

Shanghai Municipality



Introduction:

Situated on China's east coast in a region known as the Yangtze River Delta, Shanghai is considered the heart of China's modern export economy. It has also been a cultural, commercial and financial center since the late 19th century. During the early 20th century, it was considered as the third largest financial centre after New York and London. This prosperity was cut short with the communist revolution in 1949 and was only reestablished during the reform and opening up period that began in 1978. Today it is home to the Asian headquarters of 154 international companies as well as factories and international financial institutions.

Shanghai is a municipality controlled directly by the central government and is of the level of a province within the Chinese government structure. The city had a population of 18.6 million people in 2004 and covered an area of 6,340.5km². It has population density of 2,945 people/km².

The city's vibrant economy makes it an attractive destination for people looking to improve their financial situation. In Shanghai around 4 million residents are considered to be part of the "floating" population, mainly from Anhui, Zhejiang and Jiangsu provinces.

Shanghai ranks number one among Mainland Chinese cities in term of per capita GDP. In 2006 its annual per capita GDP reached RMB 55,153 and its annual income per capita was RMB 18,645.

This has helped the city's economy to encompass everything from small-scale agriculture to heavy and high-tech manufacturing to a growing service industry.

Industries:

Automotive Manufacturing:

Automotive manufacturing is one of Shanghai's key industries. The city's automotive output was number one in China in 2004. The company at the head of this wave is the Shanghai Automotive Industrial Corporation (SAIC). As a state-owned, Fortune 500 company, SAIC got to its position by



partnering with many major foreign automakers such as Volkswagen and General Motors to produce vehicles under these foreign brands in China. At the same time, the company also has smaller local brands such as Shanghai Maple Automobile to capture low-end segments of the market.

Two of SAIC's major purchases in recent years have helped it to grow its brand significantly. In 2004, the company bought 51% stake in SsangYong Motors of South Korea and the intellectual property rights of some of MG Rover's models such as the Rover 25, Rover 75 and Rover Powertrain Series K-engine. SAIC later used these designs to produce the Roewe sports car, which it hopes to market both in China and overseas. Besides that SAIC has the rights to the MG TF sports car. The MG group was purchased by Nanjing Automobile Group in July of 2005 for £53 million. According to the China Daily, there are rumours that SAIC and Nanjing Automobile Group may merge into one company.

To ensure that SAIC had the right capabilities needed to manage its international acquisitions, it hired Phil Murtaugh, who had headed up General Motors' China operations during the 1990s. This is unique because there are not many foreign executives working at China's state-owned companies. However, Mr. Murtaugh has recently left SAIC to head Chrysler's new restructured Asian operations. There is lot of speculation in the Chinese media if SAIC can find the right person to continue the level of success that Murtaugh brought to the company.

Steel:

Shanghai has been known as a local steel hub ever since the 1970s when China's central government authorized the setting up of a large steel company

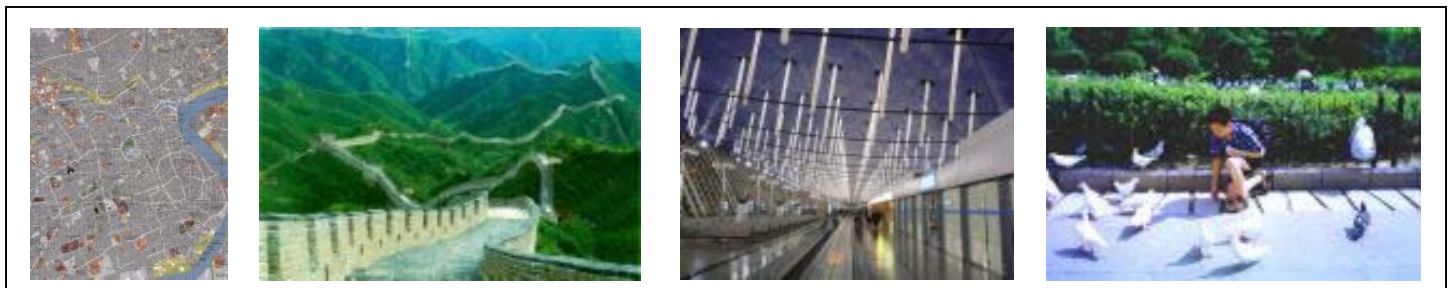
near Shanghai port. That company was Baoshan Iron and Steel Company – today known as Baosteel.

Under the government's planned economy, Baosteel's status as the country's flagship steel company meant that it received the best engineers and cutting-edge technology of the time. This changed however when the company began to open up in 1978. Small rival companies started to appear and challenge Baosteel's control of the market. The company's solution was to start exporting its steel and was quite successful in South Korea until the Asian financial crisis of 1997.

At that time, it decided to change paths yet again and merged with two other state-owned steel producers, the Shanghai Metallurgical Holding Group Corporation and the Shanghai Meishan Group Co. to form Shanghai Baosteel Group Corporation. In 2000, the company went public on the Shanghai Stock Exchange with the largest initial public offering seen in China at that time.

Baosteel has also entered into alliances with two of China's other big steel players Wuhan Iron and Steel Group and Shougang Steel as well as Baotou Steel and Ma'anshan Steel. It also entered into an arrangement with the German company ThyssenKrupp that same year.

Baosteel currently ranks as the fifth largest steel company in the world based on sales and has a production capacity of 23 million tons of crude steel -- that is 5% of China total steel output of 381.5 million tons. It is currently looking to increase its capacity by more than 300% by 2012 through local acquisitions, stated China Daily in a report. This is in response to the National Development and Reform Commission (NDRC)'s decision to set new targets for the steel industry in 2005. The NDRC wants the top 10 Chinese steel companies to control 50% of the local market by 2010 and 70%



by 2020.

There are also rumours that Baosteel may purchase Shagang steel from neighbouring Jiangsu province. The company is also expected to look at mining for iron ore and other necessary raw materials overseas to reduce costs.

Chemicals:

Shanghai has a well-established chemical and petrochemical industry that helps to produce plastics, synthetic fibers and other products. To help build up the industry in the region, the city government set up the Shanghai Chemical Industry Park just south of Shanghai.



Source: Shanghai Chemical Industrial Park

With its own port area and natural gas power plant, the park has been able to attract major multinational firms such as BP, BASF, Bayer, Degussa, Huntsman and Air Liquide to invest US\$ 8.82 million in the park. There is a railway connecting the park to Pudong International airport for easy shipping by air. The park is also connected to the Shanghai-Nanjing and Shanghai-Hangzhou

express highways, which has made it convenient to send goods by road. Finally the park is just a 45-minute drive from downtown Shanghai, which means it is very easy to ensure a good quality of life for employees working in the park.

CII also signed a memorandum of understanding (MoU) with the Shanghai Chemical Industry Association in 2004. Under the MoU, the two groups exchange information on topics such as trade, investment and technological cooperation. They will also help their members build international business contacts between the two countries.

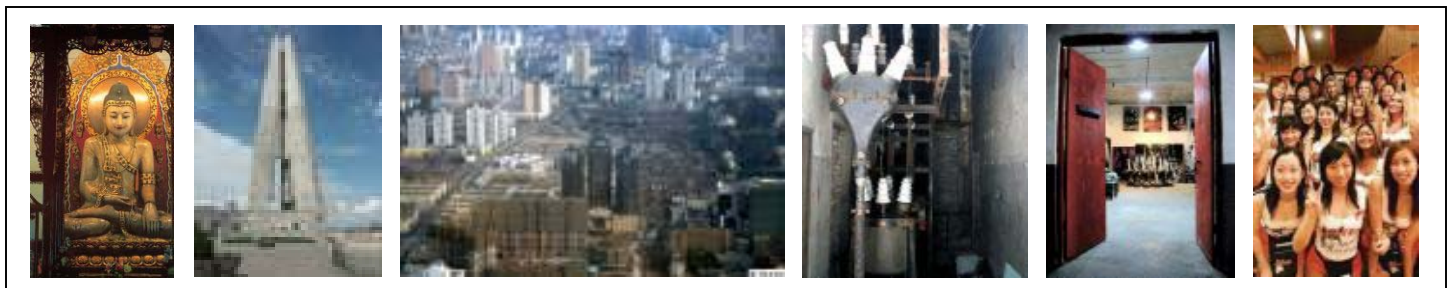
Electronics/Electronic Components:

Shanghai has many suppliers of a variety of electronics and electronic components, which include:

- Integrated circuit boards
- Digital pocket scales
- Tube amplifiers
- Solid state amplifiers
- Flash memory
- Semiconductors

One of the major players in the Integrated Circuit board (IC) market is Shanghai Hua Hong NEC Enterprises. Shanghai Hua Hong is a joint venture of NEC, the Japanese home electronics and IC manufacturer. Founded in 1997, Hua Hong NEC bases its product range around its series of 0.35 to 0.15µm memory, logic and signal technologies.

It has become known in China as a source of embedded non-volatile memories, HVCMOS and RFCMOS chips, smartcard chips for ID cards and LCD driver chips. It also has a patented wafer printing process. Shanghai Hua Hong NEC allows it



to provide clients to market quickly and better production costs. Shanghai Hua Hong NEC's current capacity is 53,000 8-inch silicon wafers every month. This will expand further by the end of 2007 when the company's second factory begins production in Shanghai.

Other foreign manufacturers in the city include Hewlett Packard, IBM and Olympus.

Internet/Technology Firms:

Shanghai is also home to a number of Chinese Internet and technology firms such as Tudou.com, a video-sharing website. Therefore, it has become stomping ground for a number of venture capital firms looking for new projects.

Textile Industry:

Shanghai has had a textile industry for many years, but it was regarded as a very inefficient industry. Since 2000, the Shanghai government has worked to reform and consolidate the industry into one that can compete internationally.

That year construction began on a textile production centre in the outskirts of the city. The government also closed down 185 cotton mills in 1999 and reduced its spindles from 2.5 million to less than one million. Foreign investment was also sought from abroad and agreements were signed with suppliers in Germany, the US, the UK, France and Australia.

But by 2007, this restructuring is still not complete. According to textile industry website, fibre2fashion.com, the Shanghai Foreign Economic Trade Committee on September 1, 2007, allocated RMB 60 million as special funds so that the small and medium-sized textile enterprises in Shanghai could develop an export industry and explore

overseas markets. Over half of the funds are allocated to develop overseas markets for Shanghaiese textiles.

In June of every year, the city hosts a major textile show, ShanghaiTex. The website for ShanghaiTex states that the show initially began in 1984 and has 1,400 exhibitors from more than 20 countries and more than 120,000 visitors, making it one of China's major textile trade shows.

Real Estate:

Shanghai has been going through a real estate boom since the mid-1990s. According to the China Statistics Bureau, Shanghai is second only to Guangdong in the number of real estate developers. Thirty-seven of Shanghai's real estate firms are in the top 100 real estate companies in the country.

The majority of Shanghai real estate firms only develop their properties locally. Recently many international firms such as CapitaLand from Singapore have entered both the residential and commercial properties market. Due to the high cost of real estate in Shanghai, a strong secondary market for housing has also developed.

Tourism:

Tourism is already a big industry in Shanghai, but this is expected to develop further due to the Olympic games in Beijing in 2008 and the World Expo in Shanghai in 2010.

At the Shanghai Expo, cities from across the world will showcase the best aspects of their regions on a 15-acre site called Urban Best Practices Area. So far 13 cities have planned to have pavilions at the exhibition site. They include Sao Paulo, Madrid, Liverpool and Zurich. Some pavilions will feature housing, streets and waterways.



Another 58 cities have approached the organizers for information and 26 have held discussions with organizers. 163 countries and organizations will be participating in the Expo.

Service Industry:

As Shanghai has historically been a very westernized city, it has been one of the first areas that have seen the return of a strong service economy. Besides many domestic and foreign business consultancies, accounting and law firms that have opened in the city, there are many innovative projects that wish to link Eastern and Western knowledge together.

An example of this is the Pac-Med Medical Exchange, which is a data clearing-house for information exchange between Chinese and foreign doctors.

Transportation:

Shanghai has one of the world's most developed bus and subway networks. The city has approximately 1,000 bus lines and five subway lines with another eight subway lines expected to be completed by the year 2010.

With the rise in personal incomes since 1978, there has been a growth in the number of private cars on the road, but the Shanghai municipal government has tried to limit this through the auctioning of license plates.

There are two major railways that run through the city - the Beijing-Shanghai railway and the Shanghai-Hangzhou railway. The city also has two railway stations - the Shanghai Railway Station and the Shanghai South Railway Station. In terms of air travel, the city has two airports, Hongqiao airport in

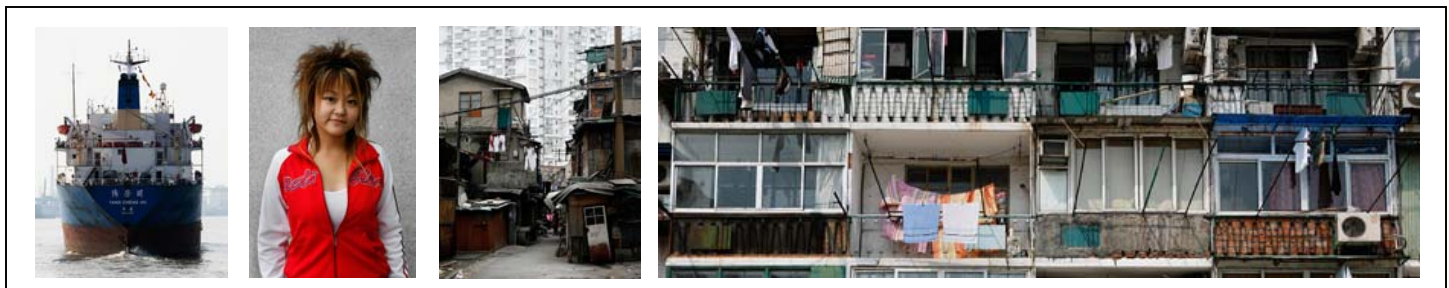
the west of the city, which handles domestic air travel and the Pudong International Airport in the eastern side of the city that handles international air travel. Pudong International airport is the third busiest airport in China – only the Beijing's Capital International Airport and the Hong Kong International Airport receive more passengers.



Source: Fiducia Management Consultants

When it comes to shipping, Shanghai is becoming an international shipping centre. The city's port has four major working zones:

- The Yangtze River estuary
- Huanpu River mouth
- Yangshan deep water port
- Pudong coastline



The four areas of the port handled a total of 537 million tones cargo in 2006. That is a 21.2% increase over the previous year and accounted for 12% of China's national shipping total. In terms of Twenty-foot Equivalent Units (TEUs), Shanghai handled 21.71 million TEUs last year up 20.1% over 2005. A total of 55,000 ships docked at the port in 2006.

The Yangshan deep-water port is located south of Shanghai on Hangzhou Bay. It has berths that are up to 15m deep and capable of handling today's large container ships. The port was built on the offshore Yangshan Islands and is connected to the mainland by the Donghai Bridge.

The first two phases of the port have opened and currently the port can handle 2.2 million containers annually and has 25 quay cranes. When the third phase of the port is completed by 2012, it is expected to have 30 berths and be able to handle 15 million TEUs annually.

Industrial Parks:

Many of the foreign-funded companies in Shanghai tend to set up units in government-backed industrial parks. Most of these parks are in special economic or technical zones. The zones are one of two grades, either municipal or national. These grades help determine factors and benefits such as tax holidays available to foreign investors. Manufacturing zones are usually divided into technological and general manufacturing zones and export-processing zones are designated for pure export industries because they are able to operate outside China's customs tariff areas.

As Shanghai traditionally has had a fragmented industrial structure, the last few years have seen a clear trend towards grouping of industries in certain locations.

In Shanghai there are four major industrial zones:

- Central city core and inner ring road
- Between the inner and outer ring roads
- Satellite industrial areas
- Industrial development zones in Pudong

Some examples of these zones include the satellite towns of Minhang Caojiang and Songjiang, Jinqiao Export Processing Zone, Waigaoqiao Free Trade Zone and Zhangjiang Hi-Tech Park.

Expected Improvements to Infrastructure:

As Shanghai is a fairly developed city, most of its infrastructure projects are aimed at making the city more efficient. Besides some of the transportation projects mentioned above, many other projects focus on cleaning up the city's environment and making it more attractive to tourists and visitors attending the 2010 World Expo. Some of these projects include:

- The Shanghai Water Assets Operation and Development Company Ltd. project (It issued bonds in 2006 to provide funding for improving water services to 9 million Shanghai residents).
- There are also attempts to improve the city's air pollution that has been created by the city's heavy industries.
- Continuous shifting away from heavy industry towards high-tech manufacturing and services.



Conclusion:

Shanghai is a vibrant city and one of the most developed cities in China. It is currently in the process of moving from an industrial city to one,

which focuses on high-tech products and services. This transition may not be perfectly smooth, but Shanghai's vibrant economy should be able to bounce back and move into a new era.

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