Shanghai Flash

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Yangtze River Delta[1] (YRD) in the Post-Olympic Era: Highlighted Leading Hub with Shadow of Slowdown

(With the latest figures of Swiss presence in the region)

- ***The Shanghai led YRD is facing a phase of economic slowdown, under the difficult external and internal environment, but the economic fundamentals remained robust***
- ***Swiss exports to the region reported a remarkable increase of nearly 50%, resulting in an almost doubled trade surplus, compared with the same period last year. The total value of USD 492 million surplus accounted for 56% of the Sino-Swiss surplus.***
- ***The development of YRD shows a domestic model of Flying Geese[2]. Heavy investment in infrastructure in catching-up areas of the region will continue to support the economic growth and provide new business opportunities.***
- ***The boosting of the service sector in the YRD has been supported by the central government at a strategic level. The preparation of the World Expo 2010 will be another vital point to resurge the economy.***

I. Macro-economy: remains a highlight in the global growth, with shadow of slowdown

The Beijing Olympics have no doubt proven to be a glorious success, which offered China another ticket into the international community. Once again, in the post-Olympic era, China has been at the centre of many economists' controversial discussions. The post-Game slowdown effect could be very limited for such a huge economy, but China is unfortunately encountering numerous global and domestic problems, which have pushed its economy close to the edge of decline. The persistent domestic inflation, severe winter weather, devastating earthquakes, this coupled with the American credit crunch, global energy crisis, and the weakening overseas demands, created a grim internal and external environment for the year 2008. Discussions expressing concerns on whether the world's 4th largest economy is facing its growth slowdown or downturn after three decades of fast development, and what would be the impact on the rest of the world.

It is no question that this year is the start of an **economic slowdown** phase. China's **GDP growth slowed down to 10.4%** for the 1st half of 2008, which was 1.8% lower than the same period of last year. The stock markets have lost more than 60% and the property sector started to decline in the big cities. The growth rate of export, one of the three major economic driving forces, declined by 5.7% compared with the first six months of last year. The slower growth of foreign sales was

[1] Refers to the port city of Shanghai, Zhejiang Province, which is famous for its private economy, and Jiangsu Province, which is renowned for its electronic and information technology sectors.

[2] The term was coined originally by Japanese economist Kaname Akamatsu and presented to world academia in 1960s. The flying geese model intends to explain the catching-up process of industrialization of latecomer economies by relocating declined industries through foreign direct investment

mainly due to the weakened overseas demand, and the prevalent uncertain global situation due to the mounting credit crunch in the US and worldwide economic stagnation.

However, China remains the fastest growing big economy in the world with a two digit growth rate. Its two other major economic drivers, **investment and consumption, have stayed resilient**. Despite the sluggish property sector, the fixed-assets investment expanded 26.3%, 0.4% higher than last year, as a result of continued industrialisation and urbanisation. Retail sales nationwide picked up 21.4%, which was 6 percentage points higher than last year, mainly due to the higher income of farmers as well as workers upon the enforcement of the new labour law.

II. Yangtze Delta Region: Cooling down with the “Flying Geese” pattern of development

As China’s major economic engine, the Shanghai led Yangtze Delta region is noted for its export-oriented industries, and therefore is more exposed to the global economic conditions. The region saw a slowdown in its GDP growth rate compared with last year.

Shanghai reported a growth slightly below the national level of 10.3%. According to the municipal statistics, the downturn of activities in the property sector dragged down the GDP growth rate by 0.4%, while the bearish securities market made "zero contribution" to economic growth. In contrast, the two above mentioned sectors contributed 19% to the city's growth in the first six months of 2007. This time, after 2005, was the 2nd time that the city’s GDP growth lagged behind the nationwide level since 1992.

Shanghai’s fixed-asset investment increased only 2.3% in the first half of 2008, which is down 7.3% from the same period last year. This is due to slower infrastructure and real-estate development. However, even though investment decreased and the inflation rate accelerated in the city, its exports managed to maintain a growth rate of 25.1%. This is even so despite a weaker external demand. Overall, the city has been making continuous efforts to improve its industrial structure and develop more value-added products, and at the same time explore emerging markets to lower the external trade exposure.

For the rest of the region, **Jiangsu and Zhejiang** both reported slower growth rate of 13.6% and 11.4% respectively, but still expanded quicker than the national rate. As for **Anhui** province, the less developed province in the consular region and said to be included in the Pan-Yangtze River Delta Region, it notched up a growth rate of more than 14%, which is largely due to the surge in fixed assets investment, as the province invested in infrastructures and urbanization.

The domestic Flying Geese Model has been discussed among economists, regarding the industry restructuring in China. It suggests that high-income coastal provinces are to upgrade industry, while relocating declining industries to catching-up regions through investment. In order to attract the inflow of investment as well as to reduce the cost of transportation, local governments heavily invest in infrastructure.

Fixed-assets investment grew more than 40% in Anhui Province for the first half of 2008, while in Jiangsu Province, the rate was 18.2% for its south part, 27.3% for the mid-part and 30.3% for northern Jiangsu. Similarly, the less developed areas in Zhejiang Province, Zhoushan and Quzhou City, expanded 47.3% and 24.7% respectively in large fixed-assets investment projects, which is well above the provincial average of 17.9%.

As a matter of fact, the region remains the **favourite FDI destination**, attracting more than one third of the foreign invested projects in China, and with more than half of the actually utilised investment.

III. Bilateral trade and Swiss investment

According to Chinese statistics, the Shanghai led Yangtze Delta region still contributed **42%** of the Sino-Swiss trade. Switzerland continued to enjoy a **trade surplus** with China, with an amount of nearly **USD 1.6 billion (**compared with **USD 0.9 billion** for the same period of 2007**)** for the 1st half of 2008, among which **56%** was conducted from Shanghai.

Swiss exports to the region continued to grow, with more than **50%** remarkable growth rates in Shanghai and Jiangsu Province, and more than **20%** in Zhejiang Province, resulting in an almost doubled trade surplus compared with the same period last year. The major export of goods to Shanghai, which were watches and components, chemicals and pharmaceuticals, reflects the continuing demands for high end Swiss products in the richer coastal area. Major export of goods to Zhejiang province were textile machinery and components, and machine tools, which represents the trend to increase productivity in the textile and machine industry in order to deal with the increasing business cost and shrinking export market. While low end textile exporters suffered and even closed down in the so called “hard winter” for manufacturers in China, the mid and high end products producers are striving to survive with sophisticated technology and high productivity, which presents opportunities for Swiss products and expertise in the field.

For the first six months of 2008, **31** new Swiss invested projects have chosen to locate in the region (the number was 32 for 1st half of 2007). This makes the total Swiss investment projects in the region amounting to **519,** accounting for **50%** of the total Swiss invested companies in China. Shanghai remains the first Swiss investment destination in the region with **21** new comers, followed by Jiangsu with **9** projects and **1** in Zhejiang Province. The accumulated investment in the region reached **USD 2.8 billion**.

IV. Strategy to restructure YRD region: sharpening the international competitiveness

Chinese Prime Minister Wen Jiabao was absolutely right when he stated at the beginning of the year, that 2008 would be the most difficult year for the Chinese economy. While external uncertainties are still increasing, the internal environment continues to get complicated. Although the consumer price index (CPI), a major **inflation** measurement, eased to 7.9% in the first half year from its 11-year-high peak of 8.7%, and further down to **4.9%** in August, the producer price index **(PPI)**, which measures the value of finished products when they leave the factory, climbed to **10.1%** in the same month. This will further shrink the margin of down-stream producers and sooner be translated into consumer prices. On the other hand, although **consumption** showed steady expansion and is expected to be a new pillar of the growth, the petroleum products contributed to more than 10% of the growth and for the rest of the retail sales, percentage of life necessities is increasing while non-rigid consumption, such as cars, houses, is declining.

Economists have cut forecasts of China's economic growth this year to as low as 9%, down from last year's 11.9%. But that still would be the fastest rate for any major country and the fundamentals propelling China’s economy, such as investment and urbanisation, still remain and the fiscal revenue in the first half of the year also increased 33.3%. As such, it is now time to test the government’s capability to manage the economy during difficulties in the process of opening and global integration.

On September 15th, the Chinese central bank cut the benchmark interest rate and eased bank lending restriction, after five years of tightening monetary policy. This is a clear sign that fast sustainable growth has replaced fighting inflation at the top of the government’s agenda.

In an effort to sustain economic development and restructure the industry, the State Council, China's Cabinet, promulgated a guideline on September 16th, which put the development of a **modern service sector of the Yangtze Delta Region** to a strategic level. The Shanghai led region will thus lead the country's industry shift and seek to create an industrial structure with a modern service industry as the pillar. To echo the central government's determination, the Shanghai government issued new provisions to encourage multinationals to establish regional headquarters in the city. Preferential policies include shortened approval process, lower minimum investment, opening of new areas of activity, eased restriction on hiring non-Shanghai residents and eased permanent residence for expatriates. The measure is believed to accelerate the industrial resurgence of Shanghai and also help bring prosperity to neighbouring areas when the economic benefits radiate out.

In addition to that, the central government also vowed to turn Shanghai into an **international financial and shipping centre**. Pudong area has already launched experimental reforms in the financial sector, such as small amount currency exchange. Further policies and reforms are expected for a more open financial market. Co-operations with neighbouring ports are also under discussion.

While trying to lead the country's industry resurgence through the slowdown hardship, the region is heading towards the next grand event: the Expo 2010. It is foreseen that the investment will pick up again in the second half of 2009, boosting the economic growth with a new outlook.

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Table. 1

Current Economic Indicators* of the Swiss Consular Area

Year		2007.1-6 Volume	Growth Rate (%)	2008.1-6 Volume	Growth Rate (%)
GDP (billion RMB)	**China**	**10'676.8**	**11.5**	**13'061.9**	**10.4**
	Shanghai	556.19	13.0	653.07	10.3
	Jiangsu	1'175.2	15.0	1'423.98	13.6
	Zhejiang	834.44	14.7	988.9	11.4
	Anhui	340.46	13.2	418.07	14.2
	Consular Area	**2'906.29**		**3'484.02**	
Total Retail Sales of Consumer Goods (billion RMB)	**China**	**4'204.4**	**15.4**	**5'104.3**	**21.4**
	Shanghai	188.75	14.2	220.32	16.7
	Jiangsu	380.88	16.9	472.09	23.9
	Zhejiang	297.6	15.7	354.0	19.0
	Anhui	110.94	16.1	136.56	22.4
	Consular Area	**978.17**		**1'182.97**	
Completed Investment in Fixed Assets (billion RMB)	**China**	**5'416.8**	**25.9**	**6'840.2**	**26.3**
	Shanghai	192.84	9.6	197.25	2.3
	Jiangsu	386.59	22.4	663.07	22.2
	Zhejiang	331.1	11.4	386.80	16.8
	Anhui	205.46	47.9	294.38	43.3
	Consular Area	**1'115.99**		**1'541.5**	
Exports (billion USD)	**China**	**546.7**	**27.5**	**666.6**	**21.9**
	Shanghai	64.34	20.9	80.50	25.1
	Jiangsu	90.83	28.4	112.89	24.3
	Zhejiang	57.99	28.5	73.1	26.1
	Anhui	3.85	32.6	5.32	38.4
	Consular Area	**217.01**		**271.81**	
Imports (billion USD)	**China**	**434.2**	**18.2**	**567.6**	**30.6**
	Shanghai	63.64	21.3	77.13	21.2
	Jiangsu	67.22	17.6	79.41	18.1
	Zhejiang	22.59	31.8	29.3	29.4
	Anhui	3.42	33.7	4.62	35.2
	Consular Area	**156.87**		**190.46**	
Foreign Direct Investment (during the period)					
Projects	**China**	**18'683**	**-5.4**	**14'544**	**-22.15**
	Shanghai	1'953	5.1	1'774	-9.2
	Jiangsu	3'317	16.5	2'306	-30.5
	Zhejiang	1'453	-10.9	869	-40.2
	Anhui	258	5.7	138	-46.5
	Consular Area	**6'981**		**5'087**	
Contracted (billion USD)	**China**				
	Shanghai	6.79	-6.0	8.30	22.3
	Jiangsu	21.73	25.5	28.75	32.3
	Zhejiang	8.47	9.1	7.82	-7.7
	Anhui	1.55	55.9	1.04	-32.8
	Consular Area	**38.54**		**45.91**	
Actually Utilised (billion USD)	**China**	**31.89**	**12.2**	**52'39**	**45.55**
	Shanghai	4.30	7.3	5.03	17
	Jiangsu	12.60	48.2	15.29	21.4
	Zhejiang	4.92	26.5	5.63	14.4
	Anhui	1.28	160	1.88	46.7
	Consular Area	**23.1**		**27.83**	

Source: Chinese Authorities

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

Table. 2

Swiss - Yangtze-Delta Region Trade Relations*

	Import from Switzerland				Export to Switzerland			
	2007.1-6		2008.1-6		2007.1-6		2008.1-6	
	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %
Shanghai	678.43	28.51	1031	52.04	148.31	5.51	146	-1.39
Jiangsu	225.38	7.53	341	51.42	175.11	13.27	384	119.09
Zhejiang	100.0	32.1	123	20.14	170.0	37	233	34.07
Anhui	6.38	- 61.91	13.1	105.37	7.36	41.28	4.31	41.47
Delta Region	**1’003.81**	**22.7**	**1495**	**41.2**	**493.42**	**18.6**	**763**	**50.59**
China	**2’496.51**	**29.0**	**3467.44**	**39**	**1’587.77**	**34.0**	**1881.01**	**18.3**

Source: Chinese authorities

Table. 3

Swiss Investment in Delta Region

	Swiss Investment						Accumulated by end of June 2008		
In the Region	Project		Contracted million USD		Actually million USD		Project	Contracted	Actually
	2007.1-6	2008.1-6	2007.1-6	2008.1-6	2007.1-6	2008.1-6			
Shanghai	17	21	28.38	27.06	N/A	N/A	318	1’660.06	N/A
Jiangsu	15	9	83.05	84.51	168.42	65.13	145	871	698
Zhejiang	0	1	1.18	0.86	17.34	N/A	56	309	171
Anhui	**0**	0	0	0	1.02	0	6	39.86	N/A
Delta Region	**32**	**31**	**112.61**	**152.86**	**N/A**	**N/A**	**519**	**2’840.06**	**N/A**
China	**50**	**59**	**N/A**	**N/A**	**203**	**135.8**	**1’050**	**N/A**	**2’801.4**

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.