

U.S. Commercial Service Market Brief
Featuring Bill Brekke, Senior Commercial Officer
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China Economic Stimulus

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Doug Barry: Hello and welcome to a special edition of the Commercial Service Market Brief. Tonight we have Bill Brekke with us, who is the Minister Counselor for Commercial Affairs from the American Embassy in Beijing, to discuss the Chinese government's economic stimulus package and what it means for American exporters. Bill, welcome to the program.

Bill Brekke: Thank you Doug.

Doug Barry: And we've been reading quite a bit here in the United States about this package just being proposed People's Republic government, and it sounds like a major spigot is about to be opened. You're there in Beijing today near the spigot, and can you give us an idea what will be coming out, how much it will be, and in what directions it will be flowing?

Bill Brekke: Yes, Doug. I'll do my best to do that. To begin with, the package is very massive in size. The initial injection over the next couple of months is about \$140 billion by the central government. In aggregate, that will be about \$600 billion over the next two years. That is just the central government portion. When you start adding in provincial governments and so forth, it will probably something in the neighborhood of \$1.4 trillion.

Doug Barry: Wow.

Bill Brekke: If you start off with the fact that the Chinese GDP is smaller than ours and that generally costs for construction and so forth here is less, you can see that there's actually - they get, you know, more of a bang for their dollar. It's not just the amount of money that's being injected that's critical. It's the other activities that are taking place immediately to stimulate the economy.

And we can break those down in many different ways. Just let me start the conversation by pointing out that they have already cut interest rates. They have already provided VAT rebates to firms, and they already loosening up credit. So these are three immediate actions that take place, and - which have already made it easier to do business in China.

The other aspect I think, which is broad brush but should be touched on to make a difference between what is being done in some western economies and the Chinese economy, is that this money is for projects. And unlike elsewhere where maybe money is going to finance the institutions to make them stronger, the Chinese don't need that. Central government, provincial government, municipal governments are flush with cash. So with nobody showing anybody up here, they're putting the money into real projects.

Doug Barry: Yes, and Bill of course the Chinese have been putting money into public works and infrastructure projects for quite a number of years now -- maglev trains from airports, huge dams, highway projects of all sorts, hotels going up everywhere.

What is materially different about this injection of cash as compared to all of these past projects, which Americans arguably have had some stake in and some opportunity to provide services and material in, but what is the magnitude of this and the opportunity for Americas that was different from the earlier injections of money?

Bill Brekke: Well I think it's important to go back and point out something, and that is where our trade relationship stands at this point. Perhaps many people know, but others do not, that China is our largest overseas export market. That's something that sometimes gets lost in the mix.

So what we're talking about is an acceleration of the investment in the economy that we're also talking about, you know, magnitude different than we would be with many other nations. Effectively, a lot of what's going to happen in the next two to three years isn't radically different than what we've seen the past. It is an extension of efforts that have taken place.

The differences are that if you're looking to - at the economy and how things are going way with infrastructure or with a different project area, that's basically our opportunities, are in the high end areas, and that's where they're getting to now. If you talk about building the railroads, which on any given slow year, around here they were pumping in \$40 billion. Now it's \$100 billion a year.

The things that are different is the track. A lot of it's down now. Now it's signaling equipment and picketing equipment, the high end but higher value added activity.

Solution if you go back - this is the 30th anniversary of the opening up of China. A lot of what has been done to date has been very fundamental. It's - now they've got the cash to put in the differences. And I would also emphasize two or three things that are national policy now.

If you were to look at energy efficiency or environmental equipment, these were things which were poo-poo-ed in the past. It was all about growing the economy. Since March of 2007 it's been the official policy of Hu Jintao and Wen Jiabao, which means the party, that China will move to a circular economy. Every official in the country is being judged on their ability - on their green work.

So it isn't build the power plant anymore; it's build an energy efficient power plant, it's build a clean power plant. So our sales in the environmental area and the remediation areas and energy efficiency areas are way up. So I guess what I'm saying is the difference is when you - they were poor, building the basics and getting the initial project to work was the goal.

Now it's sustainability and that's where the focus of the government is. That's where the high value product is. We don't need to be chipping concrete here. We need to be putting in the high value product.

And so they're willing to work with us on that. It's a tough market and that's why we're here to assist. But that's the difference between this economy, which has discretionary money to spend. And perhaps others who are still grouped with China are developing economies but actually are farther down the totem pole.

Doug Barry: And Bill when you say they're willing to work with us, does this suggest that the high government leaders are expressing willingness and a desire to open some of these projects to American companies? How well placed are we, and is it just going to be a matter of well the Chinese can do the majority of this work? After all, it's intended for their economy not to help to help the economies of their economic competitor.

Bill Brekke: I think the difference when you're looking at many developing economies is the last few percent that makes the - is the difference between an efficient project and one that's not. China has the ability to do the basic aspects that most industries, but it is the high value added and the sophisticated engineering that makes the difference between doing it right and wrong.

Last Thursday, the United States and China signed a ten-year framework in energy and the environment. The idea is to cooperate at the highest levels between US

government agencies and Chinese agencies to identify pilot projects and areas where we can cooperate for a technically - US technology will be displayed for the Chinese. And together we can put together a process for bringing this technology to the China market.

Now an example from a year or two was we have just recently sold four nuclear power projects here. We hope to sell four more, in the near future. So we're at a point where the Chinese do realize that they are going to have to expend capital on the very - the, you know, that that technology which makes the difference, be it green buildings, be it waste water management, be it integrated gas, combined cycle and so forth. And that's the difference.

Now are they tough negotiators? Right. Is it a country where logistics distribution and other issues still have to be worked out? It is. Is there one China market? No there's at least seven. Is there one set of cities you can target? No. You have the major cities, the second tier cities where half the wealth is, the third tier, the fourth tier cities.

And we have offices throughout China that can assist people with this, and we have people who have spent their life working here who can help explain to US companies how to get into the market as well as you may well recall that we have the United States government's largest intellectual property unit here and others who are all able to assist with helping US firms protect their interest prior to coming at the market.

Doug Barry: Oh sorry. Go ahead. I'm sorry for interrupting.

Bill Brekke: So we're pretty good at product validation and helping firms to get established.

The other things which are different -- and I'm sorry to go on so long on one point but to answer your question -- is China's interest in health care - national health care

programs, medical devices and so forth. This is a key area which was not focused on before.

And this is where the government is putting tremendous amounts of capital as well as we the US government are working with them to put up assistance for proper tendering and proper construction of schools and medical facilities and so forth.

So there's - wherever you look, there are nuances in airports, hospitals, devices, and what not. And that's where we're working with the Chinese.

Doug Barry: Yes. And we will touch briefly Bill in a couple of minutes on how the listeners in this program can get a hold of you and your staff to ask more specific questions about opportunities that may be there and that we don't have time in this program to go into in any detail.

But one of the things I was going to observe was that as you said, this is the 30th anniversary of the opening of the country to trade with the United States. And it's amazing in three decades the huge changes that have occurred, particularly the things have become a lot easier to do there. By no means is it an easy market; you pointed that out.

And with this huge infusion of funds that you described earlier, will they be going all over this vast country? And if so, what are the areas where Americans might think on concentrating, and how efficient do you think the Chinese government is going to be in shoveling this money out in a fast and efficient way?

We're having a little difficulty doing it here in Washington with \$300 - with \$700 billion, and I can imagine - or I'm trying to imagine what it would be like with a sum that's considerably larger than that in a country as large China.

Bill Brekke: I'm taking it in reverse order. They're much better at it than we are. This is a country which is comprised of mandatory five year development plans, which are corresponding to the five year plans of the national communist party and the national organizations. And then each year there is a work plan.

So what China is effectively doing is already taking work plans which are in place for the next three years and compressing them into two years. So they don't have to go out and think about it; they already got the plan. They operate different than we do.

And they won't be sitting down around the congressional round table and debating it. It'll be done. So - and some systems work better when it comes to getting the money out and getting decisions done. But the one party system -- when the word is put out, it's done.

So, let's not worry about them getting the money out. One, they don't have to borrow it from anybody. Two, the - every singular government in the country, be it provincial, municipal or national, is awash with cash. They just have to make certain that they don't - that they can avoid inflation and the other side effects of pumping a lot of capital into the economy quickly.

And of course the reason they're doing it this at this point is, you know, they did have the brakes on because they were worried about inflation. This is more or less loosening the purse strings for a while. And they will balance out growth versus inflation, and they'll do it in connection with the world economies.

On the how to get into the market, I think it's obviously conditional. There are traditionally certain avenues into the country, but one has to take a look at their industry. And clearly if one were in the consumer goods sector, you'd want to start in the major economies such as Beijing, Shanghai, Guangzhou and other coastal cities --

Hangzhou, Qingdao, places like this, where wealth is - discretionary income is extremely high.

For your other people who are involved with perhaps industrial plant and production and so forth of, you know, those are all major manufacturing centers as well, but they have more variety. So it's - for them the options with having - would start out with, you know, product validation, identifications market, working for - finding the right channels to market. And it can be quite variable.

I think that it's too much for anybody to start in the China market trying to take it all on unless they happen to have one of those unique products that fall into a - the category being carried by a transnational agent and distributor.

When that type of product does happen, the - and so it's - I can't give you one answer that fits your situation, but we're here to work with that. There are certain unique trading companies in this country or out of Hong Kong, what not, to carry product lines. And there's also the development in China of nationwide fulfillment companies, be they owned by our good friends at FedEx or UPS, or nation wide distribution companies be it such entities as Wal-Mart China.

So the problem in the past was no nationwide logistics system, no nationwide retail system. And all this is moving inland quickly. And they start doing the numbers and, you know, whatever -- 300 million Chinese that are middle class. Well, maybe you missed a billion, but that's 300 million, and that's more than we've got to start with. So the - it's worth the effort. One has to do their homework first. It's same as going anywhere.

Doug Barry: And Bill, we want to make sure we call attention to the viewers the contact information, the sector experts that you have the services that you provide in many

locations throughout China. All that information will be located near to where this audio program is activated by...

Bill Brekke: Right.

Doug Barry: ...our audience. And any last thoughts as we're running low on time now?

Bill Brekke: Well, I think the thing here is to be quick. There are questions that you raised yourself about getting money into the market and decisions being made. And there will be - there is a lag time anywhere, but the lag time in China will be less simply because they have national plans in place.

And if I were say to take the sectors such as airports and I sold airport equipment, you know, this is one where they're going to build 60 new airports right off the top and upgrade another 100. You know, I could just look at that and say, "I can get on the plane and go with meet with somebody, or I can ask for the report." I guess that's the better process to start the wave.

So my comment would be that now's the time- thanks for listening to the broadcast. Take away from this the fact that you should do a little research, because this program is going to move quickly. And China has a five year plan, which will be wrapped up in 2010 and start moving on to the next one.

So if you had to come up with a corporate plan for yourself, you should be thinking, "Where will I be at the end of 2010 at the end of the eleventh five year plan before jumping into the next one?" Those are the timeframes I'd work on. Move quickly, short and medium term and we'll work with you on the products out of the - whether the channels to market e-basic marketing facts.

Doug Barry: Great. Bill. This has been an excellent tour of a very important topic to US businesses across the country of all sizes. We want to thank you for being with us today and we look forward to talking to you again soon.

Bill Brekke: Well, thank you very much.

Doug Barry: And ladies and gentlemen, thank you for taking the time to be with us on this special broadcast with Bill Brekke, the Minister Counselor at our embassy in Beijing, China.

You can learn more about all of our programs, including all of those that we've heard about on this broadcast, by going to www.export.gov. And now on behalf of my colleagues in China and around the world, this is Doug Barry in Washington thanking you for being with us and look forward to seeing with oh another commercial service market brief. Thank you.

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