



“China’s industry rise no threat to US” Gutierrez

By CK Wong 2006.04.01

<http://www.ck-wong.ca/China/china%20no%20threat%20us20060401.pdf>

Introduction

The above quote is made by the US Commerce Secretary at Tokyo in a breakfast meeting hosted by the American Chamber of Commerce. This statement shows US has a lot of worry about China. However, it does not have a good strategy to resolve the situation. The problem does not stem from China. US has not been doing what it was doing in the '50 and '60; promoting education to improve intellectual advantage. It also failed to do what the American was doing at that period; wealth building through saving and hardworking.

Cut the lost and plan for the future?

Mr. Gutierrez’s comments continue to explain that US could focus on the value added high-tech areas. His statement implies that American will concede the low cost manufacturing, low-tech merchandize and other low cost manufacturing to China. Unfortunate, whether US government wants to do that or not, the US major enterprises are executing that plan already.

For example, GM and Ford (the pillars of American blue collar employees), have set up the factories in China to lower the cost and avoid the union. Dell, HP and IBM have outsourced or OEMed the computer manufacturing / assembling in China. Microsoft, Intel and IBM are seeking R&D investment opportunities in Xi’an at western China. Cisco and Juniper are creating local regional lab to lower the supporting cost. Airbus will set up an assembly line in China to assemble the short haul A320. Canada’s Bombardier also sets up an assembly line in China as part of the purchasing deal. This will apply tremendous pressure to Boeing to do the same. Although it may be smaller plan, once started, there is no reason not to leverage on the skill labor trained from prior venture to deliver the Boeing’s Asian clients from China.

As soon as the Alcatel and Lucent merger is completed, the long established Alcatel R&D base and manufacturing plants will quickly replacing the North American Lucent plants. I would not be surprised that some of the product will be flown back to North America despite the claim that highly sensitive technologies remain in the control of Lucent.

A flurry of activities will happen either this year or next year. Please do not forget this is only China opportunities. India receives these outsourcing activities just as ferocious as China.

Heavy industry such as train building is still remaining in US. But it would not be long to join the shipbuilding to Korea which will very soon sub-contract to China before China pick up the outsourcing directly. The steel consumption in China is the sign for such manufacturing shift.

Lesson not learned

This is not the first time that US companies do not manage their production cost and catch market trend until it is too late. The first one was the VHS recorder. Japanese company, Vector (a.k.a. JVC) invented the standard and mastered the manufacturing. CD player developed by Philips and manufactured by Japan and China. There is no American CD manufacturer. Xerox developed the photo copying machine. Now there are only the four copying and printing engine manufacturers in Japan (Ricoh, Sanyo, Canon and Panasonic). RAM, SDRAM, Flash memory adds to the long list.

American still has the strong design and innovative abilities. This 240 million population country is competing with the 2+ billion population of Chindia. From statistical perspective, if 10% of the 2 billion populations can compete with US will easily take over the American's intellectual property advantage.

American must start to educate the population to get better education which is almost free in comparison with Chindia rather than using quota and tariff to defend its industries. You cannot use quota and tariff to confine the American industries to outsource to Chindia.

Red Alert

Another major pillar of economy is the financial sector. With the investment of American financial institutes in China's financial industry, it will grow the proficiency of the China financial rank and file. This will accelerate the outsourcing of the Wall Street work to China. It could happen fast because there is no quota, no embargo and tariff that the Bush Government can impose. Once the flood gate is opened, many control centres could also be relocated to Chindia. This includes the electronic stock exchange, hydro, call centre, traffic control (including airport) and many service centre with the help of high speed Internet.

Fashion has been a major sector that exports to the world. To be precise, American designs and China makes. This may be changed rapidly. The China International Fashion Week has celebrated the 14th birthday. The show has demonstrated designs that lean towards the taste of the West and practical for mid-tier price. Of course, the roadmap is the same as electronic; start from mass production low price to high price. If China is succeeding to buy a European fashion house, it would solve some of the European quota issue. China will able to attack the American market using Europe as spring board. With that, American will be tough to defend.

Pyramid of Works

A country could not just survive on top tier of the industry. There is only a certain percentage of the population can fit into the top of the economic model to make the cost effective. So a country needs a full spectrum of work from lower tier to higher tier. Otherwise, who will work at the supermarket? American faces a significant manufacturing issue. The merchandize manufacturing industry is almost gone. The middle tier is losing the battle. Energy Industry is winding down. Farming is the only possibility that American can expand because of the fertile land. If American only focus on the high tech and does not diversify to other areas that Mother Nature gives it, the economy will fall like the Roman Empire; it is crumbled under the weight of its own superstructure built by the past glory.

Gutierrez is right. China poses no threat; it comes from inside.

Resources

[1] China's industrial rise no threat to US - commerce secretary Gutierrez, 2006.03.31 Forbes, <http://www.forbes.com/markets/feeds/afx/2006/03/31/afx2636081.html>

[2] China's industry rise no threat to US, 2006.04.01, AFP, BIZCHINA, http://www.chinadaily.com.cn/bizchina/2006-04/01/content_557707.htm

[3] Airbus nears a deal with China on assembly lines, International Herald Tribune, 2006.03.16, <http://www.iht.com/articles/2006/03/15/business/airbus.php>

[4] Photo essay by Reuter for the 14th China International Fashion Week 2006.04.01 http://www.chinadaily.com.cn/china/2006-04/01/content_557548.htm