

Focus on: mainland China

International Business Report 2009 – Country focus series

A year of turmoil

With the collapse of global trade it was feared that even high-flying China might fall into recession, but the government has used the ample resources at its disposal to sustain growth in the domestic economy as exporters await a global recovery. The key indicators highlight the issues facing the economy:

- after slowing sharply in Q4 2008, the economy has shown renewed signs of life, with real annual GDP growth hitting 6.1 per cent in Q1 2009 and 7.9 per cent in Q2 2009
- the primary boost to growth has stemmed from ramping up of lending by state-controlled banks – lending in the first half of 2009 had already matched the 2008 full-year total; a value equivalent to 25 per cent of the country's 2008 GDP
- the severe decline in exports that began in Autumn 2008 may have slowed but 23 percentage point drops were recorded in each of the first two quarters
- industrial production rose by 8.9 per cent year on year in May 2009, and is likely to continue to pick up whilst remaining below the 2008 pace
- urban unemployment stands at 4.3 per cent in Q2 2009 (unchanged from Q1), up marginally from 4.2 per cent at year end 2008.

Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2009 surveyed the views of 7,200 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 worst economic downturn in decades as illustrated in figure 1.

Figure 1: Key indicators for businesses

Mainland China compared to the global average	2007 China	2008 China	2009 China	2009 Global
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+86%	+78%	+30%	-16%
Issue of greatest concern in the next 12 months				
Fall in consumer demand			49%	39%
Increased cost of energy			17%	10%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+58%	+15%	+8%	-4%
Constraints on expansion				
Shortage of orders/reduced demand	50%	38%	55%	49%
Regulations/red tape	42%	–	37%	30%

Source: Grant Thornton IBR 2009



The IBR survey tells us that PHBs in mainland China expect to suffer even more than other businesses globally in terms of falling consumer demand and from an increased cost of energy over the course of 2009. These concerns impact negatively on expectations for turnover growth and on profitability; whilst PHBs are much less optimistic about the country's economic prospects for 2009 than they were 12 months ago. Clearly the effects of the global decline in activity are taking its toll on PHBs.

Looking ahead

The sharp drop in global demand in late 2008 had China teetering on the brink of recession, but government stimulus measures – which mainly involved bringing forward infrastructure plans, subsidies and tax cuts – are getting the economy moving again. This should be enough to underpin real GDP growth of 6.5 per cent for 2009. While net exports and inventories are expected to be a considerable drag on growth in 2009, household and government spending and investment should remain comparatively strong. Besides government investment plans, state-controlled banks are pumping considerable sums of money into the business and consumers sectors.

Although average annual growth of 7.3 per cent in 2009-10 may test social cohesion – especially as the labour market remains weak and those labourers losing their jobs are largely the rural poor – retail sales continue to boom and the government is targeting spending towards the poorer provinces of the hinterland. Moreover, the government has ample resources to help curb the impact of the global slowdown and the deflating of domestic asset bubbles. Even so, its metal will be tested, as there will be not enough jobs to absorb the waves of rural poor (an estimated eight million per annum) that usually make their way to the urban growth centres.

Any potential recovery in the mainland Chinese economy will need privately held businesses to be back at the forefront to drive new business, employment and trade. To achieve this:

- businesses need to adjust to the new level of demand while working on innovative ways to develop product and market share
- access to credit needs to be improved to enable businesses to manage their working capital and long term funding needs
- a rapidly deteriorating labour market will need to be well managed if job security fears are not to further dampen consumer spending.

It is clear that during the months and years ahead, all businesses will face a number of key threats and opportunities which will require senior management to make some very 'big decisions'. Businesses surviving the downturn will look back on these decisions as pivotal moments in their company's history. Focusing on the right things will give businesses under pressure more room for manoeuvre, while for others it will provide opportunities to realise their ambitions more quickly than they had planned.

At Grant Thornton we help businesses to make these decisions on a daily basis, to guide them through the good and bad times. Talk to us to find out how we can help you make the right choices for your business.



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International Business Report results

The Grant Thornton IBR 2009 reveals that privately held businesses in almost all countries are less optimistic about economic prospects for the year ahead. PHBs in mainland China are less optimistic about prospects for 2009 with a drop of 48 percentage points from an optimism/pessimism balance¹ of +78 per cent in 2008 to just +30 per cent in 2009.

For the sixth consecutive year, India tops the league table with a net balance of +83 per cent (+95 per cent in 2008), whilst Japan remains at the bottom with a balance of -85 per cent.

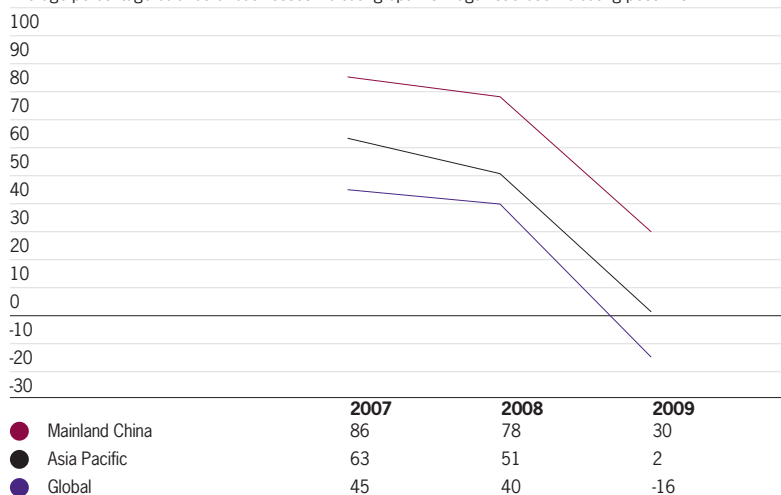
Overall optimism amongst PHBs globally has fallen from 2008; this year a balance of -16 per cent of PHBs across all countries are positive about their country's economy – compared to a balance of +40 per cent in 2008.

Optimism/pessimism

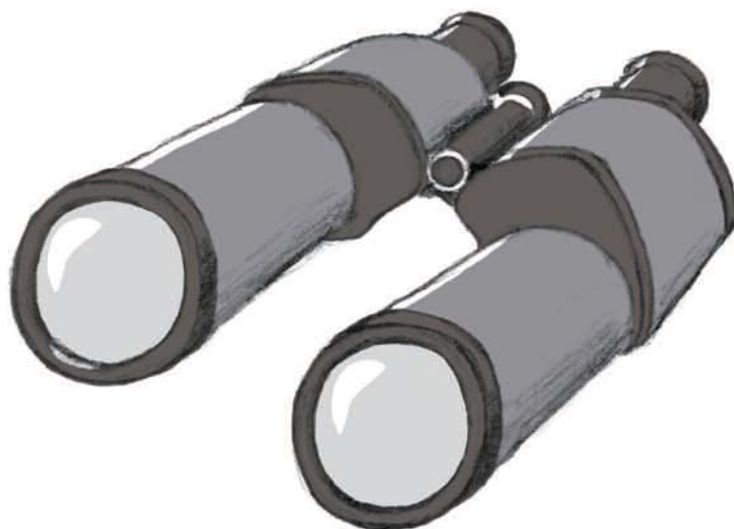
- although still positive, PHBs in mainland China are less optimistic about their country's economic outlook (+30 per cent) compared with 2008 (+78 per cent)
- levels of optimism regarding economic outlook have fallen by 48 percentage points from 2008 in mainland China, compared with the 49 percentage point drops observed in the Asia Pacific region as a whole and the 56 percentage point drops observed globally.

Figure 2: Outlook for the economy over the next 12 months: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2009



¹ the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

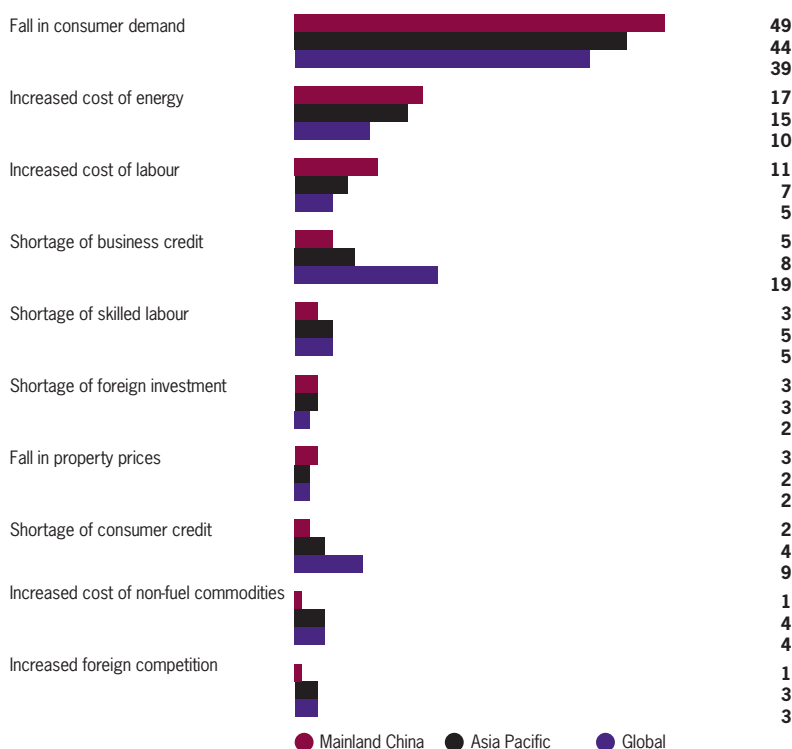
² for the purposes of IBR, the term 'Asia Pacific' refers to those Asia Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

Greatest concern

- a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs in mainland China (49 per cent); higher than the Asia Pacific region as a whole (44 per cent) and the global average (39 per cent)
- a shortage of business credit is of considerable greater concern for PHBs globally (19 per cent), than in mainland China (five per cent) and the Asia Pacific region as a whole (eight per cent).

Figure 3: Greatest concern in the next 12 months

Average percentage of businesses



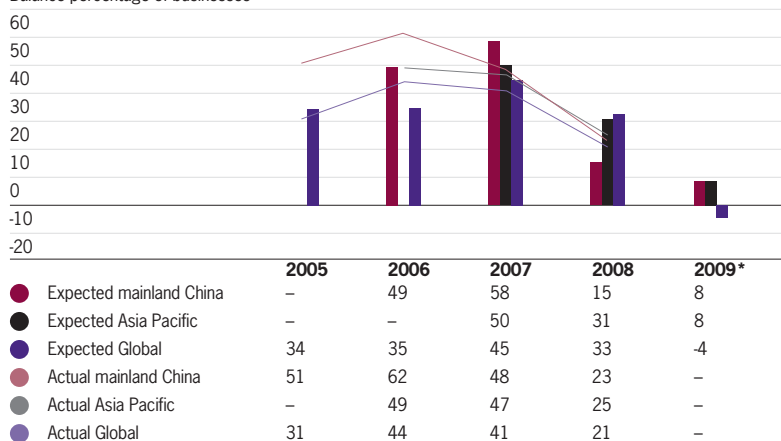
Source: Grant Thornton IBR 2009

Employment

- PHBs in mainland China expect employment to contract in 2009, with the balance of businesses expecting a decrease; falling seven percentage points this year
- actual employment growth across mainland China in 2008 (+23 per cent) was higher than expected (+15 per cent).

Figure 4: Employment history: 2005-2009

Balance percentage of businesses



*actual 2009 data will be documented in IBR 2010

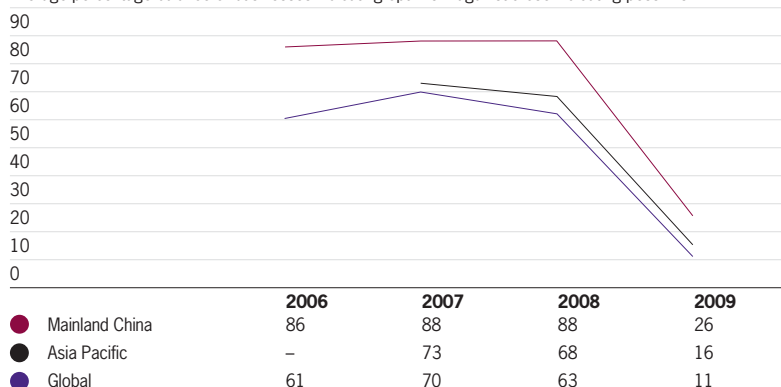
Source: Grant Thornton IBR 2009

Revenue expectations

- optimism levels regarding revenue prospects have plummeted in mainland China this year, falling by 62 percentage points, from +88 per cent in 2008 to +26 per cent
- the average decline globally is the largest in IBR history, falling 52 percentage points, down from +63 per cent in 2008 to just +11 per cent this year; the Asia Pacific region as a whole also observed a fall of 52 percentage points.

Figure 5: Revenue expectations: 2006-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



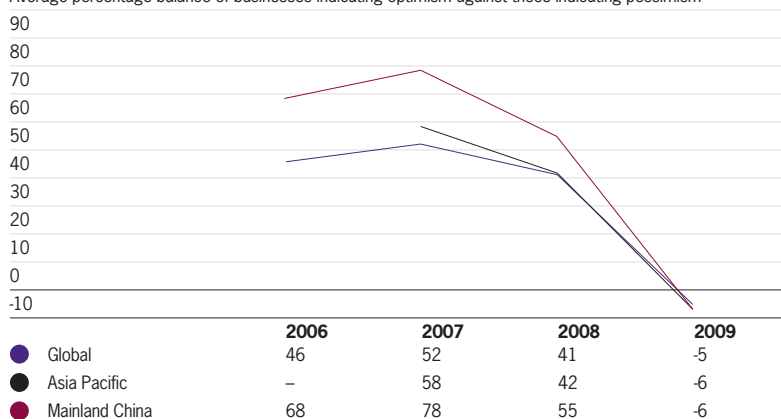
Source: Grant Thornton IBR 2009

Profitability expectations

- profitability expectations amongst PHBs in mainland China have also plummeted this year, falling by 61 percentage points, from +55 per cent in 2008 to -6 per cent
- the average drop across all countries as a whole regarding profitability is also the greatest in IBR history, falling by 46 percentage points to -5 per cent this year; the Asia Pacific region as a whole observed a similar decline of 48 percentage points.

Figure 6: Profitability expectations: 2006-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



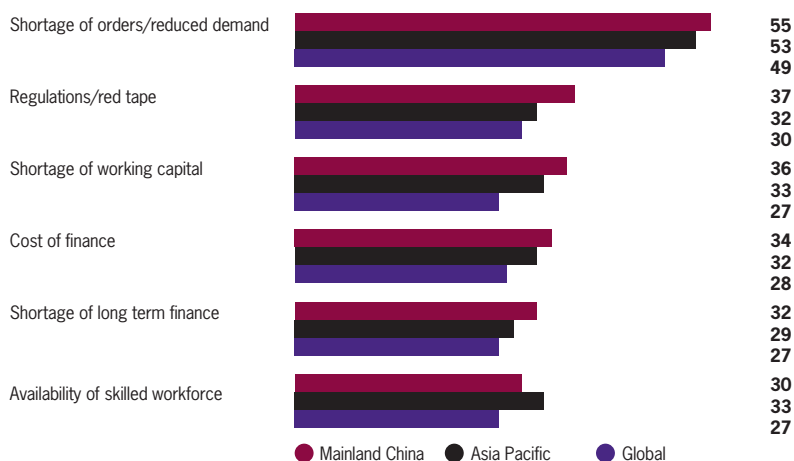
Source: Grant Thornton IBR 2009

Constraints

- a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in mainland China this year; at 55 per cent this is higher than the Asia Pacific average (53 per cent) and the global average (49 per cent) (53 per cent) and the global average (49 per cent)
- the second greatest concern for PHBs in mainland China is regulations/red tape; at 37 per cent this is higher than the Asia Pacific average (32 per cent) and the global average (30 per cent).

Figure 7: Constraints on expansion

Average 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

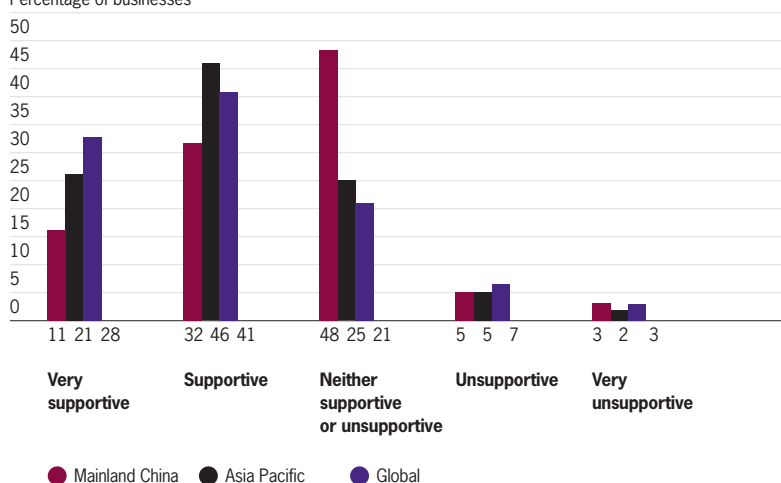


Source: Grant Thornton IBR 2009

Support of lender

- just under half of PHBs in mainland China class lenders as supportive or very supportive towards their business (43 per cent); significantly lower than the Asia Pacific average (67 per cent) and the global average (69 per cent)
- eight per cent of PHBs in mainland China class lenders as unsupportive or very unsupportive towards their business, similar to the Asia Pacific average (seven per cent), although lower than the global average (ten per cent).

Figure 8: Level of support provided by lenders
Percentage of businesses

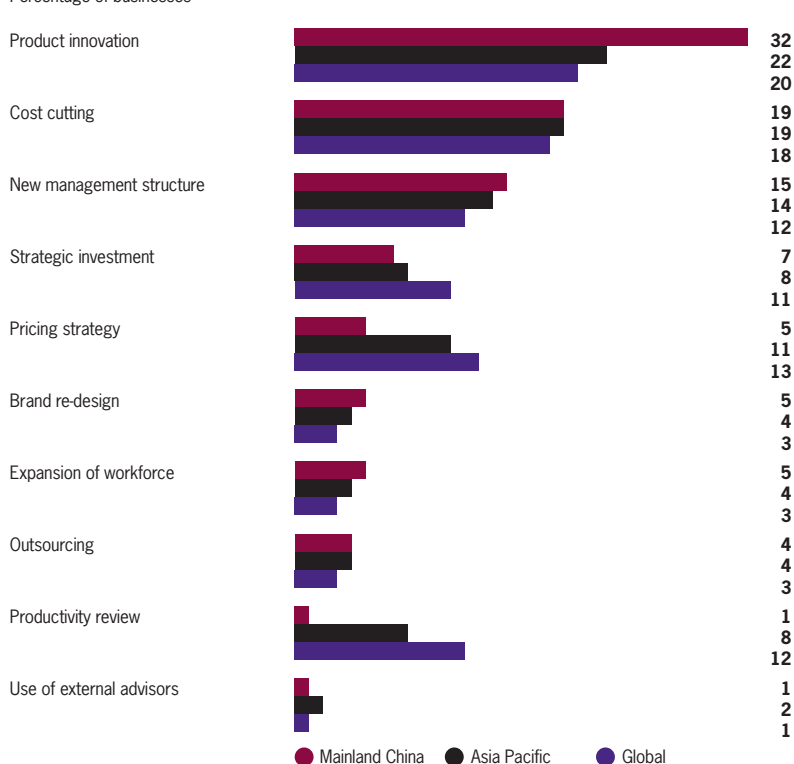


Source: Grant Thornton IBR 2009

Business planning

- product innovation has been the most successful initiative introduced by PHBs in mainland China to increase profits; at 32 per cent this is considerably higher than the Asia Pacific region as a whole (22 per cent) and the global average (20 per cent)
- pricing strategy and productivity review are considerably more successful initiatives in the Asia Pacific region as a whole and globally, than in mainland China.

Figure 9: Successful initiatives that have been put into place to increase profitability
Percentage of businesses



Source: Grant Thornton IBR 2009

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 7,200 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 PHBs were surveyed 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. 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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