI



A technician works at the workshop of the carmaking-related chip production company in Qinhuangdao, Hebei province. YANG SHIYAO / XINHUA

A shortage of semiconductors necessary for making the electronic components of automobiles is likely to disrupt vehicle production in China well into the next year, but without widespread suspension, experts said.

Continental, a German firm that purchases chips and produces components for carmakers, told China Daily that companies along the industry chain are working together on solutions, but the shortages may continue well into 2021.

German carmaker Volkswagen is one of the companies that is contemplating suspending production of some models in China, especially high-end ones, which usually are equipped with more advanced electronic components.

A representative at SAIC Volkswagen, one of the country's leading carmakers, said the company is facing an acute shortage of electronic stability program-related components and electronic control units, mainly from Continental and another German supplier Bosch.

Continental and Volkswagen said the major causes for the shortages are the pandemic-caused uncertainties and the unexpectedly fast recovery in the auto market, especially in China. Bosch was not available for comments when contacted.

The China Association of Automobile Manufacturers said that more than 22 million vehicles were sold in China during the first 11 months of the year, down 3 percent on a yearly basis. It is estimated that the fall could be from 15 percent to 25 percent when the pandemic was at its peak in China earlier this year.

"This (uncertainty) has led to a potential interruption in automotive production, with the situation getting more critical as demand has risen due to the full-speed recovery of the Chinese market. To date, customer deliveries have not been affected," Volkswagen Group China said in a statement.

Continental said although semiconductor manufacturers have already responded to the unexpected demand with capacity expansions, the required additional volumes will only be available in six to nine months due to the usual lead times in the semiconductor industry.

"Therefore, the potential delivery bottlenecks may last into 2021," said Continental. But that does not mean that China will see widespread production suspension in its auto industry.

A survey by China Cailian Press of over 20 carmakers in the country show that 16, including Mercedes-Benz and startup Nio, are not seeing such risks in the short term, either because they have enough stocks or they don't need too many chips.

Considering the supply shortages, Dutch automotive chip supplier NXP Semiconductors told customers that it must raise prices of all products because it is facing a "significant increase" in material costs and a "severe shortage" of chips, according to Reuters.

NXP did not immediately respond to requests by China Daily for comments, but a source within the company confirmed a shortage of products.

"Our factories are running normally. But there are many products and the supply chain is very long," the source said.

Infineon Technologies AG, another major auto chipmaker, told Reuters that it is planning to build a new chip factory in Austria, saying it has already factored in certain growth for car production in 2021.

Chinese chip companies are stepping up research and development in an effort to grab a share of the market as the cars are smart and connected, but so far they have been almost negligible in the global auto chip industry.

Continental told China Daily that so far there is not one Chinese chipmaker in its global procurement list.

Huang Jipo, chairman of Chinese chipmaker Sine Microelectronics, said carmakers have stringent standards for the reliability and stability of automobile chips, which makes them prefer established foreign chip giants over emerging Chinese companies.

"But as Chinese companies beef up research and development capabilities, they have the potential to enter the mainstream supply chain of automakers," Huang said.

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RIGHT TRACK

Shadow banking sector to see healthy development next year

By ZHOU LANXU and JIANG XUEQING

China's shadow banking sector is expected to become healthier in 2021 amid improving regulatory efforts to de-risk the sector, after assets of the most risky shadow banking activities contracted by nearly a quarter from an all-time peak, experts said on Monday.

The country's shadow banking assets, by the narrow measure that covers the riskier activities, dropped to 39.14 trillion yuan ($5.98 trillion) by the end of 2019, down 23 percent from the historical high at the end of 2016, officials from the China Banking and Insurance Regulatory Commission said in a report.

"The hidden danger of China's shadow banking used to be severe. After several years of efforts, the risk situation has shown preliminary signs of a fundamental improvement," said the report, released on Friday by Financial Regulation Research, a journal backed by the regulator.

Shadow banking, or typically lending business outside the banking system, has drawn high attention from the country's top leadership, as the sector can spark systemic risks and has expanded at a 20-percent-plus annual rate in China for years since 2008, the report said.

Under the broad measure, shadow banking assets slid from 100.4 trillion yuan at the beginning of 2017 to 84.8 trillion yuan as of the end of 2019. The number is equivalent to 86 percent of China's GDP, versus 123 percent in 2016, the report said.

Meanwhile, shadow banking has become more compliant with rules and streamlined product structures, it said.

Tang Jianwei, chief researcher at the Bank of Communications' Financial Research Center, said the overall risk situation from shadow banking will be contained further as the regulatory framework improves.

"The aim is not to eradicate shadow banking but to incorporate it into the regulatory system. The sector can be a complement to the financial system if it is well regulated," Tang said.

"Shadow banking is part of the financial system and we must establish an ongoing regulatory framework (for shadow banking)," the report said, adding that shadow banking will long co-exist with the traditional financial system.

The country should promote a healthy development of shadow banking and reduce its risks, making it a positive factor for maintaining financial stability and an important force supporting the real economy, the report said.

It proposed to improve the statistics and monitoring of shadow banking, prevent high-risk shadow banking business from rebounding, establish mechanisms to isolate risks, and improve related rules to ensure seamless, unified regulation.

Dong Ximiao, chief researcher of Merchants Union Consumer Finance Co Ltd, said risks of the shadow banking sector is expected to further mitigate next year, with the asset scale lowered and more results achieved in revamping some key subareas like the trust industry.

"Risks of shadow banking are usually hard to detect and easy to spread, therefore requiring strengthened regulatory efforts. But on the other hand, shadow banking is not unaccepted as it enlarges channels of financing and investment, and particularly caters for private businesses' financing needs," Dong said.

For the first time, the CBIRC has systematically listed standards to distinguish shadow banking in China in the report, including acting as credit intermediaries outside the banking regulation system, using complex product structures and high leverages, and carrying out incomplete information disclosure, among others.

Financial products and activities largely comply with the set of standards belonging to the broad measure of shadow banking, while those that are more characteristic and riskier fall into the narrow measure, the report said.

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Briefly

Internet sectors post $154.2b revenue

China's internet and related sectors saw double-digit growth in revenue during the first 10 months of the year, official data showed. Major internet companies raked in 1.01 trillion yuan ($154.18 billion) in the January to October period, up 13.1 percent on a yearly basis, according to the Ministry of Industry and Information Technology. During the period, the operating profit of the industry grew by 8.8 percent on a yearly basis to 98.65 billion yuan, while the sector's spending on research and development totaled 61.98 billion yuan, 15.6 percent higher than a year ago.

3 more floats on STAR Market

The securities regulator has approved the initial public offerings of three companies on the science and technology innovation board. Pylon Technologies Co Ltd, 3onedata Co Ltd and Suzhou Veichi Electric Co Ltd will be listed on the Shanghai Stock Exchange's sci-tech innovation board, commonly known as the STAR market, according to the China Securities Regulatory Commission.

XINHUA

Amcham says China still a magnet for US firms

By ZHONG NAN
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An employee works on the production line of a Coca Cola venture in Wuhan, capital of Hubei province. XIAO YIJIU / XINHUA

China's renewed business momentum will spur US companies in the country and encourage them to tap new growth opportunities in emerging business sectors next year, said a senior US business representative on Monday.

"The Chinese economy has clearly recovered from the COVID-19 pandemic, and we see that reflected in the exports of manufactured products as well as domestic services. Global demand for electronics and medical supplies in particular has helped China's exports return to normal," said Ker Gibbs, president of the American Chamber of Commerce in Shanghai.

He said China's supply chains have proved to be extremely reliable during the COVID-19 pandemic. US companies expect China to provide more healthcare and social services during the 14th Five-Year Plan period (2021-25), as it is important to offer more services to the country's aging population.

Gibbs expects China to stop providing annual GDP targets over the next five years. Dropping these targets would give policymakers more to plan for the long term, which is necessary as the demographic challenge grows, he said.

Meanwhile, US companies in China have no intention of pulling out or reshoring their operations. About 82 percent of the respondents in a recent survey covering 124 US companies, said they have no plans to move their manufacturing facilities offshore over the next three years. The survey, conducted from Nov 11 to Nov 15, was released by the AmCham Shanghai last month. The chamber currently has 3,000 members from 1,500 US companies and 21 industry sector committees in China.

Perry Zheng, president for China operations at Otis Corp, a US manufacturer of elevators and escalators, said China is a critical part of the group's global footprint and the largest new elevator equipment market in the world. As the country moves at full speed to open up to the outside, and with the new digital infrastructure initiative, the company is investing in new technologies and developing new services to stay competitive.

"We are committed to embracing the opportunities arising from China's opening-up and collaboration, helping stimulate economic growth and providing benefits to residents and businesses across the country," he said.

Wei Jianguo, vice-chairman of the China Center for International Economic Exchanges in Beijing, said China has become increasingly important over the last several years to multinational firms as its market has a large number of consumers to offer growth opportunities.

Global big names such as Apple, Nike, Adidas, L'Oreal and Lancome, sold products worth over 100 million yuan ($15.2 million) in gross merchandise value on its platforms during the Singles Day shopping festival from Nov 1 to Nov 11, according to data released by Alibaba Group.

Bruno Schiavi, CEO and co-founder of Uncle Bud's, a California-based skin care and personal care product maker, said his company started to run its flagship store on Tmall, Alibaba's online shopping platform, last month to promote the sales of its CBD and Hemp products.

"Similar to most countries, consumer appetite for personal care products had an exponential growth this year in China. People have been pushed to do more at home and conduct beauty treatment themselves as many salons and professional services were closed," he said, adding personal care products and services, and other wellness products have become fairly popular across the world this year.

"The US and China have benefited enormously from trade and investment, and it is important that we continue to make improvements to drive job creation and growth in both countries," said Tom Linebarger, chairman and CEO of Cummins Inc, a US-based engine manufacturer.

Interest in A shares strong despite FTSE drop

By SHI JING in Shanghai and ZHOU LANXU in Beijing

Though minor adjustments will be made in FTSE Russell products due to external uncertainties, international investors' long-term interest in Chinese companies, given their growth potential, remains unchanged, said experts.

The UK-based index provider FTSE Russell, which is owned by the London Stock Exchange Group, said on Friday that it will remove shares of eight Chinese companies from certain products. As the index compiler explained, the latest action is mainly based on feedback from index subscribers and other stakeholders after the US government said on Thursday that it was restricting the purchase of shares of some Chinese companies that are listed in the US, due to their alleged military connections.

The eight companies include China Railway Construction Corp, China Spacesat and surveillance company Hangzhou Hikvision. The index provider plans to remove the companies on Dec 21 from its FTSE global equity indices and the FTSE China A Inclusion index. It said the treatment of the said eight companies remains under review in other indexes including FTSE China and China A products.

Yu Fenghui, an independent economist said categorizing the eight Chinese companies as ones with military connections is a US tactic to intimidate China. If the US government does not change its mentality toward Chinese technology companies, it will hurt the interests of both countries, he said.

Dong Dengxin, director of the Finance and Securities Institute, which is part of the Wuhan University of Science and Technology in Hubei province, said the Chinese companies included in the list are quite competitive in their respective sectors. International capital and overseas institutions are well aware that the Chinese companies currently sanctioned by the US government are indeed good investment targets. Therefore, investors' understanding of the A-share market will remain unchanged.

Although US investors may miss the chance of directly investing in the Chinese companies blacklisted by the US government, there are still other investment channels, such as the qualified foreign institutional investor program, as well as the stock connect programs between the Chinese mainland and Hong Kong, said Dong.

Wang Delun, chief strategist of Industrial Securities said foreign investors have a positive outlook on Chinese industry leaders and growth enterprises in the long term. There is some 1 trillion yuan ($153 billion) of foreign capital on the A-share markets and foreign investors have come to realize the growth potential of A-share listed companies and the increasing return on equity of these companies.

Analysts from Huaxi Securities said in a report released on Monday that the weakening major economic indicators in the US due to the COVID-19 epidemic, combined with the raised expectations for further fiscal expansion, have exerted more downward pressure on the US dollar. As a result, commodities priced in the US dollar have been valued higher while global capital is flowing at a faster pace into non-US markets, especially the A-share market.

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