

Mainland China

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent whilst PHBs in mainland China are less optimistic about 2008 (+78 per cent) than they were about 2007 (+86 per cent).

Optimism amongst businesses in East Asia² is in line with the global average, although levels of optimism do vary throughout the East Asian economies. Overall optimism has fallen from 2007. This year +39 per cent of all East Asian businesses are positive about their economy compared to a balance of +54 per cent in 2007. However, East Asia continues to present a very mixed picture, with optimism/pessimism balances ranging from +95 per cent in the Philippines to -49 per cent in Japan.

The mainland Chinese economy

The economy continues to steam ahead, with real GDP growth hitting 11.4 per cent year-on-year in the fourth quarter of 2007, the same as the full year. While manufacturing has long enjoyed such growth, the services sector is also booming, averaging double-digit growth since the first quarter of 2005, and 10.7 per cent for all of 2007. Investment and trade continue to drive the economy, but consumers have raised their game as well. Growth in retail sales is averaging 20 per cent year-on-year at the start of 2008. Inflation hit a 12-year high in February 2008. Meanwhile investment spending shows no signs of slowing, increasing by well over 20 per cent in 2007 and maintaining this growth in the first few months of 2008. Clearly steady but modest rises in interest rates and reserve requirements are having little impact, as monetary and financial conditions remain fairly easy in real terms.



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

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

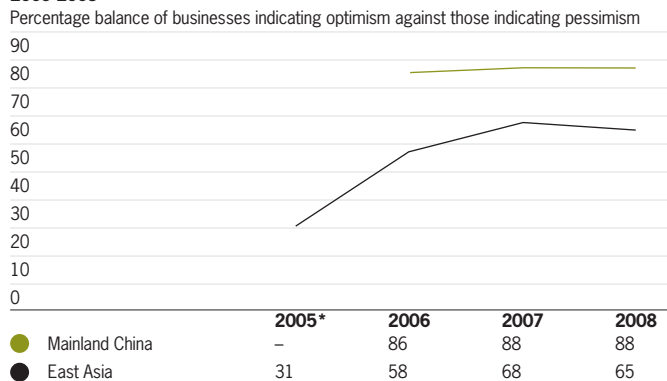
Business expectations/revenue

- PHBs in mainland China are equally as optimistic about their revenue prospects in 2008 as they were in 2007 (both +88 per cent).
- Their level of optimism regarding revenue performance is above both the East Asian regional average (+65 per cent), and the global average (+63 per cent).
- Their level of optimism regarding exports is just +3 per cent, below both the East Asian (+6 per cent) and global (+18 per cent) averages.

Employment

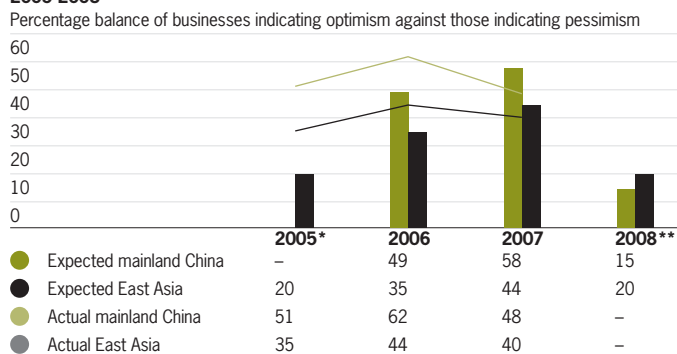
- Expected employment growth in mainland China fell drastically from +58 per cent in 2007 to just +15 per cent in 2008.
- Businesses in East Asia (+20 per cent) are slightly more optimistic with regard to employment growth in 2008 than mainland Chinese businesses.
- Actual reported employment growth in mainland China (+48 per cent) was lower than expected in 2007.

Figure 1: Revenue expectations for mainland China and the East Asian average 2005-2008

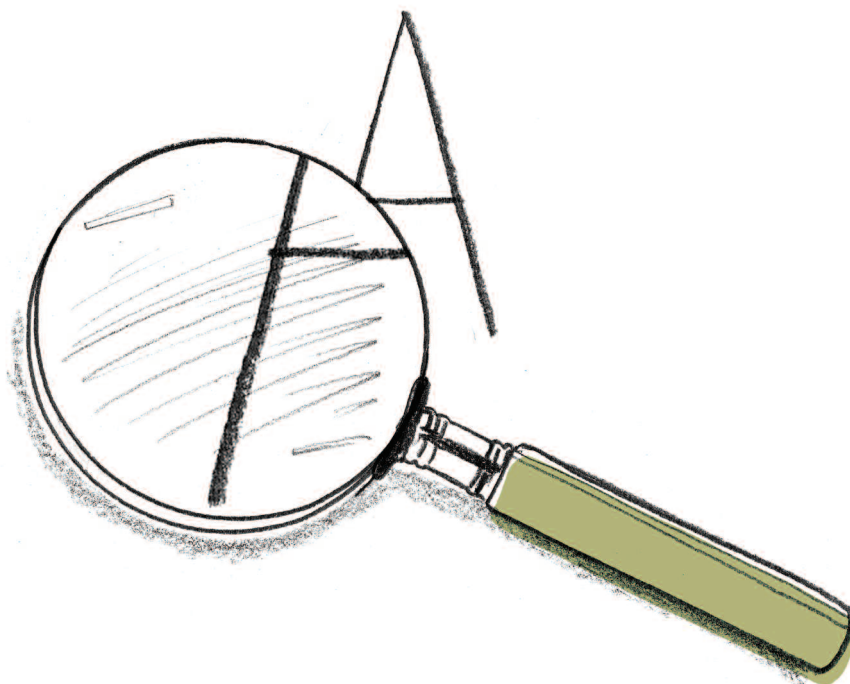


* data for mainland China not available
Source: Grant Thornton IBR 2008

Figure 2: Employment history of mainland China and the East Asian average 2005-2008



*data for mainland China not available
**2008 data will be documented in IBR 2009
Source: Grant Thornton IBR 2008



Constraints

- Shortage of orders/reduced demand and shortage of working capital are the constraints restricting expansion cited most by PHBs in mainland China (both 38 per cent).
- Shortage of orders/reduced demand is also the constraint restricting expansion cited most by PHBs in East Asia as a whole (45 per cent).
- Just 29 per cent of PHBs in mainland China cite availability of a skilled workforce as a constraint, compared to 37 per cent of all East Asian businesses.

Emerging markets

- The most important factor for PHBs in mainland China, when determining whether to invest internationally, is the quality of the international distributor (43 per cent).
- The number of mainland Chinese businesses which export (46 per cent) is higher than the global average (39 per cent) and is up from 39 per cent in 2007.
- 31 per cent of PHBs in mainland China import, this is slightly below the global average of 39 per cent.
- 61 per cent of mainland Chinese businesses see their main competition coming nationally, this is well above the global average of 42 per cent.

Figure 3: Largest constraints on growth for mainland Chinese businesses compared to the East Asian and the global average

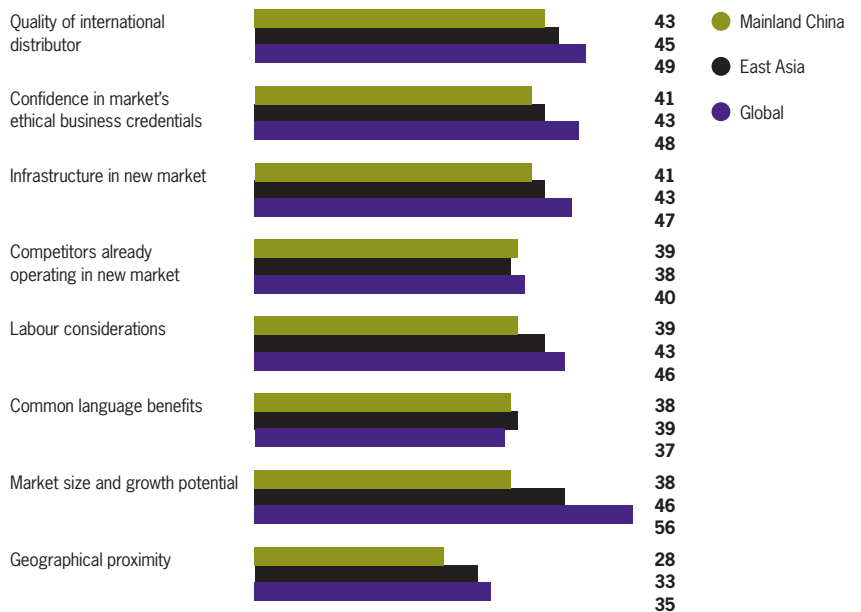
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment

Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

Competitiveness

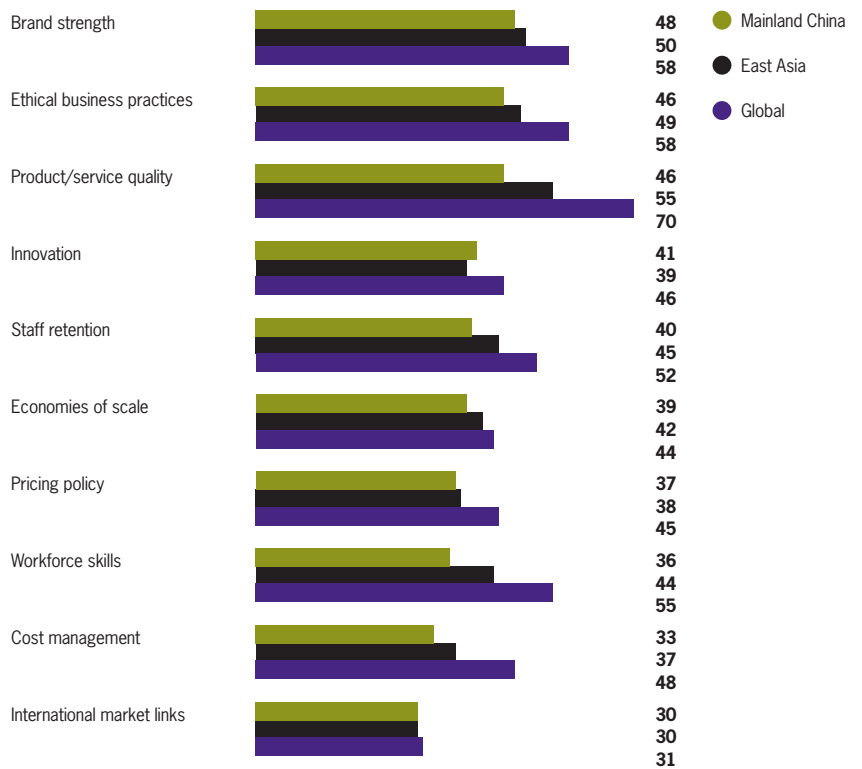
- PHBs in mainland China see their greatest source of competitive advantage as brand strength (48 per cent). This is below the global average (58 per cent).
- Product/service quality is the greatest source of competitive advantage for businesses globally (70 per cent) and for businesses in East Asia as a whole (55 per cent). This is cited by just 46 per cent of PHBs in mainland China.

Recruitment and retention

- The balance of PHBs in mainland China that are more focused on retention than those one year ago is 81 per cent. This is much higher than both the East Asian average (68 per cent) and the global average (63 per cent).
- 50 per cent of mainland Chinese businesses ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention. Although this is lower than the global average of 64 per cent.
- Cited by 51 per cent of mainland Chinese businesses, increased operating costs is viewed as the major problem staff retention issues have caused.
- It is costing 91 per cent of PHBs in mainland China significantly more to pay their staff than it was 12 months ago, this is well above both the East Asian average (68 per cent) and the global average (63 per cent).

Figure 5: Main sources of competitive advantage for mainland Chinese businesses compared to the East Asian and the global average

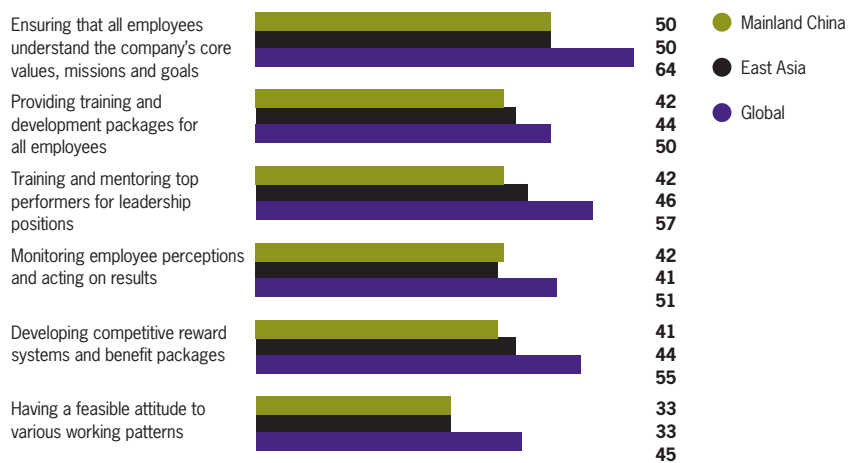
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Usage of recruitment and retention tools for mainland Chinese businesses compared to the East Asian and the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the mainland Chinese economy

The emphasis on tightening monetary and financial conditions, and the recession in the United States means that growth will slow below the long-term trend this year. But the slowdown will, at first, be gradual. Although the government is concerned about over-investment in certain sectors it is equally worried about creating enough jobs to absorb all the new entries into the workforce and the waves of rural workers (an estimated eight million per annum) making their way to the urban areas. In the background is the summer Olympics in Beijing in 2008.

Growth is unlikely to slow much more significantly until after the Olympics. By then monetary tightening and administrative measures could have had the desired effect. Alternatively, overheating could have spread to other sectors, demanding more drastic steps. Either way, with a sharp slowdown in the United States dampening export growth, both directly and through its impact on the world economy, mainland China's economic expansion will slow to less than ten per cent per annum.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

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



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