

## China in the global economy of the coming years: **Largest Growing Market & Very Competitive Production Costs**

In recent weeks, growth prospects in the EU, the USA and Japan have weakened considerably. Despite record corporate profits of listed companies, fear of a debt crisis and a second recession has been sufficient to destabilize stock markets globally. Most specialists agree that resolving this situation will take years of probably low growth in developed economies. Acknowledging these facts, the US Federal Reserve committed to keep interest rates close to zero “until mid-2013”.

The effects of this slowdown in the “first world” will undoubtedly be felt on a global scale, including in China. However the impact on the Chinese economy will be much lighter than the effects of the 2008 recession. Indeed, the economy depends much less on exports for its growth than three years ago.

Even taking into consideration a very low growth of 1% in the EU and USA for 2012, China is still predicted to add about 8.5% to its GDP in 2012 and 7-8% for the next few years<sup>1</sup>. When considering the large size of China’s economy (world’s No 2), this makes it the best opportunity for growth for international companies in the coming years.

Slower growth in the years to come will slow down inflation (3.5% year on year expected for 2012) and help keep costs under control. (For comparison, India’s, Indonesia’s and Vietnam’s expected inflation for 2013 are 7% or more<sup>2</sup>.)

Lower export growth will also result in less demand for factories and consequently less employment opportunities for Chinese workers. Besides, the onset of large scale automation in China’s assembly factories will add to the growing pressure on the labor market. Foxconn, the Taiwanese giant making 70% of the world laptops and all iPhones and iPads, employs 1.2 Mio persons in China, mostly assembly workers. Its Chairman announced in early August that 1 Mio robots (made in China) will be installed in its assembly lines by 2013. Automation is starting to replace unskilled work, even as an estimated 150 to 250 Mio under-employed farmers still need to find work in the cities.

With inflation lower than the one of low-cost neighbors and a still enormous pool of unskilled labor, stability in production costs can be expected from China, at least when compared to other emerging countries. Adding to that, the quality of the supply chain (most needed components and materials are available, made in China, and in line with international standards), along with with China’s production competitiveness for making products meeting European or US quality standards will remain unchallenged for years, if not decades.

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<sup>1</sup> UBS forecasts

<sup>2</sup> UBS forecasts

Recent global economic development paired with China's specific situation makes the Middle Kingdom ever more the interesting emerging location in the world, be it for growing sales, producing cost-effectively, or both. In this respect Swiss firms, specifically, stand to gain much from China. On one hand, sourcing of high quality components can offset the effect of the overvalued Swiss Franc, on the other, China offers enormous opportunities in equipment, high-tech and luxury goods, all fields in which Switzerland excels.

Although the opportunities are certainly enticing, it can be hard to identify the right partners and get the many pieces of a local operation right. Intellectual-property infringements, know-how loss, customs and legal issues, relations with human resources and difficult communication are all risks that foreign companies need to ponder about when engaging in China. Besides, while the Chinese environment is opening and internationalizing, it is at the same time getting increasingly complex and competitive, making it as difficult as ever to operate successfully and safely. Getting a sound assessment of the market, business settings and potential partners is thus critical to a successful development.

We hope that the above can be of support to your operations. For more information about this topic or defining elements about sourcing and market intelligence in China, do not hesitate to contact [n.musy@ch-ina.com](mailto:n.musy@ch-ina.com)

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