

## **China increasing sophistication of exports**

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NEWARK -- Twenty years ago, China was known for making toys, shoes and clothing.

Today, the world's largest nation can make just about anything that any other nation can. There's one key reason for the quick catchup: Competition.

Songhua Lin, assistant professor of economics at Denison University, said international partnerships have been an effective way to inject dollars and knowledge into the Chinese economy.

"In order to make it better, you have to introduce competition, and that's coming from abroad," Lin said.

During the past couple decades, exports from China gradually have increased in sophistication.

In the 1980s, exports largely were raw materials. By the late '80s and early '90s, toys, shoes and clothing were flowing out of China.

Increasingly complex products, such as computers and auto parts, have been made in China in the past decade. According to the National Bureau of Economic Research, virtually no product is made by the United States, European Union or Japan that also is not made in China.

China now is the United States' second-largest trading partner, representing about 12 percent of all trade in 2007, according to the United States Census Bureau. Canada, at 18 percent, was the biggest.

China began to emerge as a world trading power after 1978, when its government began a series of economic reforms designed to lead it away from a socialist command economy and toward a market-driven one. Since 1991, the Chinese economy has grown at a rate of 10 percent per year. In 2001, China became a member of the World Trade Organization and was granted normal trading relations with the United States.

In 2007, the American trade deficit with China was \$256 billion, about double what it was in 2003 and eight times what it was in 1995 -- \$34 billion.

### **FOREIGN INVESTMENT AND PARTNERSHIPS**

Several Chinese government policy decisions have contributed to the changes, including the formation of economic zones and incentives, and encouragement of foreign direct investment and joint ventures. Not only are land, materials and labor less expensive in China, but the government reduces taxes and waives some tariffs for foreign businesses.

Because of processing trade, where a final product is made of components from many places, it is difficult to determine how far China has come in improving the quality of its exports.

However, China is making strides in the automotive industry. In 2006, the first Chinese automobile appeared at the North American International Auto Show.

China's largest automobile producer, Chery, doubled its number of passenger vehicle exports from 2006 to 2007, according to the company Web site, and is planning to enter the U.S. market in a couple of years.

## FUTURE

The income level for most Chinese has not risen to what usually accompanies an economy that makes such sophisticated products, she said.

Despite friction between the United States and China about intellectual property rights, Lin said, little evidence exists that foreign know-how has in fact spilled into the Chinese economy. Safety and environmental standards still challenge exporters.

In a 2003 report written for the Woodrow Wilson International Center, Harvard professor Kelly Sims Gallagher wrote, "The U.S. companies' Chinese counterparts have gained some knowledge about manufacturing and business practices but little understanding of how to design automobiles. In other words, the foreign companies have had a modernizing, but not a truly developmental, effect on the Chinese automobile industry because the U.S. firms did not transfer much knowledge along with the products."

The National Bureau of Economic Research reports the share of China's exports produced by state-owned firms declined from 67 percent in 1995 to 40 percent in 2005. Foreign-invested firms produced a greater share of exports, from 32 percent to 58 percent during the same time period.

Privately owned Chinese firms represent a small portion of exports but had increased their share to about 18 percent in 2005.

Lin said most scholars think China still is operating beneath its potential for maximum efficiency and will continue to grow. In addition, an incentive exists for foreign firms to operate in China to capitalize on its consumer market.

Some American firms, however, might be reconsidering manufacturing in China.

"A lot of companies are re-examining their outsourcing strategy to China and looking at manufacturing here instead. The weak dollar makes it more expensive to manufacture there and bring here and cheaper to manufacture here and take there," said Jerry Besanceney, of Buckeye Lake, owner of Prestige Wood Products, based in Gahanna, and an Ohio State University-Newark board member.

He managed the building of the Universal Veneer mill in Dalian, China, five years ago and also owns Eagle Industries and Eagle Trucking Co., in Bowling Green, Ky.

Source: Newark, assisted by Kent Mallett