



BOEING LOOKS AHEAD TO CHINA, WHICH COULD BECOME ITS FIRST TRILLION-DOLLAR MARKET

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Donald Trump might have a problem with Boeing, but the U.S. aviation giant is looking ahead—towards China.

In 2016, China bought 164 airplanes from Boeing, amounting to about \$11 billion, and making the country its largest customer. Boeing hopes to keep it that way.

“This is a great opportunity to strengthen Boeing’s deep and historical ties with China. More important than just a market, it’s about working shoulder-to-shoulder with all of our Chinese partners,” said Raymond Conner, vice chairman of Boeing, at a recent U.S.-China relations event in New York.

Boeing expects China to become its first trillion-dollar market. It projects the country would need more than 6,000 new commercial airplanes to accommodate its expanding aviation needs for the next two decades. And Conner said China would account for 30% of all of Boeing’s 737 airplane deliveries produced in Washington, as well as about 25% of all airplane models made in Washington and South Carolina. Such orders would continue to support 150,000 U.S. jobs a year, said Conner.

The Trump card

The bad news: a series of tough trade policies toward China, if the President-elect keeps his campaign promises.

Imposing high tariffs on Chinese imports would cause potential retaliation. China would play a tit-for-tat approach, resulting in big losses for Boeing which is already facing some tough times. There’s increased competition and a slowing order environment both domestically and internationally. Its third quarter revenue decreased by \$1.9 billion to \$23.9 billion, compared to the same period last year.

Asia—and especially China—remain important growth markets for Boeing, accounting for nearly 40% of total new airplanes needs for the next two decades, according to the latest Boeing outlook report. The company can’t afford for its “orders [to be] replaced by Airbus,” as proclaimed by the state-owned Global Times in November.

But, to be fair, this negative outlook is all dependent on how the Trump administration decides to play its cards. For now, some analysts say it is better to look at the Chinese market in the long run.

“I think the key item to note is the long-term drivers which are in place in China to promote growth,” Jeff Windau, a senior equity research analyst at Edward Jones, told FORBES ASIA.

“A rising middle class is helping to drive increases in airline passenger traffic in Asia. That is helping to promote travel inside of China and internationally, thus, Chinese airlines will increase demand in new airplanes,” he added.

Moving forward

Last year, Boeing announced a historic agreement to build its first offshore facilities in China during Chinese President Xi Jinping’s visit to the U.S. last year. In partnership with the Commercial Aircraft Corporation of China, it will aim to deliver around 100 Boeing 737 planes a year.

Boeing vice chairman Conner called this move a “natural progression” as it allows Boeing to bring its products closer to Chinese customers. This would free up capacity in the U.S to increase production rates, creating a win-win situation for both countries.

“We invest about \$1 billion every year to support China’s aviation industry, and Chinese suppliers

have roles in every one of our commercial airplane models. China is enormously important to our success as a company and as a major U.S. exporter,” Conner explained.

Boeing in China

Among the very first U.S. companies entered China, Boeing's long history with the country started shortly after U.S.-China normalized diplomatic relationship in the 1970s thanks to Henry Kissinger—the man behind the normalization who made it possible for many more U.S. companies to establish businesses in China later on.

Starting out from signing supplier contracts with Chinese partners, Boeing has developed strong ties with the country today. It has hosted every Chinese top leader since Deng Xiaoping in 1979. Most recently, company executives accompanied President Xi on a tour of Boeing facilities in the U.S.

Besides a growing demand in commercial airplanes for traveling purpose, Conner said China's booming e-commerce industry could become the next big hit for Boeing. China's e-commerce market is already the largest in the world, with sales expected to reach \$900 billion this year, [according to eMarketer](#). The Chinese government is aiming to increase that number to \$5.7 trillion a year by 2020, [according to a Ministry of Commerce report](#).

Earlier this year, Boeing offered a passenger-planes-to-freighters conversion program, allowing Next-Generation 737s to carry up to 52,000 pounds of cargo long distance. So far, 30 Chinese companies ordered the converted freighters, and another 13 have committed to the program, including China's delivery giants YTO and SF Express.

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