

# OVERVIEW



中美總商會

United States of America-China Chamber of Commerce

And Siva Yam & Associates, LLC

# EXECUTIVE SUMMARY

- US manufactures are once again riding some rough waves this year, pitched about by a severe downturn in the US economy and stiff competition from overseas
- Over half of those in a survey conducted by NAM indicated their major concern was competing with low cost imports, and they singled out China as their major competitors
- Statistics show that China is the fourth largest trading partner of the US with total bilateral trade in the first three months amounting to \$37.6 billion as compared to \$96.8 billion with Canada. However, China is also the country with which the US we had the largest trade deficit amounting to \$24.6 billion as compared to \$16.4 with Japan and \$14.5 with Canada

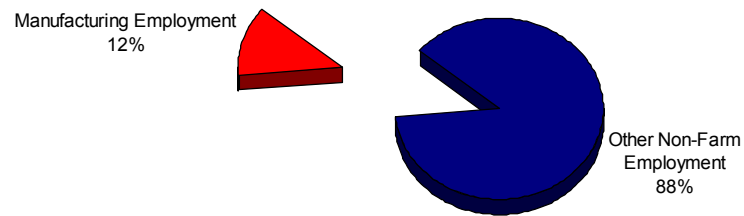
# EXECUTIVE SUMMARY

- Labor cost in China is approximately 5% of that in the US. However, low labor cost alone will not make China an emerging manufacturing power. A combination of government policy, ability to attract foreign direct investment, and a secular growth of approximately 7.2% annually in the economy has propelled the country to where it is today. Manufacturers tend to go where there is a cost advantage as well as where there is a potential to sell their products
- Over half of China's exports or 75% of its manufactured exports are made by foreign invested companies. Chinese companies may know how to manufacture, but product development, marketing, sales and distribution of its exports are largely controlled by foreign companies
- As export increases, so does China's import. Net exports have actually declined slightly between 1998 and 2002. If China continues to grow its economy as it did in the last 20 years, China will have to import about \$1 trillion in 2020
- We are not doing a good job in exporting to China. Korea and Japan, both of which have smaller economies than ours, accounted for 18% and 10% of China's total imports respectively. We accounted for only 9%

# EXECUTIVE SUMMARY

- The proximity to China should not be a legitimate argument. We are the largest export market for China, but we are ranked fifth among those that export to China after Japan, EU, Taiwan and Korea
- The idea of becoming a billion dollar company overnight by just selling one hamburger per person is faulty. Rural consumption is one third of urban consumption. Although China is a huge market, selling foreign made products to China is difficult as demonstrated in the disparity between its per capita income in absolute dollars (less than US\$1,000) and its per capita income in purchasing power parity (approximately 4,600 or 4 times)
- In any event, China is growing, and manufacturers are looking into China not just for cost reduction but also for potential new market. As its export continue to rise, its requirement for import also continues to rise. As US continues to show its dominance in product development, marketing and sales, brand building, distribution, and technology advancement while China continues to improve its manufacturing capacity, both countries should have the opportunity to complement instead of competing against each other

# U.S. MANUFACTURING EMPLOYMENT AS A PERCENTAGE OF TOTAL NON- FARM EMPLOYMENT



Total Non-Farm Employment (seasonally adjusted), April 2003  
Source: Bureau of Labor Services

We lost another 95,000 manufacturing jobs in April this year. This is the second worst decline in the post WWII era. Total employment in the manufacturing sector currently accounts for only 12% of the total non-farm employment in the U.S.

# NAM SURVEY EXCERPTS

How important are the following trade issues to your company, and what is their financial impact?			
	Very Important	Somewhat Important	Not Important
Reducing foreign trade barriers to U.S. exports through negotiations and agreements (e.g., WTO negotiations, Free Trade Act of the Americas and others)	20.5%	33.3%	29.7%
Expanding export markets	20.8%	33.6%	27.4%
Competing with lower cost imports	53.3%	17.8%	16.7%
Counterfeiting and other intellectual property rights problems	8.5%	17.3%	53.4%
Customs and other border issues	9.1%	32.4%	37.5%
Strength of the dollar	37.6%	37.9%	10.8%
Foreign standards and regulations	13.6%	34.2%	30.8%
China trade relations	28.9%	24.0%	30.7%

In a recent survey conducted by the National Association of Manufacturers, over 50% of those surveyed said that their chief concern is competing with lower cost imports, while only 20% said that their main concern is to expand their export markets.

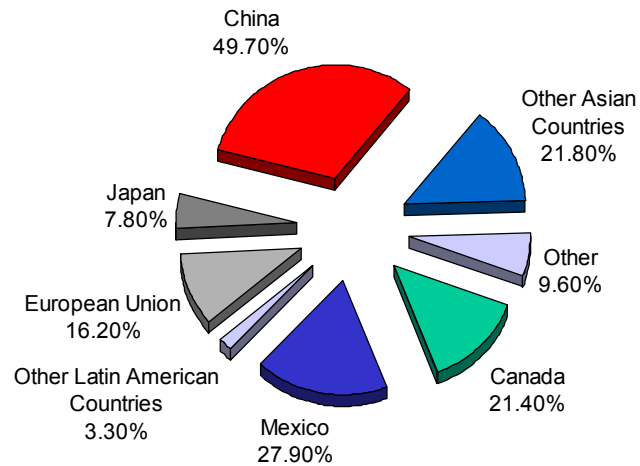
Source: National Association of Manufacturers

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# NAM SURVEY EXCERPTS

Almost half of those surveyed indicated that China is their major source of competition.

If you face import competition, which countries or regions are the major sources of your competition?



Source: National Association of Manufacturers

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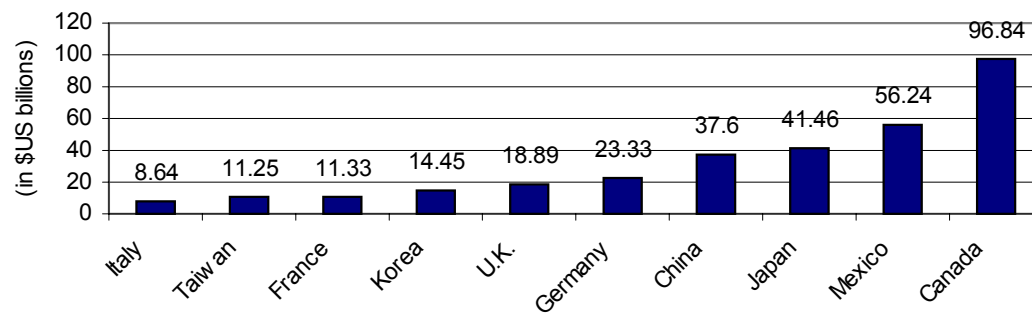
# PRE-CONFERENCE SURVEY RESULTS

Areas of Interest	Very Interested	Interested	Less Interested
1. Cost Structures in the U.S. Compared to China	85.2%	11.5%	3.3%
2. Quality Issues	64.4%	33.9%	1.7%
3. Logistics & Supply Chain Management	63.9%	31.1%	4.9%
4. Financing (Trade & Capital Investment)	23.2%	39.3%	37.5%
5. Management & Human Resources	23.6%	38.2%	38.2%
6. Import/Export Duties & Regulations	59.3%	28.8%	11.9%
7. Legal Protection	54.4%	36.8%	8.8%
8. Direct Investment	22.8%	40.4%	36.8%

The USCCC recently hosted a “Midwest Manufacturers’ Conference on China.” The Pre-Conference Survey indicated that 85.2% of the participants are mainly interested in understanding cost dynamics in China as compared to the U.S.

Source: US-China Chamber of Commerce Midwest Manufacturers’ Conference on China Pre-Conference Survey

# TOP TEN COUNTRIES WITH WHICH THE U.S. TRADES IN 2003

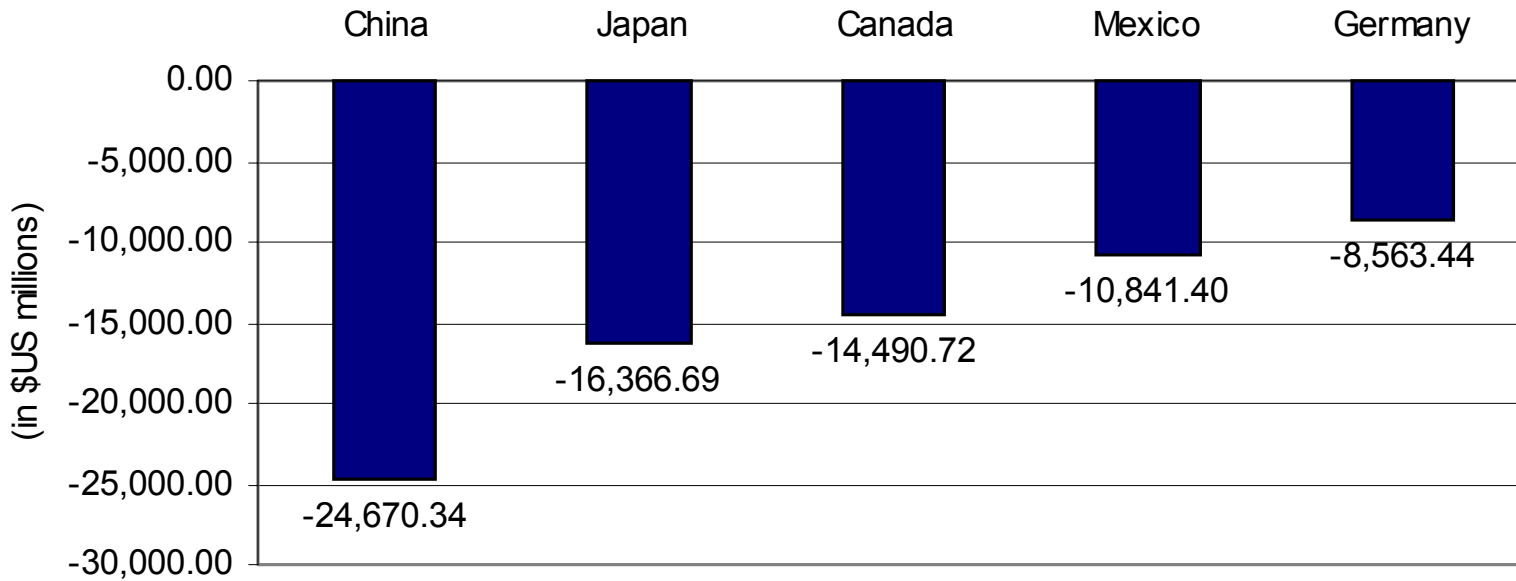


China is the fourth largest trading partner of the U.S. In the first three months of 2003, China accounted for only \$37.6 billion in trade, compared to \$96.84 billion with Canada. However, the U.S. recorded the largest trade deficit with China during the same period. The U.S. imported almost \$31 billion from China but exported only about \$7 billion to China. That is one reason why China has been singled out as a major concern for U.S. manufacturers.

Through March 2003. Source: U.S. Census Bureau

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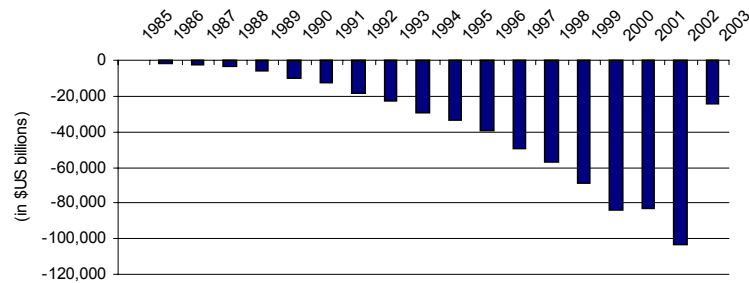
# TOP FIVE COUNTRIES WITH WHICH THE U.S. HAS A TRADE DEFICIT (FIRST THREE MONTHS OF 2003)



January through March 2003. Source: U.S. Census Bureau

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# U.S. TRADE BALANCE WITH CHINA 1985-2003



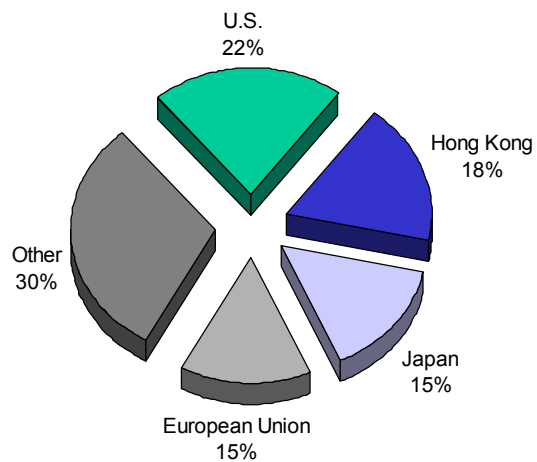
The U.S. trade deficit with China has increased substantially. In the first three months of this year, the U.S. had a greater trade deficit with China than it did during the entire year of 1993.

Through March 2003. Source: U.S. Census Bureau

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# LARGEST WORLD MARKETS FOR CHINA'S EXPORTS 2002

The U.S. is the largest export market for China.

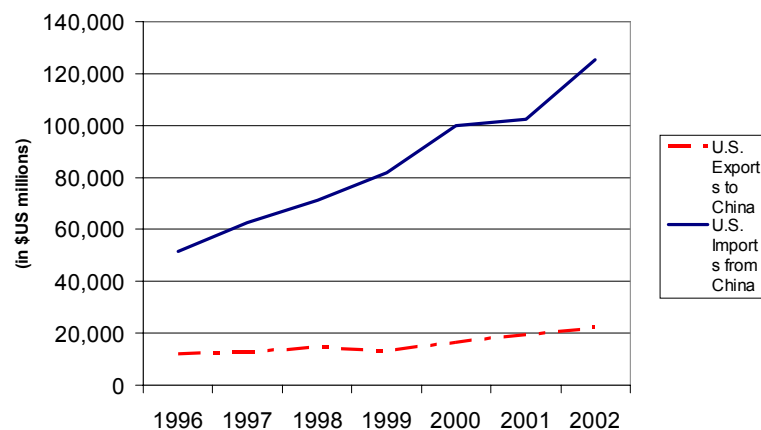


Source: International Trade Administration

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# COMPARISON OF TOTAL CHINA EXPORTS TO U.S. AND U.S. EXPORTS TO CHINA 1996-2002

China's exports to the U.S. have increased substantially; however, U.S. exports to China have increased only marginally. *(Please keep this in mind for one of the upcoming slides.)*

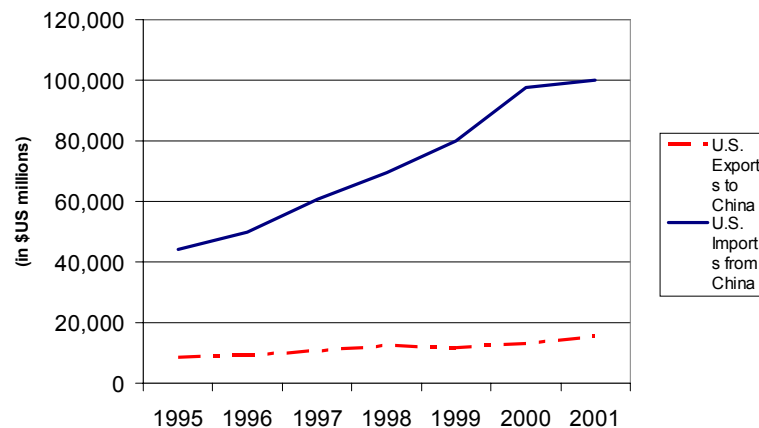


Source: International Trade Administration

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# CHINA AS A SUPPLIER & PURCHASER OF U.S. MANUFACTURES' PRODUCTS 1995-2001

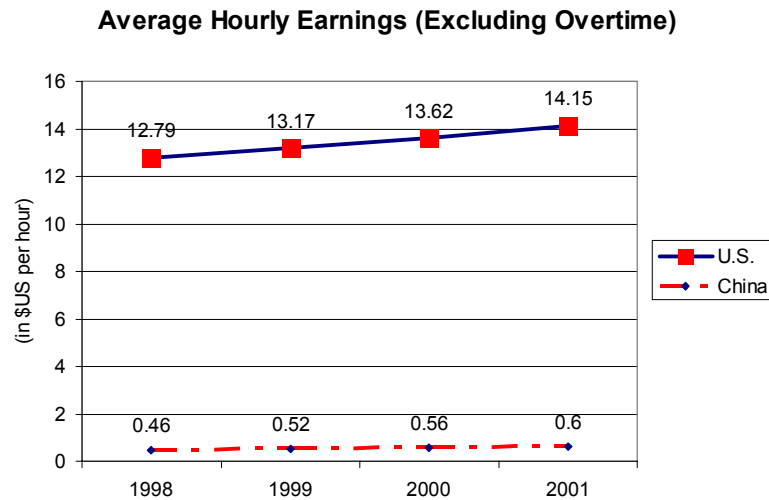
Almost 75% of China's exports to the U.S. are manufactured products. This is another reason why American manufacturers are so concerned with competition from China. It also illustrates how China has emerged as a significant manufacturing power.



Source: International Trade Administration

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# U.S. VERSUS CHINA HOURLY WAGE COMPARISON 1998-2001

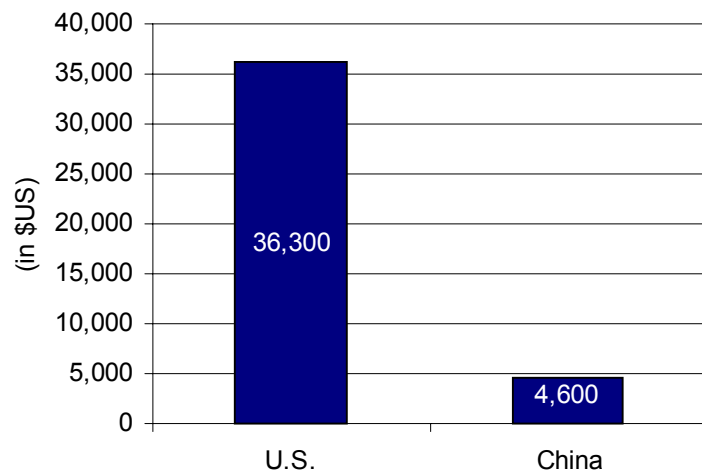


Average hourly earnings in the U.S. are 22 times higher than in China. This implies that the U.S. cannot compete with China based on labor costs alone, and this is one reason why labor intensive American jobs have been lost to China. However, bear in mind that there are other countries, such as Cambodia, Vietnam and various African states, that have lower labor costs than China. Low labor costs alone, therefore, do not account for China's competitive strength.

Source: Bureau of Labor Statistics and The Economist

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# PER CAPITA GDP (PPP) COMPARISON FOR 2002\*

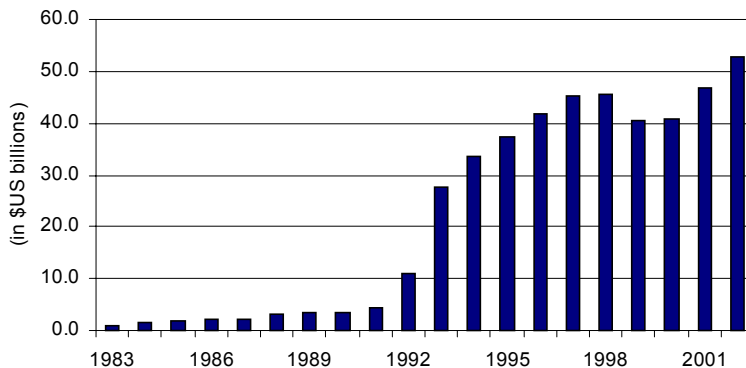


If we measure per capita GDP using purchasing power parity (PPP), the U.S. GDP per capita is only 8 times higher than China's. This implies that China's economy is almost half the size of ours if we measure the GDP using PPP. However, if we take the previous slide into consideration, it is fair to say that China offers a huge market for U.S. companies but Chinese consumers are unlikely to buy products made in the U.S. because of labor cost differentials.

\*Source: CIA World Fact Book

# TOTAL REALIZED FDI IN CHINA 1983-2002

China has been able to attract significant foreign direct investment, primarily in the manufacturing sector. That is one factor strengthening China's manufacturing competitiveness.

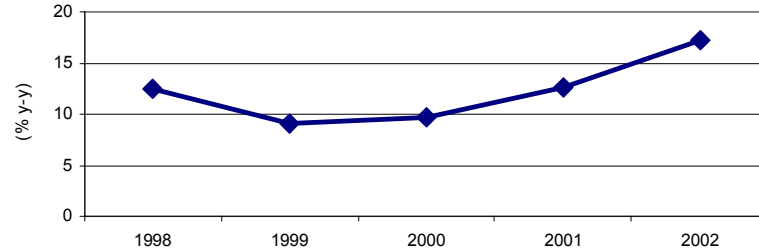


Source: Department of Commerce

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# CHINA'S FIXED INVESTMENT GROWTH RATE

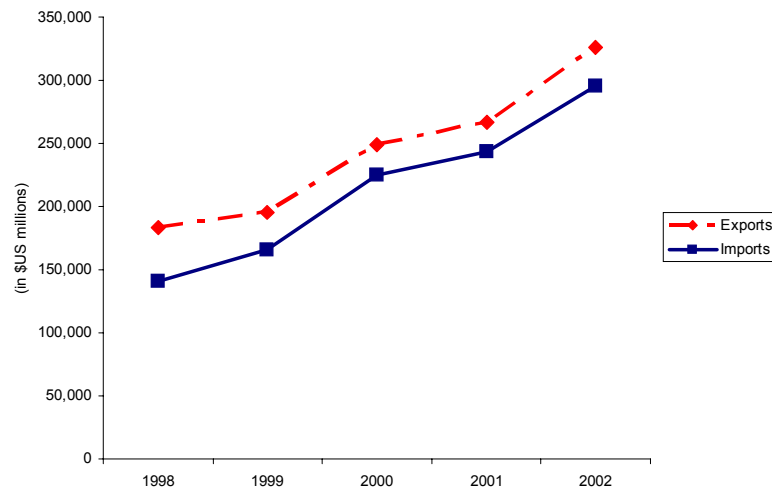
China has been consistently investing in capital equipment to boost its manufacturing capability.



Source: World Bank

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# CHINA'S EXPORTS & IMPORTS 1998-2002

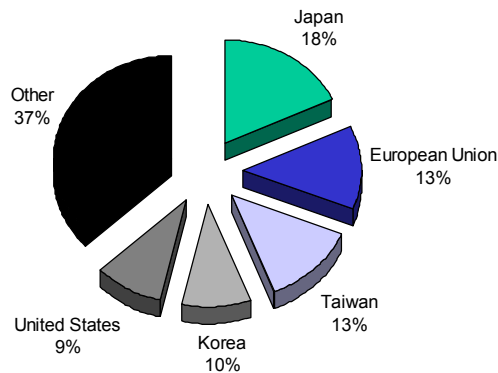


As China's exports increase, China's imports also increase. As a result, China's net exports have actually decreased between 1998 and 2002. As a previous slide illustrated, the U.S. trade deficit with China has increased substantially. This suggests that the rest of the world is gaining ground and the trade balance with China is shifting.

Based on Chinese Statistics. Source: International Trade Administration

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# CHINA'S LARGEST SUPPLIERS OF IMPORTS 2002

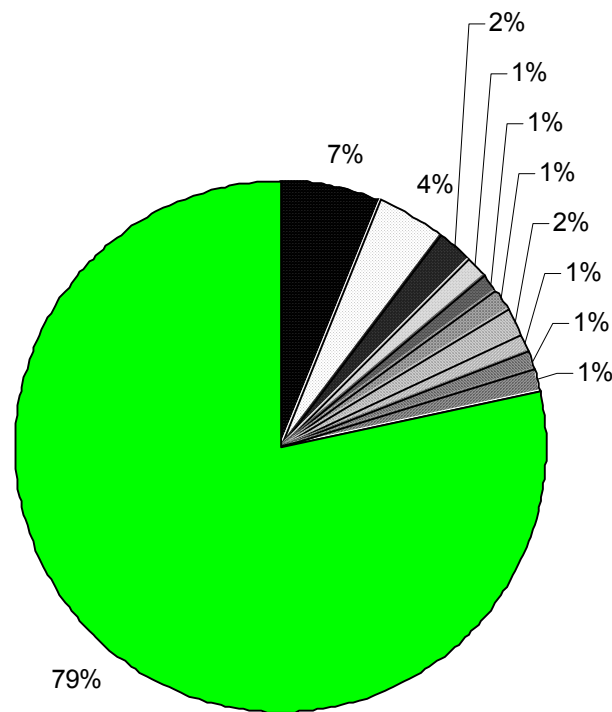


The U.S. is not a strong exporter to China. For example, our economy is much larger than Korea's or Taiwan's, yet both Korea and Taiwan sell more to China than we do. Some people attribute this to the geographical proximity of these countries, but this is not really the main reason—after all, the U.S. is China's largest export market. The U.S. is simply not doing a good job of selling to China.

Source: International Trade Administration

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# CHINA'S MOST SIGNIFICANT COMMODITY EXPORTS 2002

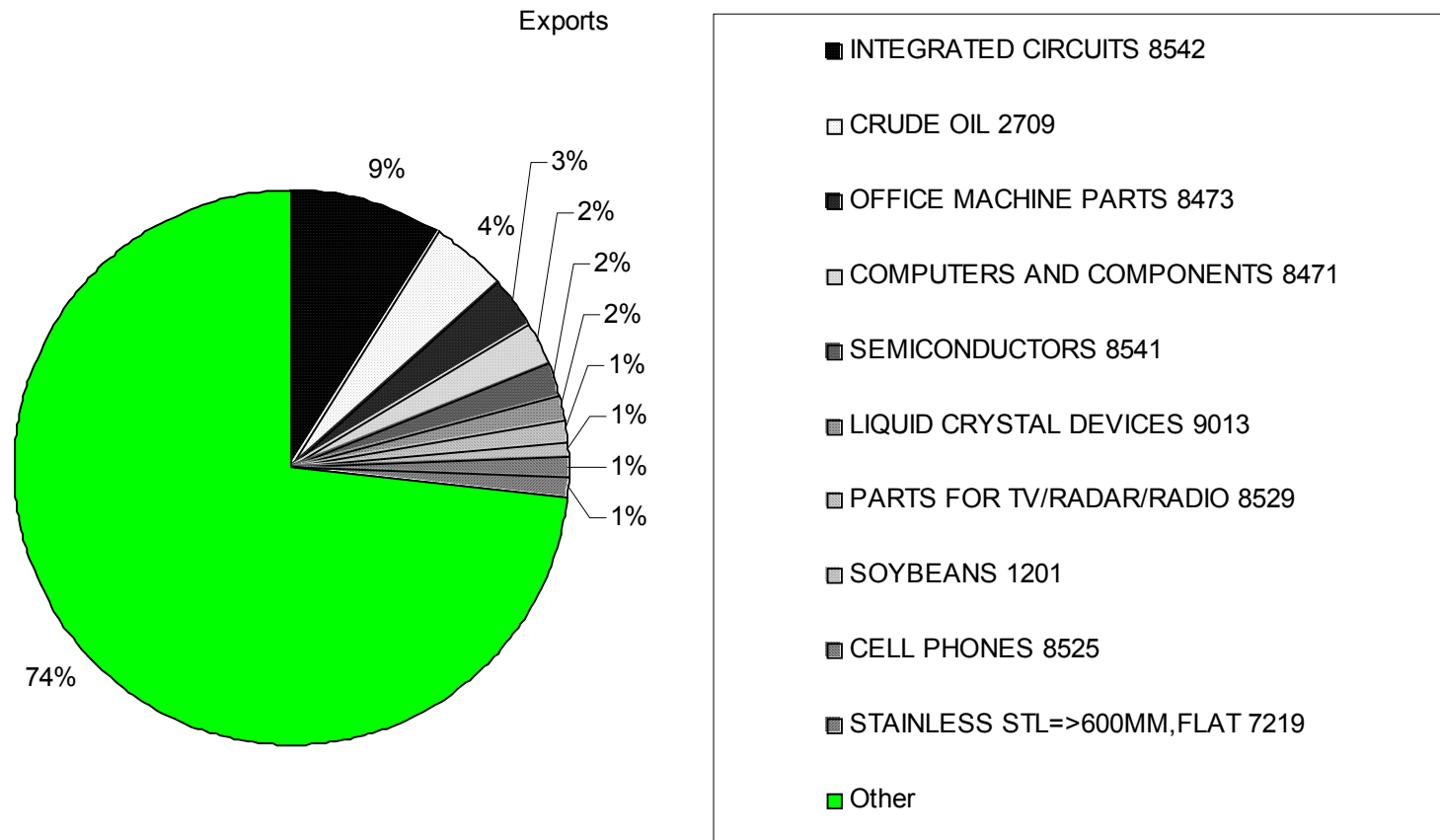


- COMPUTERS AND COMPONENTS 8471
- OFFICE MACHINE PARTS 8473
- TRANSMISSION EQPT FOR TV 8525
- VIDEO APPARATUS 8521
- INTEGRATED CIRCUITS 8542
- PARTS FOR TV/RADAR/RADIO 8529
- SWEATERS/VESTS, KNIT 6110
- PHONE/FAX EQPT AND PARTS 8517
- HOME HEATING APPLIANCES 8516
- ADP POWER SUPPLIES 8504
- Other

Rank by export value. Listed by HS code. Source: International Trade Administration

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# CHINA'S MOST SIGNIFICANT COMMODITY IMPORTS 2002



Rank by import value. Listed by HS code Source: International Trade Administration

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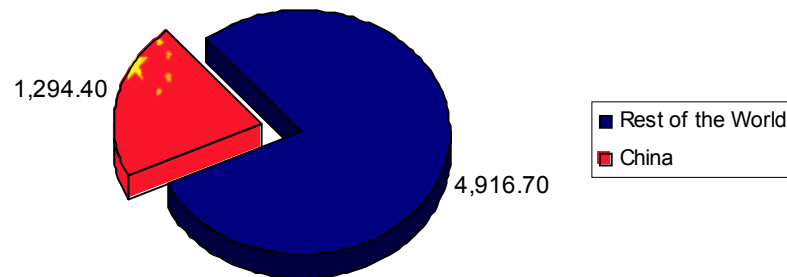
# CHINA'S EXPORTS ARE DRIVEN BY FOREIGN DIRECT INVESTMENT

- Half of China's exports are made by foreign-invested companies
- 75% of its manufactured exports are made by foreign-invested firms

U.S. companies are not competing with the Chinese. They are competing amongst themselves and with other foreign companies. Moreover, competition from China was not initiated by the Chinese. Rather, foreign companies have helped China to become a manufacturing power.

# CHINA'S POPULATION IN RELATION TO THE WORLD'S\*

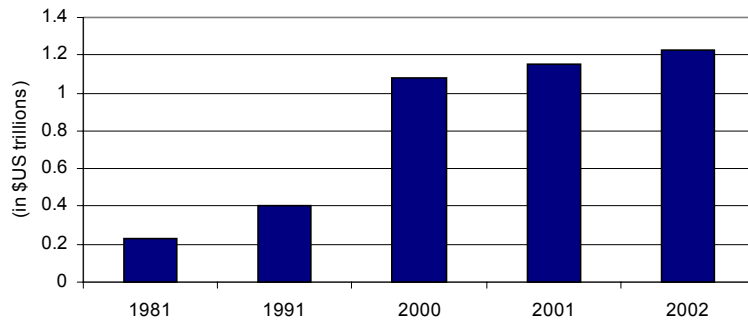
China accounts for 25% of the world's population. This alone renders it a huge potential market for U.S. companies, as well as a vast manufacturing labor pool.



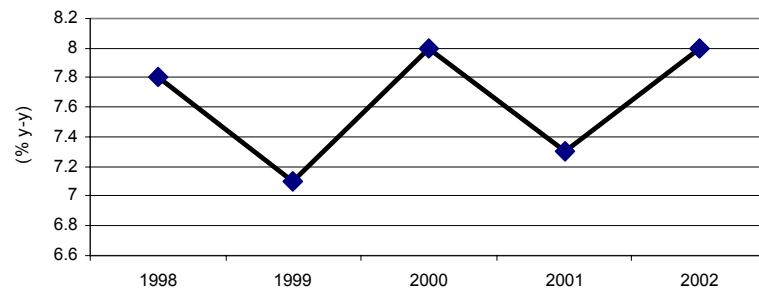
\*In millions Source: UN

# CHINA'S GROSS DOMESTIC PRODUCT

China has doubled its GDP every ten years. If this trend continues, China's GDP will reach \$2.5 trillion in 2010 and \$5 trillion in 2020. China will surpass the U.S. as the world's largest economy in 2035 or 2040.



# CHINA'S GDP GROWTH RATE 1998-2002

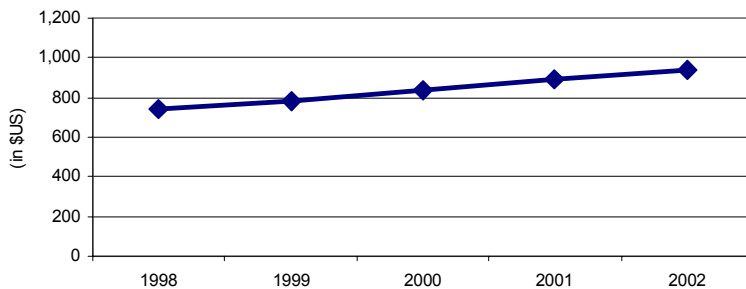


China's GDP growth rate has been carefully planned, averaging 7.2% a year. It has not come significantly under or above the official target in the last 20 years. This has been possible under China's policy of maintaining a highly controlled market economy "with Chinese characteristics." With an inventory of undeveloped infrastructure projects in western China, China will have the ability to fine-tune its economy in ways that no other country will.

Source: World Bank

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# CHINA'S PER CAPITA INCOME GROWTH

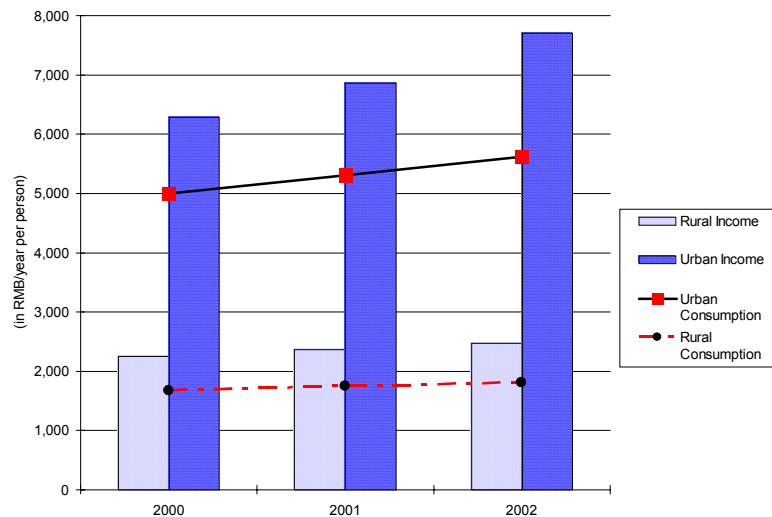


From an absolute dollar perspective, China's per capita income is about \$1,000. One of the previous slides showed that on a PPP basis, GDP per capita will be about \$4,000. Once again, for U.S. companies to be competitive, they need to understand that it will be difficult to sell American products to China.

Source: World Bank Estimates

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# AVERAGE URBAN AND RURAL INCOMES AND SPENDING IN CHINA



Many companies believe that they could become billion dollar companies overnight just by selling one hamburger per person in China. If pursued as an actual strategy, this misconception would lead to a marketing nightmare. Consumption power in China's urban areas, where such hamburgers are likely to sell best, is about 300% as high as in rural areas, where the bulk of China's population resides.

Source: World Bank and IMF Estimates

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# CONCLUSIONS

**China has become a significant manufacturing power for the following reasons:**

Inexpensive labor

Ability to attract significant amounts of FDI, which helps to build the manufacturing infrastructure (government policy; investment from overseas Chinese; good engineers)

Growth market – manufacturers go to where the action is – closer to their customers

Largest potential consumer market – cannot be ignored

Stable economy – carefully planned and controlled

If China's economy grows to \$5 trillion (in 2020), then China will import \$1 trillion

Mistakes made by U.S. companies:

Not export minded – look to Korea and Japan by way of comparison

Misconceptions about the China market – trying to sell one hamburger per person in China in order to become a billion company overnight – look at GDP on PPP versus absolute dollars; urban versus rural income and consumption power

Competing with Chinese in the US – actual competitors are non-Chinese companies

Source: World Bank Estimates

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