

# Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



## American Profit from Made in China

On this website we often take a look at offshore investing opportunities. An interesting [international investment strategy](#) is to stay home and invest in companies that have their goods manufactured in China. The point of this strategy is not just to profit from the low cost of Chinese labor and to run up the United States trade deficit with China. There is fact a handsome American profit from Made in China. In fact, if American companies decide to move manufacturing back to this hemisphere to Mexico, for example, it will be because they can increase the portion of Made in the USA parts in their products, design work, transport and marketing before importing them back into the USA. The San Francisco Federal Reserve published a study in 2011 looking at the [U.S. Content of Made in China](#).

*Goods and services from China accounted for only 2.7% of U.S. personal consumption expenditures in 2010, of which less than half reflected the actual costs of Chinese imports. The rest went to U.S. businesses and workers transporting, selling, and marketing goods carrying the "Made in China" label.*

If you want to pursue an American profit from Made in China, just where should you invest? Goods Made in China need to be transported back to the USA for sale. Shipping companies, companies that handle logistics, companies that design products, marketers and retailers all get a piece of the action from products Made in China. Companies that design and manufacture high tech parts that are sent to China for assembly into finished products benefit especially from the Made in China scenario.

### Apple as an Example

A \$650 iPhone made in China requires about \$170 in parts which are manufactured in the USA, Germany, Korea, Japan and other countries. About \$10 worth of parts comes from the USA. The Chinese manufacturer makes around \$6.50 for putting together the pieces, boxing them up and sending a finished product out the door. Apple does not pay \$650 but rather around \$225. That leaves about \$425 to be divided up for transportation, marketing, retail sales, etc. (An argument made for moving manufacturing of products to Mexico is that a larger portion of internal parts could be from the USA.) Think of having \$160 in parst from the USA instead of \$10 for the iPhone example.

### Rising Labor Costs in China

An argument for moving production to the Western Hemisphere, especially Mexico is that the cost of Chinese labor has been going up dramatically. To the extent that this eats into

American profit from Made in China products it may drive production out of China to countries where labor remains cheap. If you are interested in your own share of the American profit from Made in China you need to do your own analysis of the [intrinsic value of overseas investments](#). How stable are labor prices in China? Will the need to maintain political control in China force the powers that be to continually raise wages to keep the populace happy? What if the ever-suspected housing bubble collapse actually happens? Will the cost of production fall or will it rise? Imagine a totally revamped China with a democratic government and strong labor unions. Now consider what would happen to your share of the American profit from Made in China.

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