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Some Assembly Needed: China as Asia Factory

By DAVID BARBOZA

SHENZHEN, China — Hundreds of workers at a sprawling Japanese-owned Hitachi factory here are fashioning plates of glass and aluminum into shiny computer disks, wrapping them in foil. The products are destined for the United States, where they will arrive like billions of other items, labeled "made in China."

But often these days, "made in China" is mostly made elsewhere — by multinational companies in Japan, South Korea, Taiwan and the United States that are using China as the final assembly station in their vast global production networks.

Analysts say this evolving global supply chain, which usually tags goods at their final assembly stop, is increasingly distorting global trade figures and has the effect of turning China into a bigger trade threat than it may actually be. That kind of distortion is likely to appear again on Feb. 10, when the Commerce Department announces the American trade deficit with China. By many estimates, it swelled to a record \$200 billion last year.

It may look as if China is getting the big payoff from trade. But over all, some of the biggest winners are consumers in the United States and other advanced economies who have benefited greatly as a result of the shift in the final production of toys, clothing, electronics and other goods from elsewhere in Asia to a cheaper China.

American multinational corporations and other foreign companies, including retailers, are the largely invisible hands behind the factories pumping out these inexpensive goods. And they are reaping the bulk of profits from the trade.

Yasheng Huang, an associate professor at the Sloan School of Management at Massachusetts Institute of Technology, explained: "Basically, in the 1990's, foreign firms based in America, Europe, Japan and the rest of Asia moved their manufacturing operations to China. But the controls and therefore profits of these operations firmly rest with foreign firms. While China gets the wage benefits of globalization, it does not get to keep the profits of globalization."

The real losers, it seems, are mostly low-wage workers elsewhere, like the ones at Hitachi who lost their jobs in Japan, along with workers in other parts of Asia who suffered as employers began relocating plants to China. Blue-collar workers in the United States have also lost out.

Asian exports to the United States have actually slipped over the last 15 years. Factories in Taiwan used to assemble many of the world's computers; now China does. Hong Kong garment workers used to stitch tons of fabric into finished clothing; now Chinese workers do. And Japanese plants once manufactured the most popular consumer electronics

brands, like Sony, Panasonic and Toshiba; now many of these are shipped from Chinese ports.

In fact, about 60 percent of this country's exports are controlled by foreign companies, according to Chinese customs data. In categories like computer parts and consumer electronics, foreign companies command an even greater share of control over the exports, analysts say.

Foreign expertise has been critical as manufacturing supply chains become increasingly complex, involving countries' each producing components that are then shipped to China for assembly. Such a system can render global trade statistics misleading, and some experts say that a more apt label would be "assembled in China."

"The biggest beneficiary of all this is the United States," said Dong Tao, an economist at UBS in Hong Kong. "A Barbie doll costs \$20, but China only gets about 35 cents of that."

Because so many different hands in different places touch a particular product, Mr. Dong said, you might as well throw away the trade figures.

"In a globalized world, bilateral trade figures are irrelevant," he argued. "The trade balance between the U.S. and China is as irrelevant as the trade balance between New York and Minnesota."

China's supply of cheap labor, coupled with what is widely seen as a deliberately undervalued currency, helped some \$465 billion in foreign direct investment flow into the country from 1995 to 2004, making it one of the hottest destinations in the world for foreign capital.

In the electronics industry, relocations to China have soared. A decade ago, Taiwan controlled the computer components market and relied on domestic manufacturing. Today, companies on Taiwan produce 80 percent of computer motherboards, 72 percent of notebook computers and 68 percent of L.C.D. monitors. And most of the assembly takes place in China.

"Everyone has moved to China," says Tony Yang, an executive at Aopen of Taiwan, a maker of computers and parts. "Our suppliers, our buyers, their main production facilities have all been relocated. Wages in Taiwan are just too high."

Japanese and South Korean companies are also here in force. Panasonic has 70,000 employees working in China; Toshiba's largest information technology production site is in Hangzhou, a coastal city south of Shanghai. And Samsung has 23 factories, 50,000 employees and all of its notebook computer production in China. Its last computer notebook plant in South Korea closed last year.

The migration has left footprints in trade statistics. In 1990, Japan was the United States' dominant trading partner in the Pacific, and Asia accounted for 38 percent of all American imports. Last year, China was the dominant Asian trader. Its trade with the United States has risen some 1,200 percent since 1990, even as the Asian share of American imports slipped to 36 percent.

What changed from 1990 to 2005 is that many goods became a lot cheaper as China took on a greater and greater role as the world's basic factory floor.

Even as that shift was taking place, the more prosperous Asian countries retained and even expanded their influence in the global supply chain, designing more sophisticated models, making components, and carrying out marketing and brand management.

And so while China has something in the range of a \$200 billion trade surplus with the United States, it also has a \$137 billion trade deficit with the rest of Asia. This movement of goods, services and money has been uneven.

"I don't think the developed world shifted that much work to Asia," said Vincent Chan, an analyst at Credit Suisse. "The places that have seen the most manufacturing disappear are Hong Kong and Taiwan."

American and European companies, particularly in autos and electronics, are moving more of their manufacturing to China. Dell personal computers used to be made primarily in the United States. Now, most are assembled in China.

Bigger multinationals could be on the way. Airbus is considering building passenger jets in China. And General Motors is weighing whether to export some cars it makes in this country.

Companies like Hitachi, here in Shenzhen, usually come to China because of cheap land and labor and a factory system where young workers essentially march to their jobs every eight hours, often from company-owned dormitories nearby.

"Most of our growth is now coming from China," said Dennis Rourke, general manager at the Hitachi plant here, which is expanding and creating a new supply chain for disk drives in the region. He said Hitachi had encouraged its suppliers to locate there, as well.

Thousands of factories have created millions of jobs for China's low-wage migrant laborers, who earn about 75 cents an hour. But so far, Chinese companies in these industries have generally been unable to climb from basic manufacturing to design work and beyond.

Nonetheless, China's rise as a world commercial power is in striking contrast to that of Japan in the 1980's, when the Japanese were building their own brands like Toyota, Honda and Sony. China has few global brands beyond Lenovo and Haier — big companies struggling to make their names more widely known.

Chinese officials rarely miss an opportunity to argue that the trade statistics showing huge surpluses are misleading indicators of the country's prosperity.

"What China got in the past few years is only some pretty figures," said Mei Xinyu, of the Commerce Ministry's research institute. "American and foreign companies have gotten the real profit."

Still, the economy is booming, and an aggressive class of entrepreneurs is emerging at home that resembles the successful breed of overseas Chinese who built business empires during the 20th century.

Yin Mingshan, 68, a multimillionaire in the central city of Chongqing, is fashioning himself a Chinese Henry Ford. "We are the biggest exporter of motorcycles in China," he declared.

Mr. Yin started out selling books in the 1980's, then engines and motorcycles in the 90's. Today, his company, the Lifan Group, has opened a 3.6-million-square-foot factory. He says his next goal is to export cars to the United States.

"That's how the Japanese got started," said Donald Brasher, who operates Global Trade Information Services. "Remember, in the 1950's, the Japanese started exporting motorcycles. And 20 years later, it was cars."

Lifan is not alone among Chinese businesses. The Chery Automobile Company has plans to ship inexpensive cars to the American market in 2007. And last month, another carmaker, Geely said at the Detroit auto show that it was working on a small four-door sedan that it could sell in the United States for less than \$10,000.

Mr. Yin's instructive slogans are plastered on his factory's facade, sometimes in big English-language letters. In an odd way, they echo the wall posters of the time of Mao Zedong and the Cultural Revolution, updated to reflect China's emergence as a key player in a global economy.

They are meant to inspire the staff, he said, pointing to a slogan that read, "One who earns money in China is a winner; one who earns money overseas is a hero."