Shanghai Flash

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Next on the Spotlight

The Yangtze Delta Region (YDR) at the Eve of Expo
(with the latest data of Swiss presence)

I. Signs of stabilised bottom

Amid the thickening global gloom with unclear depth and duration, **China seems to be turning towards the half light moments**, illumined by the recent fresh economic indicators[1]. The country has been striving for an **economic growth target of 8% for 2009**, while **the Shanghai led Yangtze Delta Region (YRD),** China's economic powerhouse, is aiming at **a GDP increase of above 9%**. Whether the official target could be in reach is somehow doubted, yet credible forecasts by private sector economists still range from 5% to 8%. On one hand, people with closer links to the top authorities tend to think more positively in expectation of further stimulus measures in the pipeline, or are at least confident about the final result by official numbers. On the other hand, people from the east coast Shanghai region witness that their region is putting up heavy infrastructure investment again, determined to be shining on the spotlight for six months during the World Expo 2010. It might be too early to conclude a recovery, but the decreases are narrowing and it is believed that the global bottom out, no matter when and how, will be well related to China, which has risen to become the world 3rd largest and one of the fastest growing economy today .

Some of China's 1st quarter data signalled that the economy has stabilised at a slower declining pace, starting to react positively to the government's huge stimulus plan[2]. Without detailed numbers, the Shanghai region also reported better-than-expected economic growth for the first three months of 2009. The Purchase Management Index (PMI)[3] of China's manufacturing sector has increased for four consecutive months since last December, reaching 52.4 in March. Unlike the global credit crunch, China reported a record surge in bank loans and money supply in March. The 1st quarter's bank lending (totalled RMB 4'580 billion) is approaching the government's full-year target of RMB 5,000 billion.

However, it is too early to announce that China will be the first to rebound, as negative indicators still show continued weakness. As a result of the collapsed demand from the US and Europe, export has declined for 6 straight months. The FDI in China fell for a fifth consecutive

1 China's economy grew 6.1% in the first quarter 2009, down from 6.8% in the fourth quarter of 2008. It is the slowest growth in 20 years, but other date as industrial production and investment show encouraging signs.

2 As part of its efforts to cope with the global financial crisis, last November Chinese central government launched a four-trillion-yuan (about USD 586 billion) stimulus package with ten industrial revival policies to provide several pillar sectors with funding support, tax breaks and other favourable policies.

3 An indicator that reflects market dynamics in a timely way. It is generally believed that when the PMI is above 50, it indicates that the overall manufacturing sector is expanding, while below 50 indicates that the overall manufacturing sector is contracting.

month since last November. Due to the heavy dependence on external consumption, industrial outputs, especially in the coastal Shanghai region, remain low despite of the stimulus plan.

II. A quick look at the hard fact of 2008

China overtook Germany to become the world's third-largest economy after the US and Japan, and won the most gold metals at Beijing Olympics in 2008. But its economy declined to **a seven-year low of 9% growth last year**, as a result of both the world financial crisis and nature disasters of earthquake and snowstorm. It was also the first time since 1992 that **Shanghai reported a under double-digital GDP growth rate of 9.7%,** marking a sharp deceleration from the previous 13.3%. The other two foreign-market oriented provinces in the region, Jiangsu and Zhejiang, showed a similarly sharp slowdown in their growth rate.

Nevertheless, China's development in the last decade was indeed huge and it presents one of the very few economies that are still expanding. Meanwhile, **the YRD, with 2% of land area and 10% of the country's population, continued to contribute more than 20% to the total GDP.**

Influenced by the credit crisis, number of FDI projects decreased in China but actually utilised capital has increased. It is also noteworthy that **Shanghai remains the favourite destination for foreign investment** as a result of its effort to attract FDI in the tertiary sector and to promote regional headquarter economy.

III. The New Twin-Track plan of Shanghai

As part of the efforts to battle against the global economic downturn, Shanghai has been recently granted **state-level support to build the city into a major international financial centre and shipping hub by 2020**. The State Council announced this general goal together with guidelines for the city to create "a multi-layered financial market system" and to promote the opening of financial services. On the shipping front, an integration of port resources within the Yangtze River Delta, with Shanghai as the hub, will be further enhanced.

Practically the **Shanghai's "twin track" plan will include a number of administrative measures and tax policies**. The first move from the central government was to allow Shanghai, together with another four cities in the Pearl River Delta near Hong Kong, to use the RMB as a standard of payment for international trade; a trial operation that has been discussed in Shanghai for several years. This step forward and the set duration until 2020 may imply a timetable for fully convertible currency in the city.

Sources close to the municipal government also disclosed that the city will expand the area of Pudong and establish a new Linggang District by splitting the current Nanhui District. Thus, the enlarged Pudong District[4], where the Lujiazui Financial Zone[5] is located, will be the main financial area in the future, and the new Linggang District, which embraces the Yangshan Deep Water Harbour, will become the sub city centre for the shipping economy. By consolidating the major locations of the two centres, this move will undoubtedly lead to a new round of infrastructure investment.

Other measures in line with the "twin track" will include **preferential tax policies for the ship financing and the leasing business, funds to attract talents, and encouragement measures for market liberalisation and financial innovation**. Also, as part of the blueprint, Shanghai plans to encourage the development of technologically advanced industries in Pudong. The Zhangjiang

[4] New Pudong District area will be expanded to over 900 km², from the current 573.4 km².
[5] Shanghai is already China's financial hub. The Lujiazui Financial Zone is home to the country's largest stock market, its major futures market for metals and energy, its gold bourse and foreign exchange centre.

Park in Pudong qualifies for a RMB1 billion industrial fund set by the government to develop its bio-pharmaceutical industry[6].

IV. YRD: Gears up for the Expo

Shanghai has once again become a big construction ground, spreading from the Expo site with pavilion building work to the other parts of the city, in an overall face-lifting project. After a successful and green Olympics in Beijing, Shanghai and the surrounding region are determined to move on to the spotlight next year. The **overall budget for the 2010 Shanghai World Expo totalled RMB 28.6 billion (USD 4.2 billion),** nearly twice as much as the Beijing Olympics. The money includes RMB18 billion for the construction of the 5.28 km² Expo site and RMB10.6 billion for the daily operation of the May-to-October event expecting 70 million visitors.

With the Expo theme of "Better City, Better Life", **the urban traffic system and inter-city transportation in the YRD will be the primary beneficiary of the event**. An integrated traffic network of water, land and air transportation has been built at a faster than usual pace. An all round construction of urban rail transport system (including subway and light rail) as well as the renovation of the road network around the Expo Site is under way, which will extend the total length of Shanghai's metro lines to 877 km from the current 235 km. The integrated transportation network within the YRD, as well as the closer cooperation through the sharing of resources and services, will promote the economic development of the whole region.

V. Swiss presence in the YRD: Current and Future Perspectives

Despite of the deepening of the global slowdown in 2008, the **Sino-Swiss trade still reported a positive growth rate**, with imports from Switzerland expanding 25.7% and exports to Switzerland slightly increasing 8.4% over the year. However, Swiss export to China has slowed down since the 4th quarter of last year, which reported negative growth since last October. **The YRD continued to play an important role in the bilateral economic relation**: more than 40% of both imports and exports is conducted in this region. While Switzerland still enjoyed a trade surplus with China, the city of **Shanghai again contributed more than half to the total surplus**. In the meantime, the more export-oriented Zhejiang Province exported more to Switzerland, and Jiangsu Province saw a relatively balanced trade with Switzerland, with its exports surging nearly 50% in the year.

Amid global uncertainty and a changing economic landscape, **the YRD remained the primary destination for Swiss investment**. **Last year, 63 new Swiss invested projects** chose to locate in the region, accounting for 60% of the total Swiss investment in China, in terms of both numbers of projects and contracted capital. For the first three months in 2009, already three companies celebrated the inauguration of their presence or expansion in the region, adding to the **accumulated projects number of more than 550**[7].

Of course, there is no exception in today's interdependent business world. Swiss companies in the region are facing a challenging time with a decline of orders and slowing exports, though the depth of impacts varying from sector to sector. Those sectors with more exports exposure, like textile and apparel industries, are affected heavily, while construction related industries benefited from the new round of infrastructure investment.

Generally speaking, 2009 is a very tough year for business. Until the 1st half of 2008, the majority of Swiss invested companies in the region have been enjoying outstanding growth since established. But the overall growth and profits are expected to decline or plateau this year, according to the Swiss companies. However, they are working hard on finding ways out of the crisis.

[6] The pharmaceutical industry in the park reported earning of RMB9.53 billion last year, an increase of 15%.
[7] According to data by Chinese authorities.

First of all, the vast population in China implies **a huge potential demand**. Chinese consumption has declined consistently as a share of GDP in correspondence to the declining share of labour income in the GDP, while the government share in the economy has risen. The government started spending to revamp China's health care system and improve people's livelihood, in an effort to encourage the reluctant consumers. Secondly, **there is adequate supply of labour force**. The 20 million migrant workers who recently lost their job in the recession, plus 10 million college graduates make up for a huge entry level workforce. Moreover, **professionals are more available and at lower price** as some foreign invested companies are downsizing their presence. After all, the government's massive stimulus measures and the record high 950-billion-yuan (USD139 billion) fiscal deficit plan for 2009 will bring new business opportunities.

Swiss companies in the region could better stand the economic turmoil as they are usually operating on broader margin with high technology and added-values. The crucial business environment will help to reduce or weaken their local competitors, who used to compete at a low price with low technology and a very slim margin. By introducing new products and services, Swiss companies could gain more market shares from their local competitors. For those who have already well established in the region, the decelerated pace could be used as a "structural break", since more time could be used for staff training, R & D, restructuring of sales strategy, and, more importantly, to obtain talents. It might be also a good time to enhance efficiency and cost control, as they will be more readily accepted by the employees and business partners.

VI. The end of the tunnel?

It is very hard to judge whether the signs of narrowing decline predict a recovery. But the 8% GDP growth is both an economic and a political task for China. Governments at all levels will do their utmost to ensure the economic growth and employment. Short term demand could be created by boosting construction of infrastructure and public works, which could, on the other hand, lead to overcapacity in many sectors. A balance between investments, export-led growth and private consumption as a growth driver remains the big challenge.

It is said that a new stimulus plan with focus on boosting private consumption is in the pipeline, in order to sustain the current "fragile recovery".

For the Shanghai led YRD, even more moves could be expected, as the Expo usually leaves a rich legacy in the hosting cities.

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Table. 1

Current Economic Indicators* of the Swiss Consular Area

Year		2007		2008	
		Volume	Growth Rate (%)	Volume	Growth Rate (%)
GDP (billion RMB)	**China**	**24'953.0**	**11.9**	**30'067.0**	**9.0**
	Shanghai	1'200.12	13.3	1'369.82	9.7
	Jiangsu	2'556.01	14.8	3'000.00	12.5
	Zhejiang	1'863.84	14.5	2'148.69	10.1
	Anhui	734.57	13.9	887.42	12.7
	Consular Area	**6'354.54**		**7'405.93**	
Total Retail Sales of Consumer Goods (billion RMB)	**China**	**8'921.0**	**16.8**	**10'848.8**	**21.6**
	Shanghai	384.78	14.5	453.71	17.9
	Jiangsu	783.81	18.3	966.14	23.3
	Zhejiang	621.4	16.7	744.17	19.8
	Anhui	240.37	18.4	296.55	23.4
	Consular Area	**2'030.36**		**2'460.57**	
Completed Investment in Fixed Assets (billion RMB)	**China**	**13'723.9**	**24.8**	**17'229.1**	**25.5**
	Shanghai	445.86	13.6	482.95	8.3
	Jiangsu	1'227.06	21.8	1'506.15	22.7
	Zhejiang	843.28	11.1	930.00	10.4
	Anhui	510.59	44.0	678.89	33.3
	Consular Area	**3'026.79**		**3'597.99**	
Exports (billion USD)	**China**	**1'218.0**	**25.7**	**1'428.5**	**17.2**
	Shanghai	143.93	26.7	393.65	19.9
	Jiangsu	203.73	27.0	238.04	16.9
	Zhejiang	128.3	27.2	154.29	20.3
	Anhui	8.82	29.0	11.35	28.8
	Consular Area	**484.78**		**797.33**	
Imports (billion USD)	**China**	**955.80**	**20.8**	**1'133.1**	**18.5**
	Shanghai	139.05	22.1	212.91	10.3
	Jiangsu	145.94	18.1	154.23	5.7
	Zhejiang	48.54	26.9	56.86	17.0
	Anhui	7.11	31.3	9.08	27.6
	Consular Area	**340.64**		**433.08**	
Foreign Direct Investment (during the period)					
Projects	**China**	**37'888**	**-8.69**	**27'514**	**-27.35**
	Shanghai	4'206	3.6	3'748	-10.9
	Jiangsu	5'986	-8.5	4'236	-29.2
	Zhejiang	2'919	-18.5	1'858	-36.3
	Anhui	520	-12.2	256	-49.4
	Consular Area	**13'631**		**10'098**	
Contracted (billion USD)	**China**	N/A	N/A		
	Shanghai	14.87	2	17.11	15.1
	Jiangsu	43.58	12.4	50.73	16.4
	Zhejiang	20.4	6.8	17.82	-12.6
	Anhui	3.57	42.8	2.06	-33.2
	Consular Area	**82.42**		**87.72**	
Actually Utilised (billion USD)	**China**	**82.66**	**13.8**	**92.40**	**23.6**
	Shanghai	7.92	11.4	10.08	27.3
	Jiangsu	21.89	25.6	25.12	14.7
	Zhejiang	10.37	16.6	10.07	-2.8
	Anhui	3.0	120	3.49	16.4
	Consular Area	**43.18**		**48.76**	

Source: Chinese Authorities

* All statistics not including Taiwan, Hong Kong and Macao; Figures of the year 2007 is the revised ones (10th April 2008); Growth rates are price-adjusted.

Table. 2

Swiss - Yangtze-Delta Region Trade Relations*

	Import from Switzerland				Export to Switzerland			
	2007		2008		2007		2008	
	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %
Shanghai	1,563	39.38	2135.72	36.62	318.0	20.31	356.68	12.28
Jiangsu	520.0	21.88	693	33.31	442.0	28.41	662	49.66
Zhejiang	236.46	56.16	301	27.66	401.43	47.34	525	30.86
Anhui	20.61	- 28.8	41.09	99.34	14.35	13.98	9.16	-36.18
Delta Region	**2'319.46**	**36.40**	**3'129.72**	**34.93**	**1'161.43**	**31.74**	**1'543.68**	**32.91**
China	**5'842.79**	**37.3**	**7'350**	**25.7**	**3'600.60**	**43.5**	**3'900**	**8.4%**

Source: Chinese authorities

Table. 3

Swiss Investment in Delta Region

	Swiss Investment						Accumulated by end of 2008		
In the Region	**Project**		**Contracted** million USD		**Actually** million USD		**Project**	**Contracted** million USD	**Actually** million USD
	2007	**2008**	**2007**	**2008**	**2007**	**2008**			
Shanghai	31	37	56.76	106.06	N/A	N/A	334	1'739.06	N/A
Jiangsu	20	20	195.06	146.98	196.26	121.84	156	933.36	749.59
Zhejiang	1	6	5.39	96.22	39.24	39.97	61	316	184
Anhui	0	0	0	0	0	0	6	39.86	N/A
Delta Region	**52**	**63**	**257.21**	**349.26**	**N/A**	**N/A**	**551**	**2'988.42**	**N/A**
China	**102**	**108**	**N/A**	**550**	**299.8**	**240**	**1'154**	**N/A**	**3'050**

General remarks:

1. GDP volumes are at prices of the reported years (not adjusted).
2. GDP growth rates are price-adjusted.
3. All figures are based on the unrevised data of China's statistical authorities.