



ET2C International Inc

facilitating international trade & providing access to global markets

The Olympic Hangover; Bird's Nest Soup?

Even though the official purchasing managers' index (PMI), as provided by the China Federation of Logistics and Purchasing, rose to 51.2 (above 50 shows an expansion) in September rebounding after two consecutive months of contraction in the build up to the Olympic Games, this will no doubt be a short-lived increase as the reverberations of the global financial crisis make their way through China's largest export markets. From a procurement perspective, companies will be wondering what the impact will be on the manufacturing base and the ability to still source quality products at commercially viable prices.

People and the media, the world over, are watching with baited breath to see what the impact a global downturn may have on China, which is seen as one of the economies to lead the West out of recession. A quick look at some recent economic data can give an indication of China's current standing. Standard Chartered (one of the most bearish predictions) have recently revised their predicted GDP growth for 2009 down to 7.9% and 7.1% for 2010. Central Government appears to have at the same time lost any appetite for continued Renminbi appreciation and it is expected that the RMB:USD exchange rate will be kept around the 6.8 mark for the next twelve to eighteen months. At the same time, domestic consumption has dropped off and is expected to drop off further which should help allay the spectre of inflation. Lastly, it has been widely reported that China has little exposure to the troublesome toxic assets that are widespread through Western economies and institutions as well as having over in excess of two trillion dollars of forex reserves giving them a substantial advantage should it be required to prop up its economy. For these reasons, China is seen as much better placed than other Asian manufacturing bases to cope with the global downturn.

China appears to be in fairly good shape. However, there are stories that have emerged that paint a different picture at a micro-level. For example, a total of 3,631 toy exporters have been driven out of business in 2008; 53% of the industry's businesses. It should be highlighted though that these were mainly small-size toy producers with an export value of less than \$100,000. From a Western procurement viewpoint, the question has to be asked whether such facilities would comply with the quality and administrative standards that need to be adhered to for toys to enter the EU or US. However, it is important to be mindful of the current economic context within which these manufacturers are operating and it is therefore more important than ever to ensure that you have some form of presence on the ground to monitor and work with your suppliers.

Every cloud has a silver lining. With an expected stability to the RMB:USD exchange rate, raw material prices falling and logistics costs dropping there are some substantial cost savings that should be feeding into the supply base over the next month or so. On top of this, the Central Government has increased export rebates again as of November 1st (in addition to the recent increase in Textile rebates from 11% - 13%) to provide the export sector with a soft landing, including:

- Textiles, garments and toys increased to 14%
- Art and Ceramics to 11%
- Plastics to 9%
- Furniture parts to 11% or 13%
- Fans, tempered glass, books and notebooks to 9%, 11% or 13%

It should be noted that the increases will be dependant upon the HS Code and whether they are applicable to any specific products.

Along with the increase in rebates, the Government is widely expected to shortly announce a further stimulus package to sure up both the economy and the manufacturing sector.

As in China, inflationary pressures are similarly dropping off in Vietnam and the country is still expected to have a GDP growth of approximately 7% in 2009. Just as in some of the other South East Asian manufacturing bases, there is a reliance on the importation of some of the raw material required for the manufacture of certain products which can lead to higher pricing when compared with China. Obviously, there are other considerations that should be taken into account when choosing a vendor and there is no doubt that where possible utilising another country can help mitigate forms of risk. In terms of cost savings, there are possible opportunities in the traditional Vietnamese items such as handicrafts, ceramics and textiles as well as products that have quotas in place in the destination country, such as plastic bags for the EU and US.

On the subject of quotas, it should be noted that on 1st January 2009 the special textile and apparel safeguard quotas to the United States are set to be lifted. Although some delegates from the local US textile industry are calling for greater protectionist measures, there are statements from both sides at a higher level saying that it would be a 'foolish' to put these measures back in place that were implemented back in 2001 in a bid to secure China's entry to the World Trade Organisation. Trade in the 34 products under quota restraints is valued at more than \$7 billion by the United States Manufacturing Trade Action Coalition. China's garment makers will no doubt be looking to capitalise on this opportunity.

Clearly, since our last newsletter, there have been some major developments on a global macro-economic level which are currently impacting the high street through to the factory. From the latter perspective, never has it been more essential to have a presence on the ground to manage, negotiate and monitor the factories production. This can lead to benefits in terms of volume, lead times and credit terms to name a few. We, at ET2C, believe that we are well placed to assist our clients, whether buying offices or trading clients, during this global downturn to leverage off the opportunities that are presenting themselves, whilst also mitigating the risk exposure of our clients. Bird's nest soup may be sticky, but it really depends on whether you like to add sugar or salt as to the taste it leaves.

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Aside from the export sector, ET2C is also currently assisting clients import products into China as well as providing a local base through which they can sell to local Chinese companies. For more information, please look at our website or contact us directly.

COMPANY NEWS