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## Continued rapid growth expected in China



Developments in China are having an increasingly significant impact on our branch. The PCB industry there has grown very rapidly since 2000 and today China is the biggest producer of PCBs in the world. In this newsletter, head of the NCAB Group's operations in China, Jack Kei, gives us his view of developments there.

China's road from a developing country with an inefficient planned economy to becoming the factory of the world, with a flourishing market economy, started in 1979, when the government opened the door to foreign investment and international trade. The development started in southeast China, after which its spread and accelerated during the decades to follow.

Jack Kei recalls 1997-2007 as years of extremely rapid economic development, with China's GNP growing by 15% annually.

This was followed by the financial crisis and economic downturn in 2008 – 2009. China's economy slowed down, although it continued

to grow at a much higher rate than the world economy as a whole. During those two years GNP fell globally by 1.4% , while in China it grew 8.3%.

“That growth was maintained thanks to extensive government investments in, for example, motorways, the 3G.mobile network, high-speed trains and rebuilding the province of Sichuan after it had been hit by the major earthquake in 2008.” Says Jack.

“The banks have also kept their interests rates low and the state has subsidized the purchase of technology by operators in the private sector in rural areas.”



**JACK KEI** Managing Director, Factory Management, NCAB Group China.

**LOW CONSUMPTION CHALLENGE**

This year has seen the economy start to recover after the crisis and the forecast for China points to an expansion rate of 9.5%, which can be compared to the equivalent figure for global growth of 4%. However, Jack feels that while growth in China will remain at a high level during the next five years, it will not do so at the same speed as the decade preceding the crisis.

Jack does not foresee a repeat of the 15% growth rate levels, due to character of the Chinese economy. “The government makes major investments, while consumption remains low. We have a rich state, with a less rich population.” he says.



Economic policy in China is thus focusing on increasing income levels. These have risen by 17% on average this year and wage costs will continue to rise in the years to follow.

“This is basically positive for the economy.” says Jack. “People have more money in their pockets for consumption, which makes for a healthier economy and encourages growth. At the same time, the government will try to keep inflation stable.”

**CURRENCY INCREASING IN VALUE**

The exchange rate between the Chinese currency RMB and the US dollar is another current issue. The United States has been unhappy with China’s currency policy, saying that it gives China unfair trade advantages.

Jack says that this is basically a question for President Obama and Premier Wen to sort out. “We are of course keeping an eye on developments. This year, the exchange rate against the dollar fell from 6.85 to 6.70 and I think this trend will continue. Economists are saying that in a few years’ time, the exchange rate will settle at 6.50, providing we don’t get a new recession.”

On the question of when we may see a democratization of the political system, Jack thinks that the current focus in China on earning money will continue for some time to come. It won’t be before everyone has attained a more comfortable living standard that the issue of real democracy will be seriously looked at.

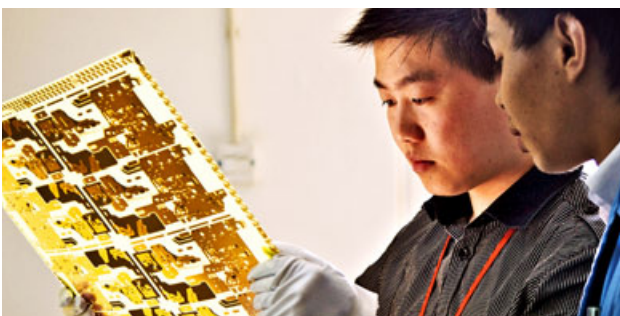
# Bigger and fewer factories



**ANNA LOTHSSON** Strategic Purchasing Manager; **Jim Liu**, Factory Supervisor and **Aaron Dai**, QC Engineer from NCAB Group follow-up corrective actions from the previous audit in one of our main factories.

## THE FACTORIES SURVIVED THE CRISIS

Turning to the PCB industry specifically; it started on a modest scale back in the late 1980s, but didn't really take off until 2000. In the



years before the crisis, the industry expanded at an annual rate of 18%. During 2008 and 2009 it declined 5.2%, which was still far lower than the corresponding figure of almost 15% for the world as a whole.

Jack recalls that almost everybody was expecting many PCB factories to disappear. "However..." he says, "...we have just about the

same number of factories today as before the crisis, about 3000 units. Many factories, about 20-30%, did have to close down, but since there was plenty of risk capital available in China, new investors moved in when those factories went bankrupt."

The state's efforts to build up, for example the 3G mobile network, helped to maintain demand for PCBs during the crisis. 2010 has marked the start of a strong recovery process within the PCB industry, which has expanded 18.6% in China, 5% more than the global industry as a whole.

## NEW FACTORIES INLAND

"What is going to happen during the next five years is firstly that new factories will be established inland in eastern China rather than by the coast," says Jack. "This is a consequence of stricter environmental regulations and increased labour costs. Secondly, it will become harder to persuade people to move to the developed regions by the coast, as it is becoming easier for them to find work in their own regions."

The established factories in Shenzhen and other coastal cities will continue to operate there, but to meet increased capacity needs, manufacturers will build new factories in new areas inland.

Jack Kei sees this as a positive development for the NCAB Group since, as he puts it: "It is possible to restructure operations in a favourable manner. The old factories on the coast can be used for more advanced manufacturing and the new ones inland, for more basic manufacturing at a lower cost."

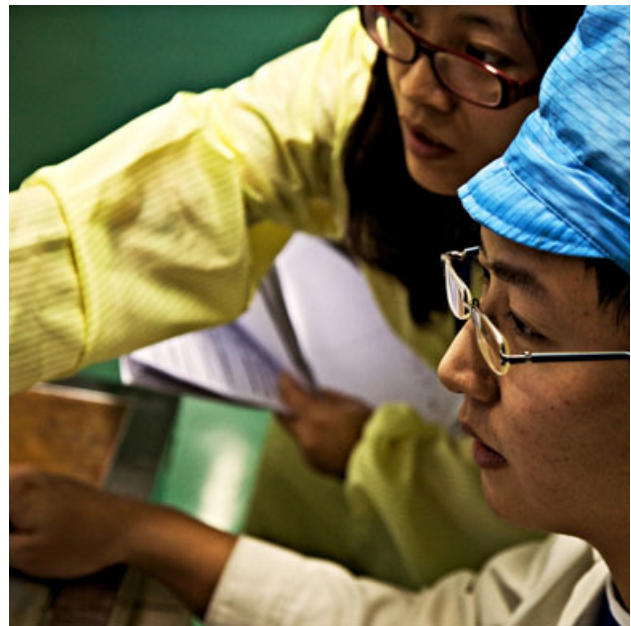
**BIGGER AND FEWER FACTORIES**

Another clear trend within the Chinese PCB industry is that the major manufacturers are becoming even bigger. We are seeing a concentration to bigger and fewer factories. Prior to the crisis, the hundred biggest factories had 40% of the business. Today that figure has increased to 60%. This is a natural development considering the challenges that the industry is facing today.

"The biggest challenge is the rising costs," says Jack Kei. "Raw materials such as copper, gold and chemicals are becoming more expensive and their prices will continue to rise during the next few years. As I mentioned, wage costs will also increase, while the rate of exchange will move to levels that will impact negatively on China's exports. To deal with that, we need to increase efficiency."

Manufacturing costs can be reduced by the factories extending their capacity and thus gain economies of scale. The factories are also considering a variety of measures to boost their cost efficiency, such as personnel cuts and increased automation. They are also aware that improved quality also leads to lower total costs and are focusing on ways of improving the quality of their products.

Jack Kei is convinced that China will, despite its cost issues, manage to retain its strong position as a PCB manufacturer and continue to expand faster than the rest of the world during the next five years. "No other low-cost country..." he concludes "...can boast such a mature and well established delivery chain within this area."



**"The biggest challenge is rising costs. To deal with that, we need to increase efficiency."**

**SAYS THE HEAD OF THE NCAB GROUP'S OPERATIONS IN CHINA, JACK KEI.**

**THE PCB INDUSTRY IN CHINA**

- China accounts for 35% of global production, making it the biggest single producer of PCBs.
- Between 2000 and 2007, China's PCB industry expanded by 18% on average .
- The industry declined in China by 5.2% in 2008 – 2009 compared to a global decline of 14.8%.
- It is estimated that the industry in China will expand by 18.6% in 2010, compared to 13.6 in the rest of the world.
- China's PCB industry is expected to grow faster than anywhere else during the next five years.
- 60% of China's PCB factories are situated in southern China, 30% in eastern China, which is now expanding rapidly, and 10% in northern China and other regions.