

**“The Economic Situations of Export Dependent Guangdong Province  
And Domestic Demand-Led Chongqing City”  
A Report of a Visit To Guangzhou And Chongqing**

**1. Situation in China’s coastal region, as observed in Guangzhou City and  
Dongguan City**

**(1) Guangzhou City**

**A. Economic Situation**

The main industries in Guangzhou are manufacturing, such as automobile, petrochemical and electronics, and trade-related services. A rapid decline in exports affected electronics and trade-related services industries, resulting in a drop in the city’s economic growth. In contrast, the automobile and petrochemical industries are domestic demand-led industries for China’s internal market, and they have cushioned the blow from the decline in exports. Another plus for the city is the recovery of the real estate business.

In Dongguan City and Shenzhen City, the electric machinery and the electronic industries have a major presence and, therefore, both cities have been affected by the decline in exports. In contrast, Guangzhou City has maintained high economic growth rate. Their respective GDP growth rates in the first quarter of 2009 are 6.5% for Shenzhen, - 2.3% for Dongguan, and 8.0% for Guangzhou, while the national rate was 6.1%.

**B. Boom in the automobile sector**

The main reason for the boom in the automobile sector is the increasing numbers of automobile purchasers, due to greater income. In addition, the government has been subsidizing the purchase of small cars under 1.6L, and the sales figures for them has increased dramatically (May 2009 sales figures compared to May last year; 102.1% for small cars under 1L, 65.0% for 1 to 1.6L.) In addition, May sales of the mid-size and luxury cars of 2 to 2.5L that are the main line-up for the three major Japanese companies increased by 20.2% compared to the same month last year, which is a drastic recovery from the decline since the latter half of 2008 (2008 3Q -15.0%, 4Q -12.5%, 2009 1Q -12.1%.) Taking the latest situation into consideration, Japanese automobile manufacturers have now revised their sales forecast for the year, prediction increase of about 20% over their previous estimates.

Due to this boom in automobile sales, the three major Japanese auto companies that lead the sector in Guangzhou, are increasing manufacturing output, fueling the city's economic growth.

### **C. Effect of monetary ease policy**

The recovery in sales of mid-size and luxury cars seems to be due to an increase in corporate sales. The reason for this increase is that corporations have cash on hand. The real estate business recovered because some of the substantial increases in bank lending have flowed into the real estate market. Thus both auto and real estate sectors have benefitted from the major increases in bank lending by monetary ease policy.

Corporations are the main customers for the mid-class and luxury cars of the three Japanese auto companies, such as Camry, Accord and Teana. Average consumers cannot afford cars of these types of cars. Ordinarily, companies buy these cars and lend them to their employees. Employees drive them for their private use on weekends. Recent monetary ease has led to plenty of cash on hand for corporations and, therefore, they have been able to use this cash to purchase cars. In fact, auto sales started to recover this year soon after the beginning of monetary ease policy.

### **(2) Dongguan City**

The global economic downturn originating from the financial crisis in the United States started to manifest itself in the form of a sharp decline in exports from the beginning of this year. Dongguan's exports from January to March of this year dropped dramatically by 30% to 50%, compared to the same months last year. However, since April and May, exports have begun to recover. Considering the difficult export environment, the Guangdong Provincial Government has suspended the reduction of incoming processing<sup>1</sup> (i.e., decrease

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<sup>1</sup> China's processing trade can be divided roughly into two types – “outgoing processing” and “incoming processing.” “Outgoing processing” involves the purchase and importation of raw materials into China; after processing these materials, the finished products are exported in exchange for payment. This involves paying for the raw materials at the time of both import of the raw materials and export of the finished product. Imported raw materials are treated as bonded goods. “Incoming processing”

in tax reduction and exemption) and of policies that are intended to promote the transformation of industrial ownership to entities that are 100% domestically owned.

As for the future, if incoming processing is suddenly abolished, exports from the Guangdong Province will obviously suffer terribly. For this reason, any policy changes will be gradual; however, it appears that the policy to abolish incoming processing will be unchanged in the mid- to long-run.

For three days, from June 18 to 20 in Dongguan City, the Guangdong Provincial Government hosted an expo of the products made by export goods manufacturers to which companies that cater to domestic demand and have domestic distribution channels were invited. Over 500 such companies were invited, including foreign companies that are oriented towards domestic consumers, such as Wal-Mart, Carrefour and China Resources.

## **2. Economic situation in China's inland , as seen from Chongqing City**

### **(1) Economic overview**

Even Chongqing City, which has domestic demand-led economy with a low export/GDP ratio (7.3% in 2008), did suffer from the U.S. financial crisis, with its peak in January and February 2009, though the effect was relatively minor, as compared with the coastal regions. Cumulative industrial production for January and February this year declined by 6.0%, compared to the same period for 2008. After March, production started to recover and the cumulative figure for January to May was 12.3%, and the figure for May alone was 16.2%. This recovery was led by automobile industry and by infrastructure construction. The growth rates of demand in the mid-sized cities (each with a population of around one million ) that surround downtown Chongqing, are higher than the growth rates of the downtown proper.

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is the method in which imported raw materials are supplied for free and are processed and then exported. The consigning company pays the processing fee to the Chinese company. Raw materials are imported free of duty. (An excerpt from the JETRO website)

## **(2) Start of West Delta economic area**

In January of this year, the State Council released the third document, “Views regarding Chongqing’s comprehensive urban reform and promotion of development,” and designated Chongqing City as the nationally important economic development area, with the Two River New Zone (area between Yangtze River and Jialing River) as its center. Hereafter, Chongqing will play a leading role in the new economic areas called the “West Triangle” (West Delta), centering on the three cities of Chengdu, Xi’an and Chongqing. Currently, each branch of the Chongqing City Government is formulating concrete plans for Chongqing’s economic development, with the Two River New Zone as its core.

## **(3) Where are farmer laborers who will not return to coastal area?**

Many export industries in the Pearl River Delta have had to shrink their production, due to a major decline in exports since last autumn. It once was easy to lay off the Mingong (farmer laborers) at the plants, but, with the implementation of the labor contract law last year, dismissal is now difficult. As a result, companies worsened labor conditions by cutting salaries and welfare benefits, in order to prompt their laborers’ voluntary return to farming villages.

After the Mingong went home for the Chinese New Year at the end of January, 10 to 20% of the laborers did not return to Guangdong Province. Since then, exports are showing a gradual recovery, and more companies are trying to increase the number of the Mingong back to former levels. Mingong who returned inland have not come back, however. Companies are returning the labor conditions to their previous levels or even improving welfare packages, but 10 to 20 % of the Mingong are not coming back. As a result, companies are having difficulty securing a sufficient number of laborers.

Coastal areas could not understand why the Mingong were not coming back and guessed that they had found new jobs inland or had moved to other coastal cities. I asked the Chongqing City Government about this and was informed that the Mingong had not gone to other coastal cities but had stayed inland. The main reasons that they had not come back to coastal areas are as follows;

- A. 80% of the Mingong have found new work inland. Their employers include primary sector such as chicken and pig farming, the secondary sector, such as village industry, and the tertiary sector, such as restaurants and retail shops. Local governments are providing them with job training so that they can acquire a certain level of practical skills and are assisting them with finding

- work. The other 20% of the Mingong have returned home.
- B. Many of the Mingong are not aware of the fact that the labor conditions of the companies in the coastal region have improved recently.