



GLOBAL IMPACT



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Dear Friends:

Whether you're pursuing new markets or negotiating new deals, opportunities and risks will follow. Doing business in China is no exception.

This country of 1.3 billion people is emerging as an economic powerhouse. Read what's occurring today and what it may mean for tomorrow. (Pages 1-2)

The high seas have never been rougher. In fact, the first six months of 2003 have been the worst on record in terms of maritime piracy. Read how to keep your crew and property safer. (Page 3)

Although a number of improvements have helped prevent and control spills in marinas, more needs to be done. We've provided a few thoughts to consider. (Page 4)

We hope you enjoy this issue and, as always, we welcome your comments.

Sincerely,

John A. Rowney
Division President
Ocean Marine Division

IS CHINA PART OF YOUR '04 STRATEGIC PLAN?

CONSIDERING THE OPPORTUNITIES AND RISKS

In 2002, China was ranked as the fastest-growing export market for U.S. goods. As a result, China has moved from the United States' ninth- to its seventh-largest export destination, having bought \$22 billion worth of U.S. goods. If exports to Hong Kong were included, that ranking would be fourth place.

Another very important measure of China's economic impact is its ability to attract global foreign direct investment (FDI). Although the United Nations estimates that worldwide FDI flows shrank 27 percent from 2001 to 2002 (to about \$534 billion in 2002), the Organisation for Economic Co-operation and Development (OECD) reported that FDI flows into China increased to nearly \$53 billion. That figure surpassed U.S. FDI flows of \$30.1 billion, leaving China the world's top FDI destination.

In addition, according to the World Trade Organization (WTO), Chinese world imports increased by 21 percent to \$295 billion from 2001 to 2002. And the potential for further growth is staggering. By way of contrast, U.S. world imports only rose 2 percent. How will China's emergence as a global economic powerhouse affect your company?

CHINA AND THE WTO

Part of China's recent growth and FDI attractiveness is attributable to its December 2001 accession to the WTO. As part of the conditions for membership, which required 15 years of negotiations, China agreed to



reduce industrial tariffs from a 1997 average of 25 percent to 8.9 percent. Most reductions are expected to take effect by January 1, 2005, with the remainder completed by 2010, according to U.S. Department of Commerce.

Significantly, China also agreed to accord individuals and enterprises from WTO member states treatment that is no less favorable than that accorded to Chinese enterprises with respect to trade rights. China is also expected to eliminate non-tariff barriers and use a tariff-rate quota for some agricultural products, as well as to improve its intellectual property protection.

CHINA'S WTO PERFORMANCE THUS FAR

China's progress toward economic liberalization has been gradual and accumulative, and needs to be viewed in an historical context of tremendous social, political and economic upheavals over the past half-century. Nevertheless, short-term assessments of Chinese compliance with its WTO commitments thus far have been generally positive, though areas for improvement remain. Robert Zoellick, U.S. Trade Representative, said China made significant

Continued on page 2

Continued from page 1

progress in implementing its WTO commitments. However, he also expressed serious concerns in some areas where implementation has yet to occur or was considered inadequate.

The U.S.-China Business Council concluded that tariff reductions appear to be occurring satisfactorily and noted that for certain products China has lowered tariffs ahead

of the WTO schedule. However, the council expressed reservations about such issues as transparency and freedom of foreign firms to expand their scope of business in China.

THE UNDERVALUE OF THE YUAN

China took center

stage in the U.S. media the week of Labor Day when Treasury Secretary John Snow visited Beijing. At issue was the value of China's currency, the yuan, which many believe has been fixed to the U.S. dollar for decades and not allowed to be traded freely on world markets. As a result, the yuan, also known as the renminbi, is believed to favor Chinese exports and discourage Chinese imports.

In testimony before a U.S. House of Representatives subcommittee in May of this year, National Association of Manufacturers Vice President Frank Vargo said, "China's initial track record shows many positive achievements, but there are some problems that have already become evident." He cited China's manipulation of its currency, which some economists believe may be undervalued by as much as 40 percent compared to the U.S. dollar.

CHINESE ECONOMIC GROWTH CONTINUES AT A RAPID PACE

China's gross domestic product (GDP) growth averaged 10.1 percent annually during the 1980s and 10.7 through the 1990s, the highest in the world according to the World Bank. With an estimated population of 100 million middle class consumers, which is expected to double in just a few years, China's purchasing power cannot be ignored.

Although the damage caused by SARS will negatively impact China for some time, sound economic expansion continues apace. Growth of the Chinese economy measured in GDP was approximately 8.0 percent in 2002, and

is anticipated to climb approximately 7.5 percent in both 2003 and 2004, according to the International Monetary Fund. China's annual GDP is now approximately one-ninth of U.S. GDP and represents 3.6 percent of world output, according to Kei-Mu Yi of the Federal Reserve Bank of New York. Kei-Mu Yi predicts China's output will equal that of the U.S. between 2017 and 2027.

A MANUFACTURING GIANT

More than two-thirds of world inbound investment in China is directed to the manufacturing sector. And a larger portion has been flowing into higher value-added sectors such as semiconductors. Yet, investors continue to resist transferring their highest value-added operations to China, according to the U.S.-China Business Council.

A growing number of foreign component suppliers also are establishing facilities in China — a precursor to the emergence of FDI-led integrated supply chains. A strong domestic supply chain, something Mexico and other low-cost Asian producers have not been able to establish, is an important factor helping to position China as an increasingly attractive manufacturing base.

Additional factors, such as less expensive labor, energy, water, and taxes, as well as subsidized inputs, have led to a shifting of sourcing from Mexico and other low-cost producers to China for various goods.

MANY CHALLENGES AHEAD

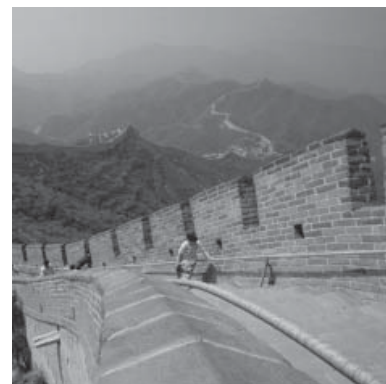
Due to the tremendous economic and political changes occurring in China today, its new nine-member Politburo Standing Committee has many challenges ahead.

For example, social unrest is feared if strong economic growth does not continue. Plus, as China continues to implement its WTO-mandated liberalizing plans, competition from abroad could seriously hurt inefficient Chinese sectors, including agriculture and state-owned enterprises.

With a growing population of 1.3 billion people and tremendous future prospects, China is emerging as a beneficial place to do business. Nevertheless, the law of the yin and the yang applies: with opportunity comes risk. ■



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HIGH SEAS SHIPPING BECOMES MORE DANGEROUS: HOW TO PROTECT YOURSELF

Maritime piracy is on the rise. In fact, the first six months of 2003 have been the worst on record, according to a July 2003 International Chamber of Commerce Commercial Crime Bureau (ICC-CCB) report. And, due to lags in reporting or unreported attacks at sea, the numbers may very well be higher.



What risks does piracy pose to your interests and what steps can you take to avoid becoming another statistic?

THE BAD NEWS

From January through June 2003, there were 234 reported attacks by sea

pirates, representing an increase of 37 percent from the same period last year. This resulted in 16 people killed, 20 missing, 52 injured, and 193 taken hostage (twice as many from the same period last year), according to the ICC-CCB. In addition to the human costs, the financial burdens have been enormous.

THE WORLD'S PIRACY HOT SPOTS

Indonesia continues to be the most dangerous area for ships. With its narrow waterways and many islands providing safe havens for criminals, Indonesia was the site of more than one-quarter or 64 of the world's attacks from January through June 2003, according to the ICC-CCB. This is not likely to change unless the government of Indonesia makes policing this area a priority. Bangladesh is the second worst area, with attacks there doubling to 23. Nigeria and India follow, with 18 attacks each.

According to *Piracy and Armed Robbery Against Ships*, published by the ICC-CCB, the following 10 areas were responsible for two-thirds of pirate attacks in 2002: Indonesia, with 103 attacks; Bangladesh, 32; India, 18; Malacca Straits, 16; Malaysia, 14; Nigeria, 14; Vietnam, 12; Guyana, 12; Ecuador, 12; and the Gulf of Aden, 11. (To request a copy of the report, e-mail imb@icc-ccs.org.uk).

WHAT YOU CAN DO TO REMAIN SAFE

The International Maritime Organization (IMO) recommends

prevention and/or reduction of risk over all other courses of action. Preventing criminals from even approaching ships is ideal, but if this is not possible, the IMO suggests that all ships have a well-rehearsed security plan in place. Early detection, the IMO says, is the best method of prevention.

To protect yourself at sea, the IMO suggests the following:

- Reduce temptation — keep minimal cash in the ship's safe.
- Use caution when transmitting sensitive information by radio and speaking to people at port.
- Keep offshore anchor time to a minimum.
- Maintain vigilance and radio watch in dangerous areas.
- Utilize maximum lighting consistent with safe navigation.
- When pursued by pirates, sound alarms, utilize evasive maneuvers and water hoses, and ride off the attacker with heavy wheel movements.
- Secure all doors allowing access to the bridge, engine room, steering gear compartments, officers' cabins, and crew accommodations.
- The use of firearms is strongly discouraged since it may encourage attackers also to carry firearms.
- If your ship is in imminent danger, use distress flares. (For more tips and information, visit www.imo.org).

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In addition, new technologies are emerging which will help prevent attacks. For example, *Secure-Ship* is a non-lethal, 9,000-volt pulse electrifying fence that surrounds the whole ship.

And *ShipLoc* is a satellite tracking system that enables shipping companies to continuously monitor ship locations and, thus, suspicious activity.



STAY ONE STEP AHEAD

Sound planning and caution will undoubtedly help prevent pirate attacks. And, regardless of the severity of an incident, it is essential to inform authorities as soon as possible. Importantly, keep a record of where, when and how boarding attempts or attacks occur — and put this information to work to achieve safer seas. ■

MARINA POLLUTION PREVENTION AND CONTROL

WHAT YOU CAN DO

Prevention and control of oil and gasoline spills in U.S. marinas are becoming more effective.

This is due to improvements in the design and operation of boats, enforcement of standards and navigational procedures, and innovations in clean-up equipment and procedures.

Although small spills are easier to control and clean up than large spills, an immediate and well-executed response is key to successful oil spill mitigation. The following are a few thoughts to consider:

ISOLATE THE AREA AND RESTRICT ACCESS

In a spill area, cigarette smoking and running boat motors can turn an environmentally threatening situation into a potentially deadly situation for both human and marine life. Therefore, it is vital to contain the area and restrict access to those involved in the clean up.

IMMEDIATELY DEPLOY SORBENT BOOMS

The ship's spill kit should be readily available and a boom should be

deployed along the deck to prevent oil from getting underneath. Because oil destroys styrofoam floats and is difficult to clean up if it gets trapped beneath docks, booms should be deployed along the deck. Containing the spill is also crucial. Therefore, booms should be deployed around the outer edge of a spill to prevent it from spreading. Keep in mind: an oil spill can spread from 30 to 60 times its original size in a short period of time.

DISPOSING OF OILY SORBENTS

When sorbent booms are saturated with oil from a spill, they constitute hazardous material and must be disposed of accordingly. To avoid spontaneous combustion, oily booms should be placed in sealed containers and kept out of the sun. A hazardous waste disposal firm should then be contacted.

ENGAGE SPILL CONTRACTORS AS NECESSARY

While most marina spills do not require the services of a professional oil spill contractor, be familiar with

local contractors in the event the spill gets out of control or is not mitigated in a timely manner.

NOTIFY ALL APPROPRIATE AUTHORITIES

Failing to report a spill will result in the largest penalties for accidental oil discharge. All spills should be reported responsibly and quickly, so it is advisable to keep a list of required notifications and phone numbers on hand. The list varies from state to state but, as a general rule, should include the U.S. Coast Guard, EPA and Department of Environmental Conservation.

WRITING YOUR REPORT

When completing your report, document the date and time of the accident, note the name and title of the individual to whom you are reporting the incident, and write down the incident report number. In addition, be sure to include your name and location, any injuries, the type of oil and an estimated amount spilled, the cause of discharge, and measures taken to clean up the spill. ■

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