



HISTORY

Shenzhen: A City on the Move

January 20, 2016



Mark Mobius
Executive Chairman
Templeton Emerging Markets Group

Many investors are worried about [growth in China](#) right now, with markets being extremely volatile in the first few weeks of the year. My team and I recently toured several cities in China and have found many thriving industries and companies with vibrant prospects, which reinforced my views on the [case for investing](#) there. Here, I share my report on Shenzhen.

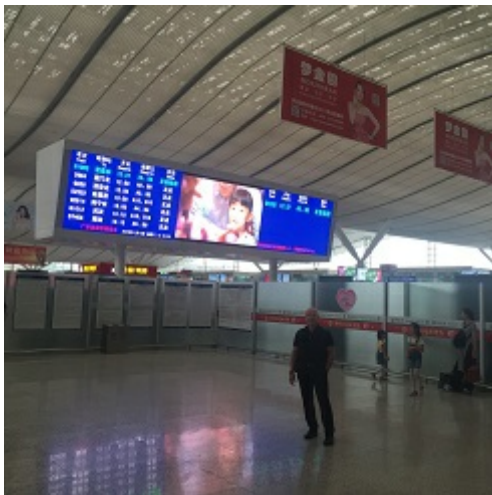
China's Shenzhen is a city on the move. It is a place where young Chinese movers and shakers want to be not only because of the many booming technology companies located there (including those involved with the Internet, drones, robotics, etc.) but also because its environment is seen as more favorable than many other major Chinese cities. Although Shenzhen is not the capital of the province in which it is situated (Guangdong), it overshadows the capital city of Guangzhou in a number of aspects. In 1980, Shenzhen was given the status of a Special Economic Zone (SEZ), the first of five such zones. When the reformer Deng Xiaoping made a visit in 1992 he said: "You [the Shenzhen local government] should be bolder in carrying out reform and opening up to the outside and have the courage to experiment." Giving the zone the stamp of approval from Beijing helped accelerate reform, and things really began to happen there. Shenzhen became an experiment in market capitalism controlled with ideals, or "socialism with Chinese characteristics." That set off a frenzy of local and foreign investment, making Shenzhen a global manufacturing hub and one of the fastest-growing cities not only in China but in the world during the 1990s and 2000s. Total economic output of Shenzhen is now larger than some entire countries, including Ireland, Portugal and Vietnam.¹



Shenzhen, China

Good salaries in Shenzhen have attracted migrants from all over China, creating a large population of non-local migrant workers. Shenzhen also has a young population, with an average age of less than 30 years old.² With more people and investments flowing into Shenzhen, property prices have been on the rise; various reports indicate that prices in Shenzhen rose faster than any other city in China in 2015. In addition to foreign firms establishing factories in Shenzhen, China's largest manufacturer of telecommunications equipment established its international headquarters in the city, along with many other types of domestic companies that have decided to situate themselves in the zone. Shenzhen is known as one of China's "Silicon Valleys" due to its high concentration of high-tech companies, of keen interest to Chinese graduates of technical universities and young people who want to be involved in Internet businesses.

Shenzhen and Hong Kong are separated politically, but border restrictions have been continually loosening and highways and trains offer connections between them. There are now six land crossing points between the two cities and a rail connection linking the Shenzhen metro line and Hong Kong's Mass Transit Railway subway system. Each day, it is estimated that more than a quarter of a million people travel between Hong Kong and Shenzhen. The Shenzhen Metro system, opened in 2004, now has five lines, 118 stations and 177 kilometers (110 miles) of tracks. Eventually a high-speed train service is expected to connect Beijing, Guangzhou, Shenzhen and Hong Kong.



At the Shenzhen train station,
headed to Nanning

Supplementing Hong Kong's bustling airport, Shenzhen's international airport is the headquarters of Shenzhen Airlines as well as the hub for other passenger and cargo lines. With rail and road links to Hong Kong now being extended to Macau and Zhuhai, across from Macau a new megacity is being created in the Pearl River Delta, which boasts a population of 42 million people, making it the world's largest urban area.³ Flying into Chek Lap Kok Airport in Hong Kong, I could see concrete piles reaching out into the ocean as a series of bridges and tunnels to Macau is being built. I think it will be a wonderful option to skip the boats we now use to reach Macau and drive all the way across and under the ocean to Macau, Zhuhai, Shenzhen and other parts of China.

In addition to manufacturing, Shenzhen is quickly becoming a financial center with two of China's largest banks headquartered there. The Shenzhen Stock Exchange (SZSE), like the Shanghai Stock Exchange, is a national exchange with more than 1,700 listed companies on SZSE, including those listed on Growth Enterprise Market (GEM) Board.⁴ The SZSE Composite Index consists of 500 listed stocks with market capitalization of more than US\$300 billion.⁵ The Shenzhen-Hong Kong stock connect, which would facilitate cross-border trading, is expected to launch sometime this year and could open up more opportunities for investors. The government is currently promoting Shenzhen as a financial center to equal Hong Kong by designating Qianhai, a district of Shenzhen, as a financial center with special rights and privileges. The purpose is to position the zone for innovation and development of modern services, in addition to fostering closer cooperation between Hong Kong and mainland China. Most significantly, Qianhai is being given special freedoms in regards to the internationalization of China's currency, the renminbi (RMB), by loosening capital account restrictions so Hong Kong banks will be allowed to extend commercial RMB loans to Qianhai-based onshore mainland entities.

Urban Transformation

Driving through Shenzhen, I could see how it has transformed since the first time I visited about 20 years ago. Where there were once rice fields, office and apartment buildings have sprung up—some of which are now among the tallest in China. Currently under construction is the 600-meter Ping An Finance Centre, which would be the second-tallest building in China and the fourth-tallest building in the world upon its scheduled completion in 2016.⁶

As urbanization continues in China and more and more people move into high-rise apartments, not only is transportation infrastructure needed but also cultural and entertainment facilities, which the government has encouraged. One company we visited was typical of a trend combining housing projects with entertainment and tourism projects, including theme parks, hotels, cinemas, etc. The firm has real estate and tourism businesses in Shenzhen and also in other parts of the country. We toured a theme park in Shenzhen via golf cart, and also stayed at a hotel located above a huge shopping mall. The mall was rather empty of operating shops, but was gradually adding tenants. The hotel and mall were adjacent to a beautiful park with a modern concert hall and a wide variety of restaurants serving Western and Chinese food. At a table overlooking a stream, we had dinner at a very good Italian restaurant.



Shenzhen, China

Our theme-park tour in Shenzhen included a venue designed to review Chinese history, culture and architecture with the various ethnic groups in China through the country's 5,000-year civilization. As we walked around the park, we enjoyed the beautiful scenery and models of various stages of Chinese history, miniature versions of famous Chinese tourist spots, and models of famous historical buildings and scenes. One fascinating model was of the Great Wall and a famous historical battle that took place at the wall. They had a number of performances in various parts of the park featuring dancing, music, stunt shows, magic, a light show and skilled riders on horseback. There were also a number of restaurants featuring different types of food from parts of China including Sichuan, Yunnan, Hunan and other areas. I was surprised to find an impressive display section of the park that included a Thai pagoda and elephants with a fountain display that allowed hot tourists to cool off with a spray enveloping the entire area. There was also a separate safari park in Shenzhen, with a breeding operation for white lions.

New Technologies, Traditional Medicine

Our trip to Shenzhen also included a visit with executives of a company that specializes in high-powered laser equipment. We saw automated machines designed to do high-volume production work as well as a wide variety of products made or decorated with lasers such as glass engraved with laser designs, cellphone cases engraved with lasers, and steel cut with lasers used in shipbuilding and automobile manufacturing. Most of the machines they make are customized for a specific purpose and customer. We learned that worldwide, the majority of the laser market overall is for low-powered lasers used in consumer electronics.



Examining modern and traditional Chinese medicines

The next day we visited a traditional Chinese medicine (TCM) producer in China. The firm's products are sold through retail pharmacies and hospitals, with the pharmacy channel being the larger revenue contributor. Visiting a few pharmaceutical stores in various Chinese cities, I quickly realized the pervasiveness of the traditional medicines not only in packaged form with herbs made into pills, capsules and/or syrups, but by the sales of raw and loose herbs. Sales to retail shops are done through distributors, while sales to hospitals are done by the company's own sales staff. When talking about their method of valuing the large stock of precious herbs they stored in warehouses, we learned that those inventories were valued at cost even though they were worth considerably more. Sourcing the wide variety of roots, dried flowers and leaves takes their buyers all over China. In addition, they have their own farms to grow a variety of the more common herbs. The company sees the potential for broader application of TCM in Western societies.

My team and I thoroughly enjoyed our visit to Shenzhen and see it as a burgeoning city that blends old and new in its culture, attractions, and potential investment opportunities.

The comments, opinions and analyses presented herein are for informational purposes only and should not be considered individual investment advice or recommendations to invest in any security or to adopt any investment strategy. Because market and economic conditions are subject to rapid change, comments, opinions and analyses are rendered as of the date of the posting and may change without notice. The material is not intended as a complete analysis of every material fact regarding any country, region, market, industry, investment or strategy.

Important Legal Information

All investments involve risks, including the possible loss of principal. Investments in foreign securities involve special risks including currency fluctuations, economic instability and political developments. Investments in emerging markets, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with emerging markets are magnified in frontier markets. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions.

1. Source: Shenzhen Municipal E-government Resources Center; World Bank, based on 2014 data.

2. Source: Survey Office of the National Bureau of Statistics in Shenzhen, 2011 data.

3. Source: World Bank, "East Asia's Changing Urban Landscape: Measuring a Decade of Spatial Growth," January 2015; Population figure base on 2010 data.

4. Source: Shenzhen Stock Exchange, as of January 2016.

5. Ibid.

6. Source: "Ping An Finance Center Structurally Topped Out in Shenzhen," Council on Tall Buildings and Urban Habitat press release, May 4, 2015.