Grant Thornton

Focus on: mainland China

International Business Report 2011 – Economy focus series

The economy

After posting double digit growth in 2010, the economy has slowed slightly in 2011 due to falling demand in the important export markets of North America and Europe combined with efforts by the government to cool property investment. Inflationary pressures are growing with strong liquidity growth, wages rises and increased domestic demand all pushing up selling prices.

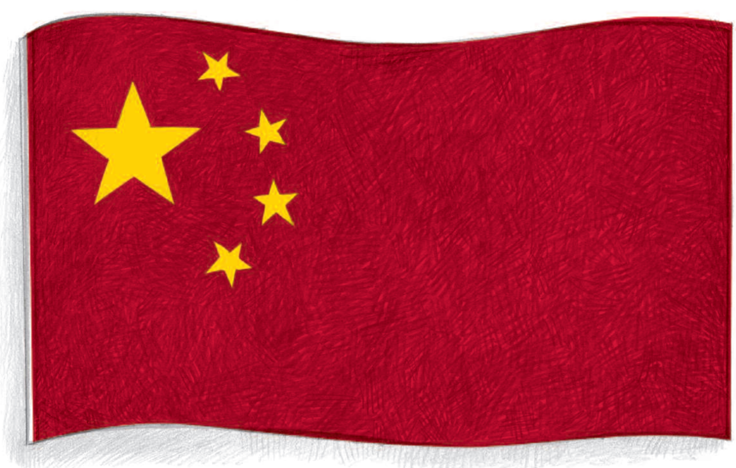
The key indicators[1] highlight the issues facing the economy:

- the economy's second-quarter GDP rose 9.5 per cent from a year earlier, compared with 9.7 per cent growth in the first quarter
- industrial production growth in June also came in much faster than expected, rising 15.1 per cent from a year earlier, compared with 13.3 per cent in May
- the rate of inflation climbed to 6.5 per cent in July, up from 5.5 per cent in May
- the purchasing managers' index exceeded expectations in July posting 50.7, although it was down from 50.9 in June
- retail sales in June rose 17.7 per cent from a year earlier, compared with a 16.9 per cent rise in May
- China's trade surplus rose to US$31.5bn in July, on the back of 20.4 per cent year-on-year export growth.

The business perspective

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 11,000 privately held businesses (PHBs) in 39 economies around the world. This report focuses on the experiences of privately held businesses in mainland China and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that although PHBs in mainland China are less optimistic than they were in 2010, they are still considerably more optimistic than businesses globally. Expectations for revenue and profitability remain positive whilst projected investment in research & development is amongst the strongest globally.



[1] source: International Monetary Fund, The Economist and Experian.

The outlook

The economy is expected to expand by 9-9.5 per cent in 2011 as a whole, before settling onto a growth rate of around 9.0 per cent 2012-16 as the rapid pace of growth in the global economy prior to the financial crisis is unlikely to be replicated.

Exports are forecast to continue to grow by 15-16 per cent, much slower than pre-crisis levels due to slow growth in mature markets and a strengthening rembini. Reduced competiveness is also expected to slow flows of FDI as escalating input costs, particularly for labour, cause firms to relocate to cheaper areas such as Vietnam.

Investment is expected to slow gradually from around 49 per cent of GDP in 2011 to 45 per cent by 2016. Though government-sponsored investment in lagging regions will provide an important source of support, spending on infrastructure is likely to decelerate as the economy becomes more consumption-driven. Rising dependency rates are likely to drag on growth in the longer-terms as China's demographic dividend comes to an end.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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Figure 1: Key indicators for PHBs

Mainland China compared with global average	2009 mainland China	2010 mainland China	2011 mainland China	2011 Global
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+30%	+60%	+45%	+28%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+8%	+40%	+47%	+36%
Constraints on expansion				
Shortage of orders/reduced demand	38%	37%	41%	31%
Availability of skilled workforce	29%	23%	38%	27%

Source: Grant Thornton IBR 2011

International Business Report results

The Grant Thornton IBR 2011 reveals that privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in mainland China continue to be optimistic about prospects for 2011 albeit slightly more cautiously than they were in 2010; their optimism/pessimism balance[2] has fallen from +60 per cent in 2010 to +45 per cent in 2011.

Businesses in India and Chile are once again the most optimistic globally, topping the league table of optimism with +91per cent. They are followed by the Philippines (+85 per cent), Sweden (+81 per cent) and the United Arab Emirates (+80 per cent). Japan is the least optimistic country once again with a balance of -66 per cent, followed by Spain (-48 per cent) and Greece (-45 per cent).

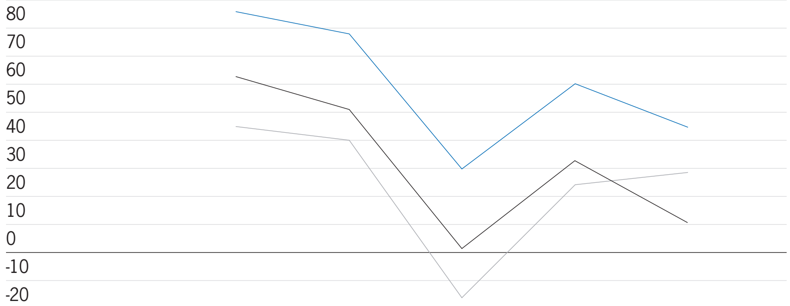
Overall optimism amongst businesses globally has risen: this year, a balance of +28 per cent of businesses across all countries are positive about their country's economy, compared with +24 per cent in 2010.

Optimism/pessimism

- although still positive, PHBs in mainland China are less optimistic about their country's economic outlook (+45 per cent) compared with 2010 (+60 per cent)
- levels of optimism regarding the economic outlook have fallen by 22 percentage points from 2010 in the Asia-Pacific[3] region as a whole, whilst they have risen by 4 percentage points globally.

Figure 2: Outlook for the economy over the next 12 months: 2007-2011

Percentage balance of businesses indicating optimism against those indicating pessimism



	2007	2008	2009	2010	2011
Mainland China	86	78	30	60	45
Asia-Pacific	63	51	2	33	11
Global	45	40	-16	24	28

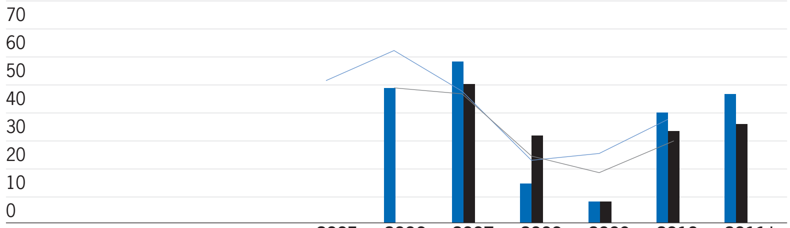
Source: Grant Thornton IBR 2011

[2] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.
[3] 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.

Employment

- on balance, +47 per cent of businesses in mainland China expect employment to expand in 2011, an increase of 7 percentage points from 2010
- actual employment growth across mainland China was in line with expectations in 2010 – on balance, +40 per cent expected employment to increase in 2010 against a reported figure of +37 per cent.

Figure 3: Employment history: 2005-2011
Percentage balance of businesses indicating an increase against those indicating a decrease



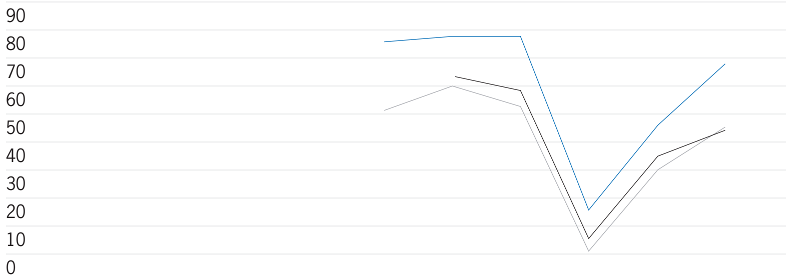
	2005	2006	2007	2008	2009	2010	2011*
Expected mainland China	–	49	58	15	8	40	47
Expected Asia-Pacific	–	–	50	31	8	33	36
Actual mainland China	51	62	48	23	26	37	–
Actual Asia-Pacific	–	49	47	25	19	30	–

*actual 2011 data will be documented in IBR 2012
Source: Grant Thornton IBR 2011

Revenue expectations

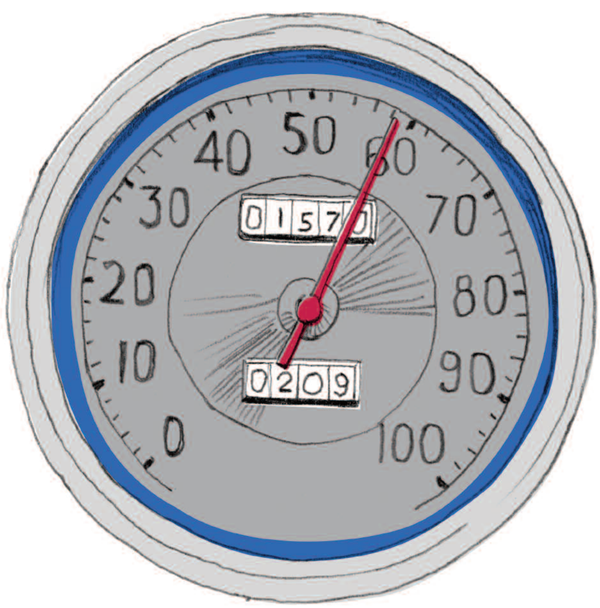
- optimism levels regarding revenue prospects have grown in mainland China this year, rising by 22 percentage points, from +56 per cent in 2010 to +78 per cent – their highest level since 2008
- there has also been an increase globally with a balance of 55 per cent of businesses expecting to increase revenue over the next 12 months.

Figure 4: Revenue expectations: 2006-2011
Percentage balance of businesses indicating an increase against those indicating a decrease



	2006	2007	2008	2009	2010	2011
Mainland China	86	88	88	26	56	78
Asia-Pacific	–	73	68	16	45	54
Global	61	70	63	11	40	55

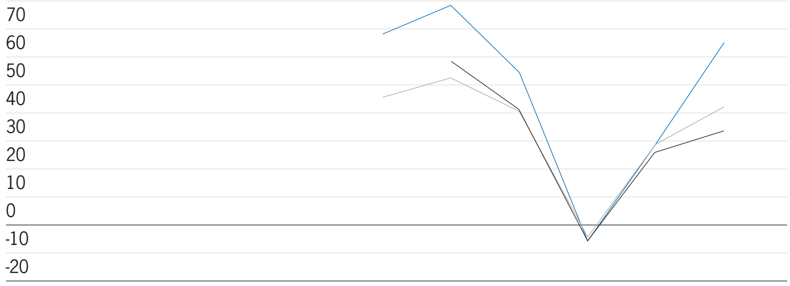
Source: Grant Thornton IBR 2011



Profitability expectations

- profitability expectations amongst businesses in mainland China have risen significantly this year, increasing by 36 percentage points, from +29 per cent in 2010 to +65 per cent
- expectations for profitability have risen less sharply globally (13 percentage point rise) and also in the Asia-Pacific region (8 percentage point rise).

Figure 5: Profitability expectations: 2006-2011
Percentage balance of businesses indicating an increase against those indicating a decrease



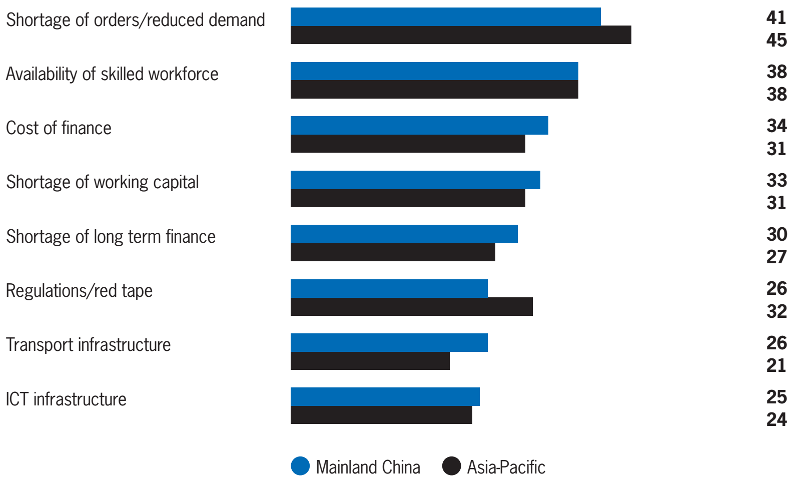
	2006	2007	2008	2009	2010	2011
Mainland China	68	78	55	-6	29	65
Asia-Pacific	–	58	42	-6	26	34
Global	46	52	41	-5	29	42

Source: Grant Thornton IBR 2011

Constraints

- a shortage of orders / reduced demand is viewed as the major constraint restricting expansion for PHBs in mainland China this year; although at 41 per cent, this is marginally lower than the Asia-Pacific average (45 per cent)
- financial factors appear to be more of a constraint for businesses in mainland China than across the Asia-Pacific region: the cost of finance, a shortage of working capital and of long-term finance are all cited by proportionally more Chinese businesses.

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

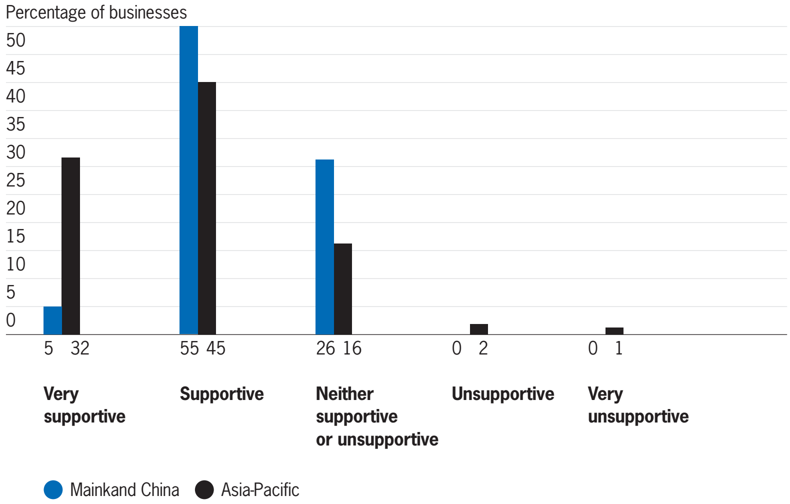


Source: Grant Thornton IBR 2011

Support of lender

- 32 per cent of businesses across Asia-Pacific view lenders as very supportive, compared to just 5 per cent in mainland China
- overall, close to two-thirds of businesses in mainland China class lenders as supportive towards their business (60 per cent), although this well below the Asia-Pacific average (77 per cent).

Figure 7: Level of support provided by lenders
Percentage of businesses



Source: Grant Thornton IBR 2011

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000 PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

In mainland China 353 PHBs were surveyed across all industry sectors. These businesses ranged from medium to large in size with total employees of between 100 and 1000+. The data is this report were drawn from interviews conducted between November 2010 and May 2011.

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
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Chile
Mainland China
Denmark
Finland
France
Georgia
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Philippines
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Russia
Singapore
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Spain
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