

e-postcard from Beijing

Hello to all,

A few years ago, I told my two kids, then 18 and 20, that they should learn Spanish and that they should teach their kids Mandarin.

Nothing I have seen so far in China has changed my opinion.

In fact, everything I have seen so far about the future of the world as it relates to China can be summarized in this picture.



Just down the sidewalk from the Hyatt. Beijing, China

Here are a few China related factoids to keep you awake at night (underlines for emphasis are my own):

There are more unemployed adults in the rural provinces of China than there are workers in the U.S. workforce.

[China's] manufacturing wages equal just 4% of those paid to workers in the U.S. and Japan.

There are more than 300 million cellular phone customers in China, with five million new customers every month.

[In 2003] China [used] 54% of the world's production of concrete and 36% of its supply of steel.

[T]he head of Science & Technology and IT for the Ministry of Construction (45 million employees) ... grinned when I suggested there may be a slowdown in building. His prediction is the building boom will be non-stop for at least the next 20 years. Considering that China's plan is to move from 30% to 70% urban population density, it makes perfect sense.

[In] China, is it money, politics, economics or something else that is creating this juggernaut that is spending \$400B per year on construction, representing 16% of it's GDP?

China is also a unique market on the people front. Construction is very low cost. Labor rates range from \$4 to 12 dollars per day.

"100 construction cranes spotted from revolving restaurant, Shanghai growing faster than imaginable, note limitless opportunity."

Shanghai mayor claims 25% of world's construction cranes are in Shanghai (2002). Industry estimates place 30% to 65% of world's construction cranes in China.

The biggest cranes ever manufactured by Potain will be used on the construction of Nanjing Bridge No 3 over the Yangtze River in Nanjing, China. The new cable-stayed bridge will be one of the world's longest and will be the first metallic cable-stayed bridge in China. The cranes are scheduled for delivery in July of this year, while the project itself will be finished by the end of the year. The cranes will be based on Potain's MD 2200 units, currently the largest it builds.

China has a voracious appetite for oil, industrial metals, commodities and semi-finished goods. It inhales these commodities to fuel the manufacturing engine, which in turn is driving the country's robust growth. According to the WTO, from 2002 to 2003 China's imports rose 40% to reach \$413 billion. In fact, in January 2004, China imported more than it exported for the first time and has generated a trade deficit every month to date this year.

China is experiencing a fundamental shift from an agricultural based to a manufacturing based economy. China's agricultural population—eager to access the manufacturing riches, are fleeing rural areas and flooding cities at a pace of 20 million annually. To put that in context, China must build a city the size of Houston every month through the end of this decade. They must build the socio-economic infrastructure necessary to accommodate this influx, with rapid construction of housing, schooling, waste-water treatment facilities, transportation, telecommunication and other projects.

In fact, while China ploughs forward, the world is already feeling some of the growing pains. China's world imports grew 40% from 2002 to 2003. This unprecedented demand has caused commodity price spikes, supply shortages and port bottlenecks around the world. The world as we know it is tilting toward China and we must all take notice.

China, our second largest supplier, sells \$152 billion worth of goods and services to America annually. Much is heard about China's exports, but China is also one of the top buyers of U.S. goods and services. And, China's demand for U.S. goods has been steadily rising. U.S. exports to China rose 28% exceeding \$28 billion in 2003 and making China our sixth largest buyer[.]

Also worth noting is China's investment in U.S. government securities. According to the Federal Reserve, as of November 2003 China had over \$420 billion in foreign exchange reserves, including \$100 billion worth of U.S. securities which had been purchased in the previous year and a half. These purchases help offset our huge trade deficits.

Another statistic that conveys this almost unbelievable activity, again from Shanghai, is the '10 cities 10 towns' project underway. On the outskirts of Shanghai, connected by new massive motorways and rapid transit railways, 10 new cities each of 1 million people and each with 10 satellite towns of 200,000 people are being built from the paddy fields up. The new city project we visited had commenced in 2001 and was due to be fully completed in 2006 - 5 years from start to finish.

Last year China produced 220 million tons of steel, more than that produced by the U.S. and Japan – together. China also became the world's fourth-largest automaker last year and will move into third place this year, trailing only the U.S. and Japan.

According to the UNDP, 200 million people were lifted above the poverty line in China between 1980 and 2000, a feat unprecedented in human history.

In 1990, there were zero miles of expressways in China; by 2010 there will be over 20,000 miles, and by about 2020, China will have more miles of expressways than any country, including the U.S.

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In 2003:

- China's imports increased USD 118 b.
- FX [foreign exchange] reserves increased USD 117b [billion] to 403 [billion] (its FX [foreign exchange] reserves are now over \$450 billion)

China's leaders have declared that China will quadruple its economy again by 2020.

Level of Affluence (2002 China Statistical Year Book)

URBAN HOUSEHOLD PERCENTAGE OF OWNERSHIP OF:

- o Car 0.88%
- o Motorcycle 22%
- o Wash[ing]. machine 92.9%
- o Color TV 126%
- o PC [personal computer] 20.6%
- o El[ectric]. Cooking Ap[pliance]. 96%
- o Telephone 93.6%

As recently as 15 years ago, private household ownership of any of the items above was between zero and five percent.

80 million internet users; Within this decade Chinese will be most common language of [the] internet[.]

Strategic Depth

- Traditional, labor-intensive industries can continue to thrive by migrating to inward, poorer provinces, rather than migrating out to other countries.
- 170 million rural under-employed
- China can simultaneously maintain labor- intensive industries while transitioning to knowledge and capital-intensive industries.

Moreover, although China's birthrate is declining, the population will still likely reach about 1.6 billion by mid-century when population growth is expected to level off. What this means is that China will still grow by the equivalent of Japan's population in about a decade, and by the equivalent of the U.S.' within a generation.

[T]he downside is that China has to create at least 10 million new jobs per year just to soak up first time applicants entering the job market.

By China's own estimates the number of unemployed is now over 160 million, and that figure probably understates the full number of un- and under-employed, particularly in the countryside.

Urban planners in China are predicting that another 200 million farmers or more will migrate to the cities this decade, possibly threatening to overwhelm urban economies and services.

Thus far there appears to be at least one interest which members of the Chinese urban middle class share and which gives individual members some sense of distinction: economic self-interest.

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The ruling party leadership acknowledged this implicitly at the 16th party congress in November 2002 when it elevated the stature of the private sector as the principal engine of economic growth. Further, the 16th party congress embraced as its guiding doctrine out-going Party chief Jiang Zemin's Theory of Three Represents. This doctrine among other things advocates bringing capitalists, entrepreneurs and intellectuals into the Party – three very bourgeois groups that historically were considered “class enemies” of the Party faithful. Moreover, Jiang himself exhorted his Central Committee colleagues at the congress to strive to expand the ranks of “middle income” (read middle class) Chinese.

China auto parts exports [were] \$900m USD in 1999 and 6.5b USD in 2003.

Guangdong province China accounts for 1/3 of China's exports [...and makes] 70% of the world's electric kettles.

All five major producers are plunging ahead with large-scale power projects that will bring another 37 gigawatts on stream, about one-half the total capacity of the UK, this year alone.

[T]he capacity of plants currently under construction or already green-lighted [are] 160 gigawatts, a 40% increase that will hit the market at a rate of 30 to 40 gigawatts per year.

India said China has surpassed Japan as its number one trade partner in the Northeast Asian region.

Domestic oil production capacity will make up 44% of total China oil consumption by the year 2020[, with] consumption levels at close to 450 million tons.

China is currently the world's second largest oil consumer after the U.S. and burns about 6.29 million barrels per day.

Sources:

China Economic Review, South China Daily, Manitowoc Crane/Potain, Kirkwood Community College, New Zealand Timber Council, State of Virginia, Capitalism Magazine, Graphisoft, Purchasing Magazine, China Daily, personal interviews.

Be well,
Doug