

Purchase Order Financing- The China Advantage

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Purchase Order Financing- The China Advantage explores why manufactured imports from China to the United States of America are on the rise and how you can benefit from this trend with purchase order financing a from commercial finance company.

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As of July, 2007, the Central Intelligence Agency for the United States government estimated that the population of China is over one billion three hundred twenty one million people. In contrast, the population of the United States is estimated to be a little over three hundred two million people. That's 1,321,000,000 versus 302,000,000 people; China has over four times the population of the U.S.

{bot_wrgoogle}In the past two decades China has completed and put into operation over 2000 large and medium-sized industrial projects; these include railways, atomic power stations and completely new cities. There has been ginormous investments in other fixed assets such as basic industries, 100,000 new reservoirs for water storage, irrigated land, coal mining, oil-drilling, steel-making, power generation, highway construction, and newly constructed and extended ports.

China has the world's largest manufacturing workforce- over 100 million people. In comparison, there are about 14 million manufacturing workers in the United States. China's labor costs are low compared to the United States and many other parts of the world. As of 2002 statistics indicate that employees in China's city manufacturing enterprises received about \$0.95 per hour; rural workers average about half this amount: \$0.41 per hour. A large majority of manufacturing employees work outside the cities. They earn about 3% of the average hourly compensation of factory workers in the U.S. and many other developed countries. With low land costs and low labor costs it is no wonder that the cost advantage to manufacturing in China is extremely attractive to American entrepreneurs. When their products are manufactured with sufficient quality controls, the cheaper costs and effective delivery systems create a win-win situation for those who are able to participate.

Manufacturing is a basic Chinese industry. When you take raw materials and labor and produce products that can be sold in high quantities at a lower cost than U.S. competitors, and successfully import to them to the U.S. and it is possible to have excellent returns on your investment. And China's political and economic system is relatively stable compared to other developing nations such as many countries in Africa.

What is the approximate size of the trade in goods from China? According the U.S. Census bureau, Foreign Trade Division, imports from China in 2006 were over \$287 Billion dollars; for the first five months of 2007 imports from China were over \$120 Billion dollars.

What are the main categories of products imported into the U.S. from China? This includes iron and steel products, specialized industrial machinery, office machines and computer, telecommunications and sound equipment, electrical machinery and parts, road motor vehicles, building and lighting products, furniture, travel goods and handbags, footwear, professional, scientific and controlling instruments, photographic and optical equipment, timepieces,

personal care products, and food products such as tea. According to the American Electronics Association, high-tech imports from China are on the rise.

What are some of the main risks associated with doing business with a manufacturer in China? We do not speak the same language, so a good interpreter is necessary. Our legal systems are completely different and the Chinese legal system is complicated and weak. Therefore it is vital to develop good relationships with the proper trading partners. It is also important to have excellent international legal counsel to comply with the complexities of contract law, local Chinese law and relevant U.S. law. Protecting intellectual property is a challenge in China.

What does this all have to do with purchase order financing? International purchase order financing is complicated and complex in details, but the concept is simple. If you have a product that can be manufactured in China, and you have made the proper arrangements for production and shipping but lack sufficient capital to finance the transaction- with a large purchase order from a creditworthy customer a commercial finance company will agree to have their bank issue a Letter of Credit to guarantee that the Chinese factory producing the product will be paid. When the goods are shipped and delivered to your customer the commercial finance company pays the Chinese factory. Between 70% and 100% of the product's cost may be financed depending on the product's gross margins and the risks involved. Purchase order financing may facilitate your exponential growth and profits for all concerned.

When your customer is invoiced for the product an account receivable is created which will be paid to the commercial financing company. Purchase order financing with an international letter of credit can make the deal possible. Accounts receivable financing, or factoring, is the back end financing that guarantees payment to all concerned. The expertise of the commercial finance company can be invaluable with regard to helping you succeed in this challenging marketplace.

A wise man once said if you put a flea in a jar with a lid, the flea would keep jumping into the lid time after time. After a while if you take the lid off, the flea will only jump as high as the lid. Why limit your potential when it is just as easy to set your expectations higher? For businesses that sell manufactured products to other businesses, purchase order financing may be the way to reap the benefits of the China advantage.

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