



Shanghai Flash

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A Fragile or Sustained Recovery?

2009 Economic Review

in the Yangtze River Delta Region¹(YRD Region)
(with latest Swiss Presence Data)

I. Review of 2009

➤ *China as A Whole—Accelerated Recovery*

The year of 2009 is commonly believed to have been one of the most difficult and challenging year. Even though, **China succeeded in sustaining the GDP growth at 8.7%** amid the global financial crisis. Since the end of 2008, the Chinese government has implemented a national stimulus package worth RMB 4 trillion(US\$ 588 billion), a large proportion of which being invested the construction of infrastructures and boosting of domestic consumption.

Globally speaking, China has already overtaken Germany to become **the world's largest exporter with its entire trade volume accounting for 8%** of the global trade flow. For a long decade, China's economy was driven by fixed assets investment and export. Nonetheless, the 2009 data reported a steady growth in fixed assets investment and domestic consumption while the **net export dropped by 34%**.

What's more, **banks lent out RMB 9.6 trillion loans** throughout last year, which was almost 30% of the total GDP. A considerable portion of credit loans flew into the property investment and into the stock market as well, which posed a potential risk of forming an unsustainable assets bubble .

As a result of the central government's intervention in the economy, China took the lead with remarkable rebounds ahead of other major economies in the world. Domestic economy started to recover with forceful momentum from a growth rate of 6.1% in the first quarter to 10.7% in the fourth quarter. China is ranking the **world's third largest economy** beyond Germany and is expected to surpass Japan and take the second position after the United States by the end of 2010.

➤ *the YRD Region—Industrial Restructuring While Maintaining GDP Growth*

The Yangtze River Delta Region still plays an important role in the whole country. **The entire GDP of this region accounts for 20% of the national sum, with only 2% of China's land area and 11% of the Chinese population.** In 2009, the region displayed a hard-earned result with a GDP growth rate of 8.2%, 12.4% and 8.9%, respectively in Shanghai, Jiangsu and

¹ The Yangtze Delta Region(the YRD for short) refers to Shanghai Municipality, Jiangsu Province and Zhejiang Province. The consular region of the Swiss Consulate in Shanghai is the provinces of Jiangsu, Zhejiang and Anhui and the Municipality of Shanghai.

Zhejiang Province. Its traditional export-oriented economic structure however suffered a serious defeat especially in the first half of the year.

As the dragon head of the region, **Shanghai has led the region with steady growth** for years. Shanghai took the opportunity to improve its industrial structure even at the cost of slowing down economic growth at a moderate rate. In this consideration, the growth rate declined for two consecutive years at a below double-digit rate.

Jiangsu ranked the 2nd place in total GDP volume domestically in 2009, with a rate 3.7% higher than the national average. Powerful industrial output growth, stable investment and consumption are the main positive factors fuelling local economy. Another highlight would be the accelerated development of the service industry and new industries with a steady rising proportion in total industrial structure. Jiangsu leveraged the **high-tech proportion to 30% of its industries**.

Zhejiang Province was greatly influenced by international trade environment because of its **high ratio of dependence on foreign trade**. As the external trade conditions getting better since the third quarter of 2009, Zhejiang quickly responded to the inspiring market and its foreign trade began to recover. Being one of the richest provinces, local consumption played a very important role in Zhejiang's GDP growth.

Infrastructure and manufacture investment contributed over 30% in Anhui's GDP growth. With a relative weak economic base, **Anhui Province** benefited from the national stimulus package in infrastructure construction and presented a steady rate of 12.9%.

II. A Glimpse into 2010

➤ *China's Predictable Recovery on A Fragile Base*

With improving external environment and sustaining domestic performance, China is expected to continue its economic recovery in 2010. The government will expand **stimulus spending to social welfare** by releasing household savings to boost consumption. What's more, the private sectors are showing a rebound with the overseas demand picking up and government's supportive regulations which are turning to favor small and medium-sized enterprises.

However, there are still difficulties in the process of China's recovery. The national encouraging package helped to stimulate infrastructure investment while at the same time pushing up the consumer goods prices and property prices and leaving a high risk of domestic inflation.

The central government cautiously set up its GDP target at 8% this year, which is the same as the previous year. **Maintaining economic growth** was the prior task of 2009 while this year the government worries more about **an overheated economy**. With the recovery base gradually consolidating, the government is considering **withdrawing the stimulus policies** in due time.

➤ *Investment And Consumption as Two Forceful Drives in the YRD Area*

1) Shanghai

Shanghai targets a conservative economic growth rate of 8% in the Expo year. Shanghai has captured a bullish growth momentum at the year's start, demonstrating the arrival of a post-crisis era. In January, foreign direct investment in Shanghai continued going upwards with a year-on-year growth by 9.7%, reflecting the strong confidence of overseas investors in Shanghai's economy. This year, Shanghai is making more efforts in the following sectors.

a. Expo a priority

Shanghai has **invested a record high of RMB 400 billion(US\$ 59 billion)** for this Expo, including construction both inside and outside of the Expo site and all round infrastructure projects. The government targets to maintain a balance between revenue and payment. The confidence lies not only in the 70 million tourists planned to visit the Expo, but primarily depending on the post-Expo financial revenues. The Expo site boosts **an area of 5.28 square kilometres** on both sides of the Yangtze River, where is scheduled for commercial planning after

the Expo. The ideal location and potential economic values will surely lure enormous foreign investors to come.

b. 2+1 centres

The central government officially announced the strategic plan of building Shanghai into **an International Financial Centre and Shipping Centre**. During last year, Shanghai has achieved cross-border RMB trade settlement of 2.1 billion and attracted over 400 foreign-capital financial institutions, which accounted for almost half of all financial institutions in Shanghai. In 2010, Shanghai government will invest RMB 1.1 billion(US\$ 16 million) in encouraging innovation and research in that field.

With the rapid construction of the Shanghai Deepwater Port Harbour, Shanghai is **ranked the world's second largest container terminal since three consecutive years**. In 2010, the focus will be laid in building a multi-functional trial area within the Deepwater Port, providing convenient tax refund services and opening up offshore accounts for domestic enterprises etc.

Moreover, Shanghai also accelerates its process in building **an International Trade Centre** by setting up two demonstration zones of Waigaoqiao Bonded Zone in the eastern part and Hongqiao Business Zone in the west to explore pilot projects and develop new business types.

c. Improve civil conditions

Shanghai plans to increase affordable housing and be tough on property speculation. The massive construction will be started this year on 12 million square meters for affordable homes².

d. Expanded transportation network with neighbouring provinces

The ongoing high speed railway nets will facilitate transportation between the major cities in YRD area **within 1 hour**, after its operation from the coming July. The intensive and faster connection will expand Shanghai's economic radiation to a larger scale. **Shanghai Hongqiao Transportation Hub, the capital city of Jiangsu and Zhejiang** are the main stops and interchange centres.

Apart from that, the construction of Inter-city Magnetic Levitation(Maglev) Train from Shanghai to Hangzhou³, which has been put aside for years, is already approved by the state⁴. The Shanghai- Hangzhou Maglev line will mainly serve the high-end and frequent travellers in 30 minutes.

2) Industrial Restructuring in Jiangsu and Zhejiang

Six new emerging industries⁵ are the key industries supported by the Jiangsu provincial government. Another priority will be laid on developing coastal regions in the North of the province as to **narrow the economic imbalance between the northern and southern part of Jiangsu**. The southern part is the most favourable investment destination for foreign capitals while the northern part on the other side of the Yangtze River is less developed due to historic location and a weak economic base.

Zhejiang is one of the provinces abundant in marine resources. In 2010, Zhejiang will maintain its economic growth at 10% by means of **accelerating industrial restructuring**. Additionally, another potential growing point is to deepen development of **eastern coastal industrial areas**

² Shanghai boosts a population of 19 million by 2009 while the average living space per capita is 17 square meters amid the rocketing housing prices. The affordable housing project mainly covers budget homes, low-rent apartments and houses built for relocated residents under urban development plans.

³ Hangzhou is the capital city of Zhejiang Province as well as the top tourism city in China. Its GDP reached a historic height of 510 billion RMB in 2009.

⁴ The Maglev line now connecting Pudong International Airport with the Longyang Road Station of Metro Line 2 is notable for being the world's first commercial high-speed rail applying the technology. The extended part with the total length of nearly 199 kilometres will cost a total investment of RMB 22 billion(US\$3.22 billion).

⁵ Six industries are namely renewable energy, advanced materials, medicine, green industry, independent developed software and telecommunication.

into a comprehensive hub including chemistry park, marine resources processing, shipping and trade as well.

3) Anhui—better connection with the YRD region

Anhui, bordering Jiangsu and Zhejiang Provinces on its east, is geographically separated with the most developed areas in the YRD. In this March, the capital city Hefei and another industrial city Ma'anshan are newly accepted by the Yangtze Inter-city Economic Cooperation⁶, which provides an easier access for Anhui to join the greater YRD area.

With easier transportation to Shanghai, the surrounding provinces will also benefit from the golden Expo season that lasts for 6 months or even longer. It is not only an opportunity to leverage their own service industry but also to showcase their comprehensive investment advantages at the same time.

III. Swiss Performance in the YRD Area

As a matter of fact, the **total Sino-Swiss trade volume was also affected** by the global economic recession with **import from Switzerland down 6.1% and China's export shrinking 32%**. As a result of sharp fall of China's export in 2009, Switzerland still enjoyed a **huge surplus of USD 4.2 billion with China**, which is higher than the number of USD 3.5 billion of last year. **The YRD region accounted for 45% of the bilateral trade**. Zhejiang successfully achieved a slight but unique export growth of 6% in the YRD area as its export strongly firmed up from the 3rd quarter.

Swiss investment in the YRD was reinforced from **the second half with 30 new projects**, which are almost three times compared with 9 projects by last June, showing the foreign investor's confidence in the investment environment and growth potential of this market. However, **the accumulated contract investment in Shanghai reported a decline** from USD 1.7 billion to USD 1.2 billion. Due to the economic uncertainty, part of the investment was delayed to fulfill.

With Shanghai's ever **increasing land and labour costs**, some foreign-funded enterprises are considering relocating their production sites to the neighbouring second or third-tier cities while setting up marketing or regional headquarter in Shanghai for strategic coordination. Furthermore, Shanghai is implementing high environment standard in the process of leveraging industrial structure. The awareness of Shanghai citizens has been substantially strengthened. On the other hand, **the smaller cities are appealing to foreign investors with cheaper production cost and improved connection with Shanghai**. Their governments show great interest in attracting foreign investment by constantly investing in infrastructure and providing preferential measures.

Swiss financial institutions are paying more attention to the to-be financial centre. In cooperation with Pudong New District, **one of Swiss insurance giants established an International Shipping and Financial R&D Centre⁷** in Shanghai, which is the first of its kind in China. Apart from that, there is great need for experts in modern service sectors such as consulting and lawyers as Shanghai quickens the development of the service industry.

With the tough year of 2009 passing by, the business community is waiting for potential opportunities this year. The YRD region at large remains an investment hot spot for foreign capitals especially inspired by the Expo.

Ms. XU Min

⁶ Yangtze Inter-city Economic Cooperation is an association to promote closer relationship in an all round way. At the beginning it had 16 member cities from Shanghai, Jiangsu and Zhejiang Province. In 2010 the organization absorbed 6 cities with 2 from Anhui Province for the first time.

⁷ The centre with an investment of 20 million RMB financed by both Chinese and Swiss sides has been put into operation since March 2010.

Table 1**Current Economic Indicators* of the Swiss Consular Area**

Year		2008		2009	
		Volume	Growth Rate (%)	Volume	Growth Rate (%)
GDP (billion RMB)	China	31'404.5	9.6	33'535.30	8.7
	Shanghai	1'369.82	9.7	1'490.09	8.2
	Jiangsu	3'000.00	12.5	3'406.12	12.4
	Zhejiang	2'148.69	10.1	2'283.20	8.9
	Anhui	887.42	12.7	1'005.29	12.9
	Consular Area	7'405.93		8'184.70	
Total Retail Sales of Consumer Goods (billion RMB)	China	10'848.8	21.6	12'534.30	15.5
	Shanghai	453.71	17.9	517.29	14.0
	Jiangsu	966.14	23.3	1'148.41	18.9
	Zhejiang	744.17	19.8	862.23	15.9
	Anhui	296.55	23.4	352.78	19.0
	Consular Area	2'460.57		2'880.71	
Completed Investment in Fixed Assets (billion RMB)	China	17'229.1	25.5	22'484.60	30.1
	Shanghai	482.95	8.3	527.33	9.2
	Jiangsu	1'506.15	22.7	1'875.16	24.5
	Zhejiang	930.00	10.4	1'074.20	15.2
	Anhui	678.89	33.3	926.32	36.2
	Consular Area	3'597.99		4'403.01	
Exports (billion USD)	China	1'428.5	17.2	1'201.70	-16.0
	Shanghai	393.65	19.9	325.13	-17.4
	Jiangsu	238.04	16.9	199.24	-16.3
	Zhejiang	154.29	20.3	133.01	-13.8
	Anhui	11.35	28.8	8.89	-21.8
	Consular Area	797.33		666.57	
Imports (billion USD)	China	1'133.1	18.5	1'005.60	-11.2
	Shanghai	212.91	10.3	190.36	-10.6
	Jiangsu	154.23	5.7	139.59	-9.5
	Zhejiang	56.86	17.0	54.72	-3.7
	Anhui	9.08	27.6	6.75	-23.5
	Consular Area	433.08		391.42	
Foreign Direct Investment (during the period)					
Projects	China	27'514	-27.35	23'435	-14.83
	Shanghai	3'748	-10.9	3'090	-17.6
	Jiangsu	4'236	-29.2	4'219	-0.4
	Zhejiang	1'858	-36.3	1'738	-6.5
	Anhui	256	-49.4	303	18.4
	Consular Area	10'098		9'350	
Contracted (billion USD)	China	N/A		N/A	
	Shanghai	17.11	15.1	13.30	-22.3
	Jiangsu	50.73	16.4	50.98	-0.5
	Zhejiang	17.82	-12.6	16.02	-10.1
	Anhui	2.06	-33.2	2.09	1.6
	Consular Area	87.72		82.39	
Actually Utilised (billion USD)	China	92.40	23.6	90.03	-2.56
	Shanghai	10.08	27.3	10.54	4.5
	Jiangsu	25.12	14.7	25.32	0.8
	Zhejiang	10.07	-2.8	9.94	-1.3
	Anhui	3.49	16.4	3.88	11.3
	Consular Area	48.76		49.68	

Source: Chinese Authorities

* All statistics not including Taiwan, Hong Kong and Macao; Figures of the year 2008 is the revised ones (25th December 2009); Growth rates are price-adjusted.

Table. 2

Swiss - Yangtze-Delta Region Trade Relations*

	Import from Switzerland				Export to Switzerland			
	2008		2009		2008		2009	
	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %
Shanghai	2135.72	36.62	2188.86	2.49	356.68	12.28	291.30	-18.33
Jiangsu	693	33.31	543	-21.61	662	49.66	487	-26.46
Zhejiang	301	27.66	246	-18.31	525	30.86	557	6.04
Anhui	41.09	99.34	40.56	-1.29	9.16	-36.18	8.09	-11.74
Delta Region	3'129.72	34.93	2'977.86	-4.9	1'543.68	32.91	1'335.3	-13.5
China	7'350	25.7	6'898	-6.1	3'900	8.4	2'658	-32

Source: Chinese authorities

Table. 3

Swiss Investment in Delta Region

In the Region	Swiss Investment						Accumulated by end of 2009		
	Project		Contracted million USD		Actually million USD		Project	Contracted million USD	Actually million USD
	2008	2009	2008	2009	2008	2009			
Shanghai	37	22	106.06	-529.32	N/A	N/A	356	1'209.74	N/A
Jiangsu	20	14	146.98	75.64	121.84	138.41	170	1'009	888
Zhejiang	6	3	96.22	32.69	39.97	45.89	64	349	230
Anhui	0	2	0	5.18	0	5.31	8	45.05	N/A
Delta Region	63	39	349.26	-420.99	N/A	N/A	590	2'567.74	N/A
China	108	70	550	N/A	240	300	1'224	N/A	3'290

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.