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<http://atimes.com/2016/01/why-the-chinese-economy-is-stronger-than-you-think/>

Why the Chinese economy is stronger than you think

By Nicole Sinclair

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The Shanghai Composite Index has tumbled to its lowest levels in over a year, as China's growth slows, capital outflows increase and the yuan weakens.

Yet while the industrial sector for the second-largest economy in the world may be cooling, signs of optimism for consumer growth has risen.

Fourth-quarter GDP for the second-largest economy in the world grew 6.8%, which capped the weakest quarter of growth since the 2009 recession. But just as the industrial side has slowed, consumption, services and technology have improved. In fact, services accounted for just over half of output last year for the first time — reflecting China's transition from an export-oriented economy to a more service-oriented one.

Chinese consumers are increasingly technological and consumption-oriented, while the country's rising middle class — set to approach about 600 million by 2020 (or twice the size of the current U.S. population) — hold immense spending power. Overall population size should also be boosted by last year's move to end China's one-child policy.

Alibaba's (BABA) consumer-focused singles day in November brought in \$14.3 billion in sales, up 60 percent over last year.

Judging from what U.S. companies are saying about their business in China, the Chinese consumer is still a bright spot that will only get stronger.

Apple

Apple (AAPL) shares fell after the company's first-quarter report Tuesday as revenue rose 1.7% year-over-year to a below-consensus \$75.9 billion. It sold 74.8 million iPhones, which was below expectations of 75 million, and guidance for second-quarter revenues of \$50 billion to \$53 billion came in shy of a \$55.6 billion forecast. CEO Tim Cook discussed a challenging global macroeconomic environment with "extreme conditions unlike anything we've experienced."

While Cook discussed some volatility in the near-term — economic softness in Greater China and Hong Kong earlier this month — he reiterated his confidence in the region and said the company is investing in growth there: "Beyond the short-term volatility, we remain very confident about the long-term potential of the China market and the large opportunities ahead of us, and we are maintaining our investment plans."

Cook emphasized growth in China, where revenues came in at \$16.1 billion, up 14% year-over-year. While macro issues persist in China, Cook has pointed out he doesn't see an impact on iPhone sales there. In other words, there are a lot of people in the still-growing middle class who want an iPhone.

"Last summer, while many companies were experiencing weakness in their China-based results, we were seeing just the opposite with incredible momentum for iPhone, Mac, and the App Store in particular," Cook said. "In the December quarter, despite the turbulent environment, we produced our best results ever in Greater China."

The middle class in China is projected to grow from 50 million people in 2010 to half a billion in 2020, Cook pointed out. "We think this provides us a great opportunity to win over some of those customers into the Apple ecosystem," he said. The company is also continuing to invest in retail stores in the country; it currently has 28 stores in Greater China and is targeting 40 by summer.

It's worth noting that almost half of the iPhones sold in China last quarter were to people buying a first iPhone, which suggests the company has a lot more room to roll out its products there. Meanwhile, Apple Pay will be introduced to the country this year.

"We remain very bullish on China, and don't subscribe to the doom and gloom kind of predictions frankly," Cook said.

Starbucks

China remains Starbucks' (SBUX) largest market outside the U.S. but also one that founder, chairman and CEO Howard Schultz plans to expand in. The company operates 2,000 stores in Mainland China in nearly 100 cities, and is on target to reach its goal of 3,400 stores by 2019. To put this in perspective, Starbucks will be opening 500 stores per year for the next five years — certainly a bullish signal on that market. "Over time, it's conceivable that China could become our largest market," Schultz said earlier this month at a China Partner Family Forum.

Starbucks posted record first-quarter results last week, emphasizing strength in China, even as analysts initially reacted with disappointment to China/Asia Pacific comparable-store sales that were up 5%, just shy of heightened expectations of 6%.

On the company's conference call, Schultz underscored his faith in continued consumer spending in China. "Short-term market gyrations... should not be confused with actions that will lead to long-term sustainable economic gain, especially as China moves to a consumer-driven economy," he said, adding that "Starbucks is just getting started in that important country."

Schultz also emphasized the strong opportunity in mobile, as "China has leapfrogged from a rotary phone to a regular phone to a cell phone and a smartphone overnight." As the company rolls out mobile pay in that market, Schultz expects adoption to be more rapid than it was in the U.S.