



# China 2009

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In April of this year I had the good fortune of joining a group of business leaders on a trade mission to People's Republic of China organized by the Portland Business Alliance. Our contingent was a diverse group of leaders representing many industries that included construction, sustainability, real estate development, manufacturing, finance, legal services, tourism and technology. In addition, leaders from the Portland Development Commission and the Port of Portland joined our group.

Although the trip was centered on Oregon businesses operating in China, the agenda also provided an up-close look at property development, export shipping, banking and retail in the People's Republic. We spent three full days in Shanghai and three full days in Beijing. As with any trip to another country, the opportunity to learn about the culture further enhanced our experience.



Members of our group seated on the bleachers of the Nike gym in the 798 art district of Beijing.

Facts	China	United States
Population	1.3 billion	300 million
Life expectancy	70 for males, 74 for females	75 for males, 80 for females
Annual GDP	\$4.2 trillion	\$14.3 trillion
GDP per capita	\$5,300	\$46,800
Land mass	9.59 million square miles	9.62 million square miles
Alphabet	56,000 characters	26 characters

The facts in the above table give context to the size and economic potential of China. Their economy is presently the third largest in the world, as measured by their GDP and purchasing power parity (PPP); but China is poised to move to second place, which is currently held by Japan. The land mass of China relative to the U.S. is almost identical, but they have four times as many people and less than a third of our GDP.

### **A study in contrasts**

The size of the major Chinese cities is staggering. Shanghai has 17 million people and some estimates exceed 20 million. Population is very dense as most citizens live in high-rise apartments or condos that are easily discernable from office buildings by the laundry hanging outside. This is an unusual sight to the visiting American and a contrast of modern architecture with simple chores.

The balance between modern and old world is evident throughout the city. Shanghai is extremely contemporary in its design and the skyline is flush with high-rise office buildings, many of which did not exist only a decade ago. In fact, the Pudong area, which is a “new open economic development zone” within the heart of Shanghai has a skyline that rivals New York City’s and has a population of 1.5 million. The Pudong district literally did not exist 15 years ago. It only had one building over 700 feet (50+



The Pudong skyline features unique architecture and 20 buildings over 700 feet tall.

stories) in 1998. Today, there are more than 20 buildings that surpass their solitary skyscraper from 21 years ago. The Pudong district recently broke ground on the new Shanghai Center that will stretch over 2,000 feet. Across the river is “The Bund,” a well known tourist destination with old world charm that is distinguished from Pudong by its European architecture and old buildings.

While driving through the city the differences between rich and poor are noticeable. Modern luxury cars are not yet the norm, but they certainly

are no longer a rare sight. A sleek BMW might drive by on the freeway passing a Chinese man riding an old bike pulling a cart loaded with lumber. It is interesting to note that the transportation system in China for moving goods and services still relies on “old-fashioned” vehicles at the local level and the typical exported good is handled by seven different carriers before reaching port. The cost of transporting goods in China is twice what it is in the United States, but it is a logistical cost that will be reduced over time.

Although General Motors is having trouble surviving, their brands are considered luxury lines in China, with Buick being the automobile of choice. A black Buick is a status symbol and it is more attainable financially than German luxury cars. Yet, the bikes and mopeds clearly remain a popular and necessary mode of transportation to the working class who can not yet afford a full-size car.

Infrastructure expansion is everywhere. Roads, bridges, on- and off-ramps, and rail systems are all part of the construction activity. Large, modern equipment contrasts with questionable scaffolding supporting major bridge and building projects. Our use of machinery for construction to China still using a large labor force for construction is evident as we toured the city. Just the man hours required to assemble hundreds of thousands of feet of scaffolding alone is hard to justify unless wages are very low.

### **Build it and they will come**

The amount of construction in Shanghai and Beijing is hard to fathom. A large project to the Chinese is a development that may be five times the size of downtown Portland. For the past decade China has developed commercial and industrial parks under the theory that substantial domestic economic growth will require the need for more office, retail and housing. Until recently, this theory has been largely accurate as millions of their citizens have moved from the country to the city to work in the factories.

We spent our first full day in Kunshan, which is a “small” industrial city with two million people 45 miles outside Shanghai. It looks like a new suburb with more emphasis on commercial enterprise than residential comfort. Kunshan felt like it emerged out of the rural farmland into a bustling factory town in a matter of years. Everything was new and paved. The city was lively, but felt cold and hard. Last year the factories in Kunshan manufactured 33 percent of the laptops in the world and 12.5

percent of all digital cameras.



The training facility in Huaqiao is very large, modern and empty.

The worldwide financial crisis is impacting China's ability to attract foreign companies.

The building boom is impressive in scope but seems to be exceeding demand. As we drove around Shanghai we saw many empty residential towers and office buildings. We visited three massive development projects, which exemplified the “build it and they will come” philosophy but

poor timing relative to the economic meltdown has affected the projects.

The first is Huaqiao, which is about 20 miles outside Shanghai. This is an extremely ambitious development project on a scale not seen in the United States. It is a service business park that is designed to attract multinational service companies that need workers to process back office operations? think of large credit card processing operations as a prime example. Huaqiao is in the first phase of development and when completed, or should I say *if* completed, will contain 90 million square feet of office space. To put into context, the city of Portland has 18 million square feet of class A and B office space.

In Huaqiao, we stopped at a large-scale training facility with 500,000 square feet of classroom space. When the Chinese decide to do something? they do it in a big way. The concept is to provide a community college atmosphere where workers can be trained with the skills they need for a service company. Companies can create a curriculum to train their workers with the skills they need. Flanking the empty training facility were multiple condos stacked like Lego blocks side-by-side and all were empty. Roads and bridges continued under construction as did office buildings and condos but the probability of any of this being filled soon seemed remote. We ended our tour with a formal presentation by government officials at the brand new and completely empty Doubletree. There was an uncomfortable feeling in the room as the presenters talked about the benefits of companies locating in Huaqiao. They knew as well as we knew that given the worldwide financial uncertainty there would not be any companies coming soon.

On our final full day in Shanghai we took a field trip to the newest deepwater port, Yangshan. Built on an island twenty miles into the China Sea, Yangshan is connected to the mainland by a 20-mile bridge, the second longest in the world that was built along with the port in four years. Yangshan opened in 2005 with phase one, phase two opened a year later and there will be two more phases created in the coming years as demand dictates.

Our trip to Yangshan felt odd as the economic slowdown was visible, front and center, when drove over the 20-mile bridge?and there was no traffic. We were told that a year earlier we would have seen hundreds of tractor trailers on the bridge ferrying cargo to and from the port. My guess is that we saw fewer than 10 trucks during our commute.

The port itself is a manmade marvel. The island it was built on was flattened to increase the square footage of space and the number of buildings and infrastructure put into place is overwhelming. The Port of Portland has half a dozen large-scale cranes. Yangshen has more than 60 and each of a category size larger than the Port of Portland.

Portland's port processed 250,000 cargo containers in 2008, while Yangshen delivered over six million. The managers in charge of the port were very forthcoming in their



The Yangshen deep water port processed six million cargo containers in 2008, which is 20 times more than the Port of Portland.



assessment of the decline in cargo traffic. Their business had not stopped, but shipments were down by a magnitude of 40 percent. The day of our visit there were over 100,000 empty cargo containers on the dock simply being stored, and there were two ships unloading. China lives off exporting and the Yangshen port showed how hard their economy is being hit by the worldwide recession.

The third development we visited under the “build it and they will come” assumption was Silo City. This development in the heart of Beijing is a mixed-use conglomerate of office, retail and residential (condos) construction targeted for the Chinese yuppie crowd of 25 to 35 year olds. It was the most active of the three developments we visited and the fourth of five phases of construction was underway. As with each new site we visited, the construction priorities were: size, speed and quality? in that order. The one exception to this rule was the Yangshan port which had the same construction quality as anything we’ve seen in the United States.

Silo City will be 40 percent of the size of downtown Portland and will be completed in a five-year period. It was a private development with financing provided by a Chinese bank that is primarily owned by the government. Unlike the United States where financing is provided on a project as an as-you-go-basis until completion, Chinese developers put 10 percent down and receive 45 percent of the remaining balance from the bank. The bank funds are provided up front, which enables the developer to build in phases and as the initial phases are sold the developer can self-finance the remaining portion.



Members of our group stand around a model of Silo City during a presentation about its construction.

We toured a model condo in Silo City. There were two choices for size: 600 or 1,200 square feet. The condos were styled after western culture but the quality was very low. Appliances were smaller than in the U.S.; there was no stove nor washer and dryer. List price was between \$100,000 and \$240,000 depending on size and location, and buyers typically finance their purchase with a 20 to 30 percent down payment.

## **Observations and conclusions**

Freedom in China continues to increase. Keep in mind that their independence is cloaked under an umbrella of government oversight but beneath the umbrella there is a society that moves about with much more liberty than I expected. You notice it in the press, the entrepreneurial spirit of the people, the openness in conversation, the opportunities to own a home, and the list goes on.

Capitalism is in full force throughout the country, and the people have embraced the opportunities that come with it. They are hungry for success and the taste of a higher standard of living has whetted their appetite for more. The free market system that operates within the communist structure has created tremendous wealth that is easily identified in the major cities by the luxury shops for clothes, jewelry and cars. The wealth is not distributed throughout the population and that will be a process that occurs over the next 50 years as the working class rises with the economic growth.

China's next step toward being a dominant world economic power is to establish brands of its own that are desired by the rest of the world. This will be a big step in establishing the country as something much more than a land of cheap labor. The government's central focus is to provide a business environment through industrial parks that entice foreign companies to locate in China to employ their citizens. While this solves the government's problem of providing work, it leaves them vulnerable and reliant on others for their success. Lenovo is the only worldwide brand that comes to mind that China has created and has been able to export to the rest of the world. I am sure that there are others, but not many, and that is surprising given their sheer population.

Pollution in the cities is a major problem that will have to be fixed. It is my guess that ultimately the people will demand cleaner air and water as their standard of living improves. At the moment, the population seems to prioritize a job first and whatever it takes to get that job is worth the sacrifice. The result is pollution but eventually, perhaps



when they are confident that their job is secure, they will push back on industry to clean up the environment. The air was thick like fog in Shanghai. Beijing's air was better but still

This picture was taken in the evening and captures the haze that hangs over Shanghai each day.

poor. We actually saw the moon on two different nights in Beijing, which we were told was highly unusual. We also saw a couple of birds in Beijing, which is also unusual and a little startling. Imagine if our cities had no birds because the air quality was so poor.

Beijing mandated driving rules prior to the Olympics that allowed Chinese citizens to drive on alternating days depending on if their license plates ended in an odd or even number. In addition, the government purchased a completely new fleet of taxis that are more fuel efficient. These measures have helped air quality and the city has continued a modified driving plan post-Olympics because of the improved conditions.

Like peeling layers off an onion, the biggest challenge to China will be to lighten their control over their people as time goes forward. Gradually the people of China will demand more freedom as their standard of living improves; as their access to the outside world via the internet increases; and as they see the benefits of decentralized economic control. The government has already allowed elections at the local level and officials told us that there will be more of this in time. Internet censorship continues today; in fact YouTube was shut down while we were in China. However, we were told by a U.S. worker in Shanghai that there are services available within China that can circumvent the internet blocks. Choice is giving people power and it is particularly true with the younger generation who already dress and act like the 20-year olds in the Western world. The younger generation is growing up in a China that is foreign to their parents, but which will change as this generation ages and takes leadership roles in the country.

China is a fascinating country with wonderful people and an energy that is unique to vibrant growth. The economy will continue to grow because of the powerful population base that will fuel economic activity. Yet, they have problems that will need to be conquered just as our country overcame the negative by-products of industrialization and growth in the early part of the 20<sup>th</sup> century. I look forward to returning to China in five to 10 years to witness firsthand the ongoing change of an emerging world power.

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