



# Shanghai Flash

Issue No. 5 | September 2009

## Positioned to Ride Out

### 2009 1<sup>st</sup> Half Year Economic Review (with latest Swiss Presence Data in the Yangtze Delta Region)

#### I. **Cautious optimism:** China's first signs of recovery after the stimulus measures as the "single-gear" drive

It is with little dispute that China's economy has found a bottom and **will achieve it 8% growth goal for 2009**. Though, there are still questions if the rebound will develop into sustainable recovery.

The economy reported **7.1% expansion for the 1<sup>st</sup> half of 2009**, with investment outshining other contributors with 87% share. The fresh August data showed further that investment, industrial output and credit all expanded more rapidly than the analysts' forecasts.

The recovery was mostly driven by the government's aggressive stimulus measures<sup>1</sup>, which includes partly tax breaks, big infrastructure funding and mostly bank lending. The new bank loans for the first half of 2009 recorded RMB 7.7 trillion, well exceeding the government RMB 5 trillion full year target set at the beginning of the year.

Thanks to the aggressive stimulus package and easy monetary policy, China might be the first major economy that goes out of the world downturn. Based on its outstanding economic growth in the recent years and rapid recovery, it is now **the world's largest exporter, surpassing Germany and the largest market for vehicles, surpassing America**.

However, **imbalance still remains** that might hurt further economic growth. As the "world-factory", **China's export was heavily hit** by the financial crisis that resulted in the slump of the external demand. Huge government-guided investment has offset the impact of the gloomy exports, but private consumption didn't react and show clear sign of picking-up. As a matter of fact, the level of contribution of the consumption to GDP declined compared with 10 years ago.

On the other hand, the dramatic increases in bank lending and money supply pushed the rise in property and equity markets, which raised again fears that government policies are creating a series of bubbles and aggravating over-capacity in the economy.

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<sup>1</sup>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

**II. Expected surprise:** Poor economic performance from the export-reliant Yangtze Delta Region (YDR), expected decline with unexpected depth

The global downturn and the steep decline in foreign demand led to a reshape in the growth rate ranking at China's economic map this year. It is not difficult to understand that the export-reliant regions, mainly the Yangtze Delta Region (YDR) and Pearl Delta Region (PDR)<sup>2</sup>, have higher exposure to external recession and reported weaker performance compared with the catching up central and western provinces. Yet, the reshuffle in the ranking is still surprising.

	1 <sup>st</sup> Quarter	1 <sup>st</sup> Half
China	6.1	7.1
Shanghai	3.1	5.6
Jiangsu	10.2	11.2
Zhejiang	3.4	6.3
Anhui	11.6	11.8
Guandong	5.8	7.1

Table 1: Comparison of Economic Growth Rate in 2009

The 1<sup>st</sup> half year numbers showed **5.6% GDP growth rate in Shanghai and 6.3% in Zhejiang**, ranking these areas **third lowest and fifth lowest** among China's major administrative regions in terms of economic growth. Five areas' GDP fell below the national average of 7.1%, namely Shanghai, Zhejiang, the major exporters in the YDR, and Xinjiang, Gansu, Ningxia, the least developed remote western areas. As China's biggest business city and the dragon head of the Yangtze Delta Region, Shanghai reported its lowest growth since 1992, and it is the 2<sup>nd</sup> time after 2008 that the city performed a under double-digital growth.

The biggest problem for the coastal regions is the sluggish external demand. The falloff in exports was about 20% in Shanghai and Zhejiang, compared with a nearly 25% decline in Jiangsu and an 18.6% decline in Guangdong Province. Among the areas, **Shanghai records the highest dependency ratio<sup>3</sup>** on foreign trade (around 170%), which is not only higher than the national level, but also above the level of Guangdong (150%) and Jiangsu (120%).

On the other hand, the central government is trying to maintain the economy's growth by extending huge fiscal stimulus to projects such as railways, airports, highways and bridges. The **huge infrastructure investment mostly went into the poorer central and western regions**, which were legged behind in the past 30-year reform. The crisis provided an opportunity for the region to receive central government's fund aid and narrow the gap with the more developed coastal region. Take Shanghai, for instance, the fixed assets investment grew at nearly zero percentage (1.7%) in the first quarter, in a stark contrast with the 34.3% growth in the provinces of Central China.

**III Each one's way out:** each area's measures to adapt to the challenging situation

The coastal regions<sup>4</sup>, therefore, would have to strive for their own way out and be more creative in evolving a future business model to maintain its position as the country's powerhouse.

<sup>2</sup> Mainly nine cities in Guangdong Province

<sup>3</sup> The percentage of the total volume of imports and exports to its GDP

<sup>4</sup> To compare the PDR with YDR, the Pearl Delta Region was the 1<sup>st</sup> to be hit by the financial crisis and also among the first to react to adapt to the changes. The province has been successfully promoting the development of innovation and self-owned brands, in an effort to upgrade its OEM manufacturing sector. Furthermore, as the PDR is wholly within the administration of Guangdong Province, it's easy to synergise and integrate the strengths of the cities in the region to sharpen its overall competitiveness

1. As an emerging world city, **Shanghai has been leading China's economic growth**. In recent years, the city has been endeavouring to upgrade its industry and boost the service sector, but the industry sector remains too export-oriented and it would take time for reform to take place in the manufacturing structure. The service sector is now taking 60% share of the GDP, but achieved with a deep fall of the exports. The export decline was led by products in labour-intensive industries such as clothing, shoes and furniture, reflecting the higher costs of production in the city.

Starting 2<sup>nd</sup> quarter of 2009, the city accelerated the preparation for the World Expo 2010, the 184-day exposition that expects 70 million visitors, and thus shows **signs of Expo-led growth**. Shanghai's economy consolidated steady growth in August with resilient retail sales and infrastructure spending. With about 6'000 construction sites spreading all over, the city has poured RMB 18 billion in the construction of the urban rail system and an overall city face-lifting project. It is estimated that the **Expo will boost the city's GDP by 2% point for seven years**. Its industrial production expanded for the third straight month in August despite of persistent gloomy exports. Before June, the indicator of Shanghai's manufacturing fell for seven consecutive months. The steady growth signalled the resilience of the city's economy and a quick recovery on road.

The biggest advantage the city would take from the downturn is that Shanghai is urged to quicken its pace of industry restructuring. **The city's goal of becoming international financial centre and shipping hub has gained its momentum** with the State Council's approval and support. With the completion of the 3<sup>rd</sup> phase project, Yangshan Deep-water Port now has 16 berths for container ships and is capable of handling 9.3 million 20-foot equivalent units per year.

The city is also preparing for the post-Expo development. Shanghai will exploit its Hongqiao transportation hub as the core of a massive new power centre that serves as the city's gateway to the Yangtze River Delta region and beyond. Hongqiao area will become Shanghai's third "urban circle," after the central business district covering both sides of the Huangpu River and the manufacturing and shipping zones in Pudong's outlying reaches. The area will try to attract modern service and manufacturing sector as well as regional headquarter.

2. Despite of a steep decline in exports and imports, **Jiangsu's economic growth** in the first half of 2009 **brightened the haze in the YDR**, with a rate 4.1% higher than the national average. **Infrastructure spending and rural development** has been the key to the recovery. The southern part of the province, especially the city of Suzhou and Wuxi, has been favourable choice for foreign investment due to its proximity to Shanghai and solid industry base. But the central and northern part of Jiangsu is historically less developed.

The central government has announced recently a plan to boost the coastal region of northern Jiangsu, which abounds in land reserves and mud flat, to build the region into a traffic hub, a coastal industrial base, as well as potential development zones.

Among the first two phases of the RMB 4-trillion stimulus package, Jiangsu has secured RMB 5 billion investment. According to the provincial government, the province plans to put all together RMB 300 billion government-guided investment by the end of 2009, to trigger RMB 1.2 trillion investments from all sectors.

3. **Zhejiang's economy is characterized by a heavy reliance on private initiatives and non-interventionist government style**. As the province is not abundant in resources and industry base, the private companies chose to focus on light industries like textile and garment and mainly for the external markets. The pillar export sector is the hardest hit one and dragged down the province's economy growth. Furthermore, the private entrepreneurs in the province tend to turn to capital market or other part of China for investment after accumulation the first barrel of gold. The Province is working on improving the business environment to keep its local business people.

On the other side, the private economy in Zhejiang is quite active. **The entrepreneur sensitivity and agility have already helped the private enterprises to tap the domestic market.** The province performed better in the 2<sup>nd</sup> quarter already.

4. Last but not least, **Anhui Province**, which is the least developed area in the Consular region and has been trying to join the pan-YDR club, **has become an uprising star**, aided by the country's stimulus plan. The province reported a 11.8% growth rate for the 1<sup>st</sup> half of 2009 while its capital city, Hefei's GDP grew at a campground annual growth rate of 34% from 2003 to 2007, and 17% in 2008, 16% for the first six months of 2009. With easy access to highway and railway network, to nearby ports and airport (and more ongoing infrastructure projects), abundant human resource with 59 universities, as well as low labour cost, the city has attracted more than dozen multinationals and many Chinese companies to locate their manufacturing bases there.

#### **IV. Reinforced confidence:** shown by continuous Swiss investment despite of slide in bilateral trade

Affected by the global meltdown, **the Sino-Swiss trade for the first time reported a negative growth rate**, with imports from Switzerland shrinking 13% and exports to Switzerland down 32.7%. As a result, **Switzerland still enjoys a trade surplus** at the amount of USD1'746 million, which is **higher than the amount of USD 1'586 during the same period of last year**. In the YDR, trade surplus with Shanghai again contributed almost half of the total, while Zhejiang exported more to Switzerland and Jiangsu imported a bit more. Due to the relatively small amount of base last year, the decline in trade with Zhejiang and Anhui is rather moderate.

Amid global uncertainty and a changing economic landscape, Swiss investment slowed down in the YDR for the first half year, with only 9 newly invested projects, compared with 31 from the same period in 2008. But **the trend is coming back in the 2<sup>nd</sup> half, lured by the huge market potential and the viability of the private consumption**. Many companies have already presence in the region and therefore have knowledge about the market and legal system. Their expansion and re-investment in the region is not only for the cheap manufacturing advantage<sup>5</sup>, but **start also to include China and the YDR into its global strategy**.

For companies already established in the region, many were aware of and prepared in advance for the uncertainty and volatility in global as well as Chinese market. Measures have been taken since last year, by adjusting stocks and inventory, restructuring products and human resource and reducing operating costs. Those in the sector related to new energy and construction have obtained even exceptional gain from the stimulus spending.

Business confidence has been reinforced, when eyeing the downturn as an opportunity to optimize the operation structure and gain market share from the weakened competitors, and especially, in wait for a consolidated recovery.

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<sup>5</sup> For this reason, the investment is gradually moving to the Jiangsu and Zhejiang Province, which service sector still takes Shanghai as the stepping stone to enter the rest of China.

**Table. 2**  
**Current Economic Indicators\* of the Swiss Consular Area**

Year		2008.1-6		2009.1-6	
		Volume	Growth Rate (%)	Volume	Growth Rate (%)
<b>GDP (billion RMB)</b>	<b>China</b>	<b>13'061.9</b>	<b>10.4</b>	<b>13'986.2</b>	<b>7.1</b>
	Shanghai	653.07	10.3	661.2	5.6
	Jiangsu	1'423.98	13.6	1'553.05	11.2
	Zhejiang	988.9	11.4	1'004.4	6.3
	Anhui	418.07	14.2	451.29	11.8
	<b>Consular Area</b>	<b>3'484.02</b>		<b>3'669.94</b>	
<b>Total Retail Sales of Consumer Goods (billion RMB)</b>	<b>China</b>	<b>5'104.3</b>	<b>21.4</b>	<b>5'871.1</b>	<b>15.0</b>
	Shanghai	220.32	16.7	250.61	13.8
	Jiangsu	472.09	23.9	553.15	17.2
	Zhejiang	354.0	19.0	403.2	13.7
	Anhui	136.56	22.4	162.04	18.5
	<b>Consular Area</b>	<b>1'182.97</b>		<b>1'369</b>	
<b>Completed Investment in Fixed Assets (billion RMB)</b>	<b>China</b>	<b>6'840.2</b>	<b>26.3</b>	<b>9'132.1</b>	<b>33.5</b>
	Shanghai	197.25	2.3	216.09	9.6
	Jiangsu	663.07	22.2	826.67	24.7
	Zhejiang	386.80	16.8	438.7	13.4
	Anhui	294.38	43.3	390.6	32.7
	<b>Consular Area</b>	<b>1'541.5</b>		<b>1'872.06</b>	
<b>Exports (billion USD)</b>	<b>China</b>	<b>666.6</b>	<b>21.9</b>	<b>521.5</b>	<b>-21.8</b>
	Shanghai	80.50	25.1	62.55	-22.3
	Jiangsu	112.89	24.3	84.87	-24.8
	Zhejiang	73.1	26.1	58.75	-19.6
	Anhui	5.32	38.4	4.0	-24.9
	<b>Consular Area</b>	<b>271.81</b>		<b>210.17</b>	
<b>Imports (billion USD)</b>	<b>China</b>	<b>567.6</b>	<b>30.6</b>	<b>424.6</b>	<b>-25.4</b>
	Shanghai	77.13	21.2	57.98	-24.8
	Jiangsu	79.41	18.1	59.06	-25.7
	Zhejiang	29.3	29.4	24.28	-17.1
	Anhui	4.62	35.2	2.74	-41.8
	<b>Consular Area</b>	<b>190.46</b>		<b>144.06</b>	
<b>Foreign Direct Investment (during the period)</b>					
<b>Projects</b>	<b>China</b>	<b>14'544</b>	<b>-22.15</b>	<b>10'419</b>	<b>-28.36</b>
	Shanghai	1'774	-9.2	1'468	-17.3
	Jiangsu	2'306	-30.5	1'997	-13.4
	Zhejiang	869	-40.2	653	-24.9
	Anhui	138	-46.5	127	-8.0
	<b>Consular Area</b>	<b>5'087</b>		<b>4'245</b>	
<b>Contracted (billion USD)</b>	<b>China</b>				
	Shanghai	8.30	22.3	6.66	-19.7
	Jiangsu	28.75	32.3	24.41	-15.1
	Zhejiang	7.82	-7.7	6.17	-21.1
	Anhui	1.04	-32.8	0.7	-32.3
	<b>Consular Area</b>	<b>45.91</b>		<b>37.94</b>	
<b>Actually Utilised (billion USD)</b>	<b>China</b>	<b>52'39</b>	<b>45.55</b>	<b>43'01</b>	<b>-17.9</b>
	Shanghai	5.03	17	5.16	2.5
	Jiangsu	15.29	21.4	13.06	-14.6
	Zhejiang	5.63	14.4	4.87	-13.5
	Anhui	1.88	46.7	1.98	5.2
	<b>Consular Area</b>	<b>27.83</b>		<b>25.07</b>	

Source: Chinese Authorities

\* All statistics not including Taiwan, Hong Kong and Macao; Growth rates are price-adjusted.

Table. 3

**Swiss - Yangtze-Delta Region Trade Relations\***

	Import from Switzerland				Export to Switzerland			
	2008.1-6		2009.1-6		2008.1-6		2009.1-6	
	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %
<b>Shanghai</b>	1031	52.04	895	-13.27	146	-1.39	141	-3.3
<b>Jiangsu</b>	341	51.42	280	-17.91	384	119.09	167	-56.6
<b>Zhejiang</b>	123	20.14	132	7.76	233	34.07	257	10.4
<b>Anhui</b>	13.1	105.37	17.41	32.83	4.31	41.47	3.21	-25.7
<b>Delta Region</b>	<b>1'495</b>	<b>41.2</b>	<b>1'307</b>	<b>-12.6</b>	<b>763</b>	<b>50.59</b>	<b>565</b>	<b>-26.0</b>
<b>China</b>	<b>3467.44</b>	<b>39</b>	<b>3014.11</b>	<b>-13.0</b>	<b>1881.01</b>	<b>18.3</b>	<b>1268.29</b>	<b>-32.7</b>

Source: Chinese authorities

Table. 4

**Swiss Investment in Delta Region**

In the Region	Swiss Investment						Accumulated by end of June 2009		
	Project		Contracted million USD		Actually million USD		Project	Contracted	Actually
	2008.1-6	2009.1-6	2008.1-6	2009.1-6	2008.1-6	2009.1-6			
<b>Shanghai</b>	21	1	27.06	6.80	N/A	N/A	319	1'666.86	N/A
<b>Jiangsu</b>	9	6	84.51	65.03	65.13	87.48	162	998	837
<b>Zhejiang</b>	1	2	0.86	2.93	N/A	22.4	63	319	206
<b>Anhui</b>	0	0	0	0	0	0	6	39.86	N/A
<b>Delta Region</b>	<b>31</b>	<b>9</b>	<b>152.86</b>	<b>74.76</b>	<b>N/A</b>	<b>N/A</b>	<b>544</b>	<b>2'983.86</b>	<b>N/A</b>
<b>China</b>	<b>59</b>	<b>34</b>	<b>N/A</b>	<b>N/A</b>	<b>135.8</b>	<b>180</b>	<b>1'188</b>	<b>N/A</b>	<b>3'230</b>

General remarks:

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