



ET2C International Inc



facilitating international trade & providing access to global markets

The 'Bear' and the China Shop?

With excess liquidity, raw material volatility (including oil) and inflationary pressures in emerging markets, companies with purchasing channels in low cost countries ("LCCs") need to understand the global economic environment within which they are operating more than ever to leverage the maximum benefit.

Over the past decade, China has consistently held down global prices and there is now a sentiment that China, as well as other LCCs, is responsible for exporting inflation within manufactured goods to developed countries, which have for so long been the largest benefactor of the low cost Chinese manufacturing base. Add to this, the lack of consumer confidence in the United States and the Eurozone, the recent credit crunch, the oil market spikes, which have all culminated in a bear market on the US stock exchange (officially as at July 3rd), the current global outlook is bleak.

On the China front, yes, the RMB has appreciated just under 10% against the US Dollar over the past year and this directly impacts on unit cost. It is worth highlighting, however, that across other LCCs there is also significant currency appreciation of over 20% (e.g. Brazil and Czech Republic). Recent surveys have suggested that currency is the second most important factor (behind raw material prices) that Chinese exporters have cited as impacting on their businesses. This point is unlikely to have fallen on deaf ears within Central Government and based on the tight-rope that they need to walk between social unrest and economic growth it is unlikely that a one-off revaluation is currently a possibility as it would be detrimental to the Chinese exporting base and, more pertinently, the millions of people working within the industry.

The Central Government will use other measures to contain the inflation and maintain economic growth; in particular strengthening its capital controls. Only this last week, although the details are not yet confirmed, the State Administration of Foreign Exchange ('SAFE') has announced that they are strengthening the measures in place for currency exchange to limit the amount of "hot money" (i.e. speculators or funds that are not for justifiable trading purposes) entering China. The suggestion is that there will be specific accounts that such money be placed into until it is verified as well as documentary evidence that it is for trading purposes. The idea is that inflows coming into China, in particular on the basis the RMB will appreciate, will be limited which will help prevent excess liquidity in the money supply. This latest measure may have wider implications in terms of how and where vendors are paid. Whatever the implications (once the full details emerge), we believe that as a legitimate Chinese entity ET2C is well positioned to assist our clients and our initial thoughts are that it will ultimately enhance the Chinese manufacturing base.

In the current economic climate, it is important to maintain efficient purchasing channels within whatever LCC you are outsourcing your production to. ET2C's business model allows for flexibility within these LCCs and through its established base in China and, more recently, the presence in Vietnam, we are constantly looking for opportunities for our clients to maximise the benefits of sourcing overseas. Whether it is ensuring the 'cost' of quality rejects is mitigated, providing access to new markets or even working with our logistics & warehousing partners to tailor completely integrated sourcing solutions to your needs. There are also opportunities to work with us to import products into the local Chinese market.

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