

# Focus on: mainland China

## International Business Report 2010 – Country focus series

### Leading the recovery

Having avoided recession over the past two years, unlike most other economies of its size, the Chinese economy is set to become the second largest economy in the world in 2010, overtaking Japan. Indicators suggest that China is also on course to compete for the title of the world's largest economy over the next 20 years. The economy is now at the forefront of the global recovery and is set to lead the world into a period of renewed strength. After the buoyant lending in 2009, the economy, however, needs to be watchful of asset bubbles developing in the property market, but with continued shrewd monetary policy such risks can be managed to ensure China goes from strength to strength. The key indicators are highlighted below:

- mainland China's economy grew by 8.7 per cent in 2009, with growth of 10.7 per cent in Q4 2009, supported by the US\$579bn stimulus package introduced earlier in the year with the government committed to mitigating the effects of the global economic downturn
- although industrial production has not returned to the level before the global economic crisis, industrial output still rose 12.4 per cent in Q3 2009; however, overcapacity has become a prominent problem for sectors such as iron and steel-making as well as some chemical industries
- exports rose in December 2009 for the first time in 13 months leading to China overtaking Germany as the world's largest exporter. December exports rose 17.7 per cent despite weak global demand, with the country's total 2009 exports worth US\$1.2tn.

### Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on mainland China, the experiences and attitudes of its privately held businesses and how they have been affected by the global economic turbulence.

Optimism amongst Chinese businesses rose 30 percentage points year-on-year from +30 per cent in 2009 to +60 per cent in 2010. This level of optimism is above the global average (+24 per cent) along with most other economies of its size including the US and the UK (+20 per cent and +16 per cent respectively), see figure 1.

The optimism is supported by the International Monetary Fund's prediction for GDP growth in China next year of ten per cent, the highest anywhere in the world, ahead of the US (2.7 per cent) the UK (1.3 per cent) and the fast growing Indian economy (7.7 per cent), see figure 2.



## Looking ahead

Real estate investment growth is expected to remain strong while inflation is picking up with consumer prices increasing by 1.9 per cent in December from a year earlier. While the government stimulus spending will fall off in 2010, investment in real estate could grow by 30 to 40 per cent compared with 2009, and become a main force driving investment growth.

Manufacturing will continue to be China's growth driver. The sector recovered well in the last few months of 2009 with rises in new orders and output driving the purchasing managers' index to a 20-month high of 56.6 in December, up from 55.2 in the previous month.

Over the longer term, government measures should be enough to sustain growth until the global economy enters into a full recovery in 2011. That should see growth rates in China to hit double digits again, albeit briefly.

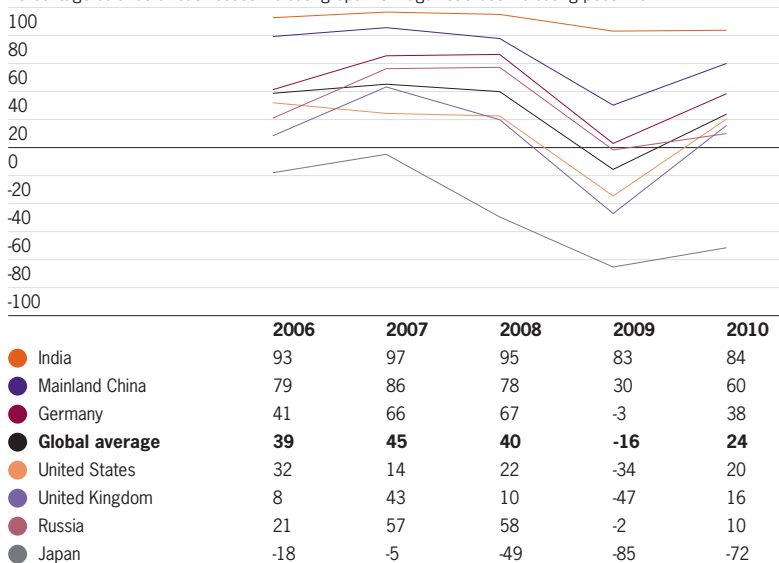
However, other factors may exert a dampening influence on the economy. First of all, the rapid pace of growth in the global economy of recent years is unlikely to be replicated. At the same time, China's integration into the global economy will be maturing over this period, and the processing trade will exhibit a less torrid pace of growth.

Investment is expected to slow gradually, although government-sponsored investment in lagging regions will provide an important source of support. Spending on infrastructure is likely to decelerate with the build-up of capacity in many industrial sectors expected to constrain investment.



**Figure 1: Outlook for the economy over the next 12 months 2006-10**

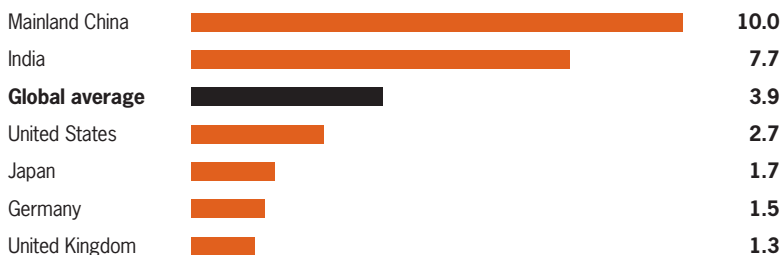
Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010

**Figure 2: Projections for GDP growth 2010**

Percentage



Source: International Monetary Fund 2010

Escalating costs are likely to result in slowing inflows of foreign direct investment, and firms are increasingly looking to relocate part of their production in China to cheaper locations such as Vietnam and India. Demographics will be a negative factor influencing growth. The government's one-child policy means that the working-age population will begin shrinking some time toward the middle of the next decade.

What is clear is that Chinese businesses are continually evolving to strengthen China's global economic position. Growth from within China will be at the forefront of economic strength as reliance on foreign investors is reduced.

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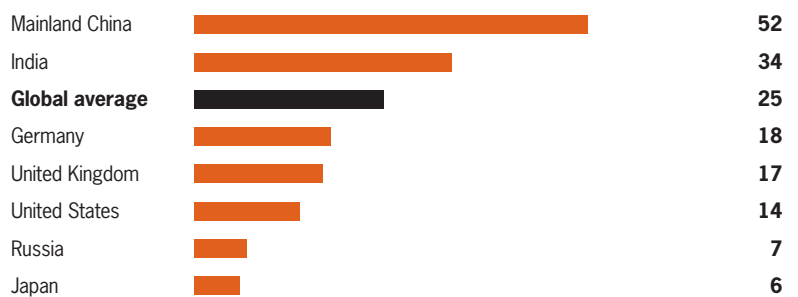
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# International Business Report results

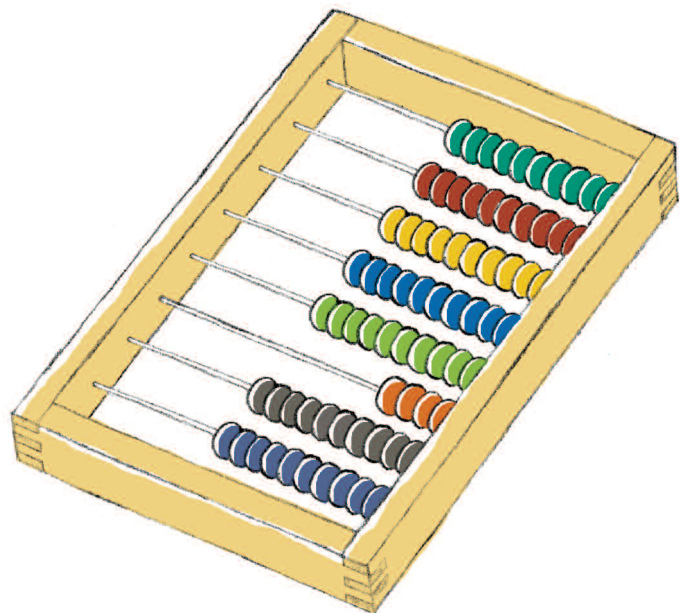
## Research & development expectations

- optimism levels regarding research & development in mainland China are the highest globally, with a balance of +52 per cent expecting research and development activities to increase
- with such strong expectation levels around research and development, businesses in mainland China have identified this area as being key to successful and continued growth.

**Figure 3: Research & development expectations: 2010**  
Percentage balance of businesses



Source: Grant Thornton IBR 2010

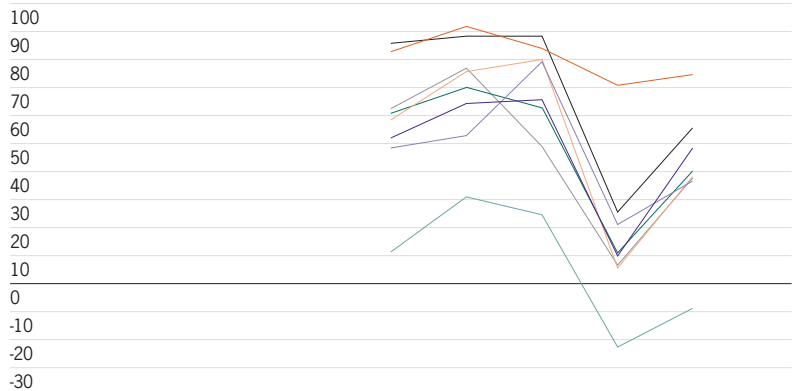


### Revenue expectations

- optimism levels regarding revenue prospects have risen in mainland China this year by 30 percentage points, from +26 per cent in 2009 to +56 per cent; although they have not returned to the peak of 88 per cent, in 2008
- optimism levels are higher in mainland China compared to the global average and other large economies, but still lower than the exceptionally high levels in India (74 per cent)
- the average increase globally is slightly smaller, at 29 percentage points, from +11 per cent to +40 per cent in 2010.

**Figure 4: Revenue expectations: 2006-2010**

Percentage balance of businesses



	2006	2007	2008	2009	2010
India	83	92	84	71	74
Mainland China	86	88	88	26	56
United Kingdom	52	64	66	10	48
<b>Global average</b>	<b>61</b>	<b>70</b>	<b>63</b>	<b>11</b>	<b>40</b>
Russia	58	76	80	6	38
United States	63	77	49	7	38
Germany	48	53	79	21	37
Japan	12	31	24	-23	-9

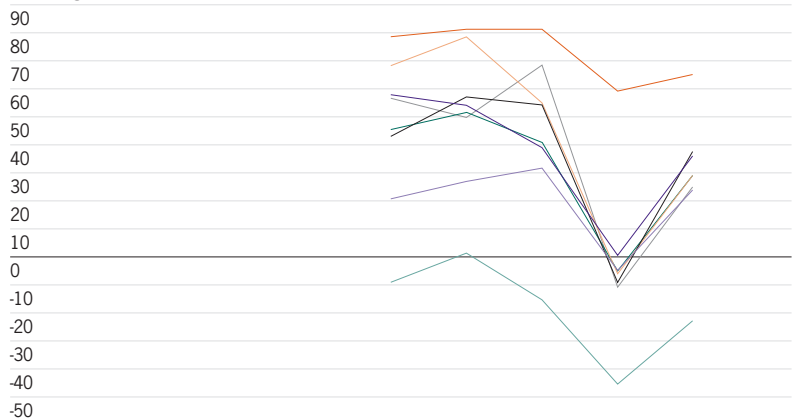
Source: Grant Thornton IBR 2010

### Profitability expectations

- profitability expectations amongst businesses in mainland China have risen this year by 35 percentage points, from -6 per cent in 2009 to +29 per cent
- this is identical to the global average, although businesses in India, the UK and the US are all more optimistic about profitability (65, 38 and 36 per cent respectively).

**Figure 5: Profitability expectations: 2006-2010**

Percentage balance of businesses



	2006	2007	2008	2009	2010
India	78	81	81	59	65
United Kingdom	43	57	54	-9	38
United States	58	54	39	1	36
<b>Global average</b>	<b>46</b>	<b>52</b>	<b>41</b>	<b>-5</b>	<b>29</b>
Mainland China	68	78	55	-6	29
Russia	57	50	68	-11	25
Germany	21	27	32	-5	24
Japan	-9	2	-15	-45	-23

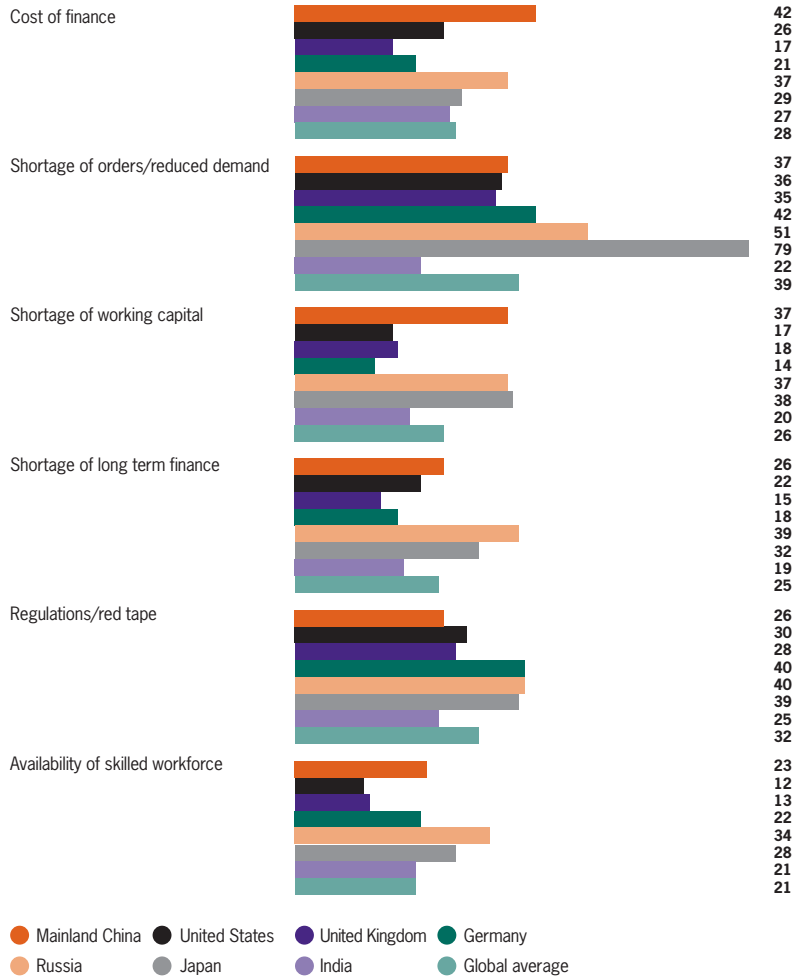
Source: Grant Thornton IBR 2010

### Constraints

- the cost of finance is viewed as the major constraint restricting expansion for businesses in mainland China this year; at 42 per cent this is considerably higher than all other countries compared here and the global average (28 per cent)
- the second greatest concern for businesses in mainland China is a shortage of orders/reduced demand; at 37 per cent this is lower than the global average (39 per cent) and the Japanese (79 per cent) and Russian (51 per cent) averages.

**Figure 6: Constraints on expansion**

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

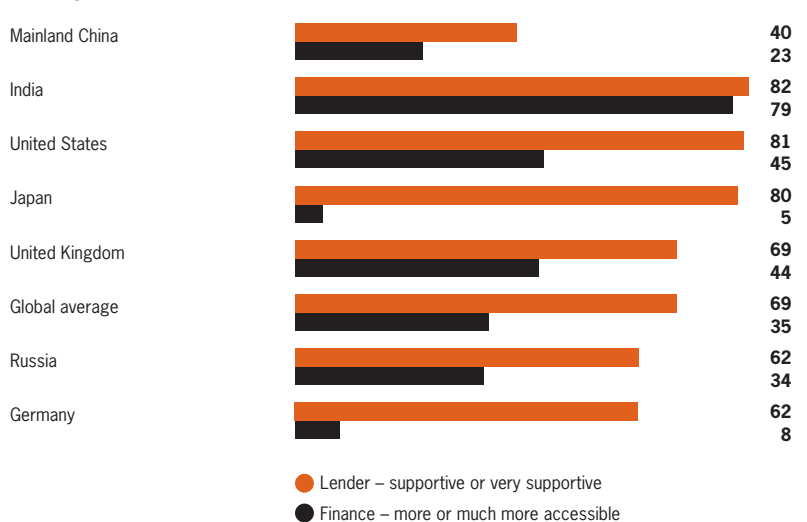


Source: Grant Thornton IBR 2010

### Raising finance

- two-fifths of businesses in mainland China class lenders supportive or very supportive towards their business (40 per cent) and one-quarter (23 per cent) expect finance to become more or much more accessible
- globally, 69 per cent of businesses considered their lenders supportive or very supportive towards their business
- Japan (five per cent) and Germany (eight per cent) are least positive about financial accessibility; the global average is higher at 35 per cent.

**Figure 7: Level of support provided by lenders and the accessibility of finance in the next 12 months**



Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the ‘engine’ of the world’s economy. In mainland China 300 businesses were surveyed (100 state owned and public sector and 200 privately owned) across all industry sectors. These businesses ranged from medium to large in size with total employees of between 100 and 1000+.

To find out more about IBR and to obtain copies of reports and summaries visit: [www.internationalbusinessreport.com](http://www.internationalbusinessreport.com). The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

**Participating economies**

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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