

# Shanghai Flash

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## Economic Situation of the Yangtse Delta Region In the First Half of 2003

### 1. General Situation

Despite the negative impact of SARS (Severe Acute Respiratory Syndrome), the droughts and floods, China's economy enjoyed a faster growth in the first half of 2003. The Yangtse delta region - including in this term the city of Shanghai and the two provinces of Jiangsu and Zhejiang - continues to play a locomotive role in the country's economy, in particular in the field of the investment and foreign trade.

China's economy increased by 9.9% in the first quarter of 2003 compared to the same period in 2002, which was the highest growth rate since 1997, while the growth rate in the second quarter fell to 6.5% due to the effect of SARS. On the whole, the Gross Domestic Product (GDP) of China rose 8.2% to 5' 005.3 billion RMB in the first half of 2003, an equivalent of 604.72 billion USD (according to the official Chinese exchange rate: 100 USD = 827.71 RMB).

During the same period of time, the aggregated GDP of **the delta region** climbed to 1' 420 billion RMB (171.6 billion USD), accounting for 25% (22% in 2001) of China's total GDP, a remarkable result compared to its rather low percentages of population (10.9%) and area (2.2%). Due to the unordinarily rapid increase of exports and investment in fixed assets, Shanghai, Jiangsu and Zhejiang have all won the highest growth rates in recent years.

**Shanghai** reported a GDP of 282.57 billion RMB (34.14 billion USD) in the first half of 2003, an increase of 11.4% (10.9% for the whole of 2002) over the previous year. This was the highest growth rate since 1998. **Jiangsu** Province, the second largest provincial economy in China after Guangdong province, recorded a GDP of 547.03 billion RMB (66.09 billion USD), up 13% and 4.8 percentage points higher than the national average. The GDP of **Zhejiang** province reached 412 billion RMB (49.78 billion USD), up 12.7% (12.3% for the whole of 2002). Measured by per capita GDP (16,570 RMB, or 2,020 USD in 2002), Zhejiang is the richest province in China.

### 2. Private Consumption: Severely influenced by SARS

Influenced by SARS, the country's private consumption slowed down a little, reflected in the situation of the retail sales. **China's** total retail sales growth went down to 8% in the first half of 2003 from 8.8% in 2002 and from 10.1% in 2001. In the same period, retail sales in **Shanghai** totalled 108.3 billion RMB (13.08 billion USD), up 8.8% (compared with 9.3% for the whole of 2002) from the previous year; in **Jiangsu** it was 171.22 billion RMB (20.69 billion USD), up 12.7% (compared with 12.1% for the whole of 2002) and in **Zhejiang** it totalled 150.19 billion RMB (18.15 billion USD), up only 8.6% (compared with 12.6% for the whole of 2002).

SARS showed its strongest effect in the service sector. While foreign tourists were reluctant to visit China during the SARS period, the Chinese government discouraged domestic travels by shortening the "Golden Week" holiday at the beginning of May. As a result, tourism, passenger transportation, catering and other related fields were hard hit by the epidemic. According to official statistics, passenger transportation volumes dropped 23.9% during the second quarter, and the volume of air passenger transportation dropped even by a half. Hotel occupancy was down to 3-5%, compared to about 70-80% in normal times.

However, many kinds of key consumer articles, like personal computers, mobile phones, and even cars and houses, sold well due to upgrading of the consumption structure in accordance with a steady and fast increase of personal disposable incomes in recent years. Sales of sedan cars in China surged 82.4% in the first six months of the year to 842,800 units. Sedan cars in private ownership in Jiangsu rose to 200,500 at the end of June this year from 154,600 at the end of last year. Sales of sanitation and health products, sports goods, internet and telephone shopping had actually been advanced by SARS.

### **3. Investment in Fixed Assets: One of the Main Engines of Growth**

Since 1998 (after the Asian financial crisis), Chinese economic growth has been strongly driven by a pro-active fiscal policy, featuring heavily increased investments in fixed assets, especially in the field of infrastructure. This situation continued in 2002 and in the first half of 2003 in particular, since all of local legislative and government organs were re-elected earlier this year and many officials tended to show their ambition in their economic plans further.

Reaching 1'934.8 billion RMB (about 234 billion USD), enacted investments in fixed assets for the whole of **China** grew at an extraordinary rate of 31.1% during the first six months over the same period of last year, recording the fastest growth since 1994.

In the delta region, investments in fixed assets accelerated in the first half of 2003 as well: in **Shanghai**, they reached 110.88 billion RMB (corresponding to 26.08 billion USD), a rise of 21.2% (up 8.2% for the whole of 2002); in **Jiangsu** they totalled 211.73 billion RMB (46.5 billion USD), a rise of 26.9% (up 16.5% for the whole of 2002) and they recorded 156 billion RMB (41.78 billion USD) in **Zhejiang**, an increase of 46% over the previous year (up 24.9% for the whole of 2002).

### **4. Foreign Investment: Accelerating Influx**

China became the preferred destination for foreign investments, surpassing the United States for the first time in 2002. Foreign direct investment (FDI) in **China** totalled 52.743 billion USD, an increase of 12.5% over the year. This momentum has continued in the first half of 2003. Contracted FDI in China increased 40.3% to 50.96 billion USD over the same period of 2002, while actually utilized FDI reached 30.26 billion USD, up 34.3%. The number of newly approved foreign invested companies rose 22.3% to 18,877 in this period. However, foreign direct investment in China fell sharply to 3.1 billion USD in July and 3.3 billion USD in August, down 37.5% and 28.3% respectively from the same months last year. This new development caused close attention by China observers.

Multinationals are moving more and more of their manufacturing bases from Southeast Asia to China. By the end of July 2003, there were more than 446'441 foreign invested enterprises in China, with contractual foreign investment of 887.231 billion USD and actual foreign investment of 481.320 billion USD. It is important to realize, however, that more than 60% of the capital under the heading of FDI is still coming from different Chinese sources.

The **Yangtze delta region** saw an accelerating influx of foreign investment since 2001. The total FDI of the region was about 13 billion USD in the first half of 2003 (18.56 billion USD in the whole year of 2002) in terms of actually utilised value, accounting for 43% (up 35% in 2002 and 30% in 2001) of China's total. Actually utilised FDI in **Shanghai** was 3.34 billion USD (5.03 billion USD in 2002), an increase of 44.5 % over the same period last year (up 14.5% for the whole of 2002). In **Zhejiang** it amounted to 2.17 billion USD (3.16 billion USD for the whole of 2002), an increase of 63.3% (up 43% in 2002), and in **Jiangsu** it reached 7.42 billion USD (10.37 billion USD for the whole of 2002), an increase of 70.5% (75.4% in 2002). Jiangsu therefore became the most preferred province for FDI, surpassing Guangdong province for the first time in the first half of 2003 in terms of both contracted and actually utilized FDI.

## 5. Foreign Trade: Another Motor of Growth

Customs statistics show that China's **total foreign trade** volume increased by 39% on a year-to-year base to 376.14 billion USD in the first half of this year (for the whole of 2002: 620.8 billion USD, up 21.8%). Exports rose 34% (22.3% in 2002) to 190.32 billion USD (325.57 billion USD for the whole of 2002); imports grew more rapidly by 44.5% (21.2% in 2002) to 185.82 billion USD (295.22 billion USD for the whole of 2002); the trade surplus stood at 4.5 billion USD (30.35 billion USD for the whole of 2002). Low prices and reasonable quality gave China's products an edge in the world market. China has considerably benefited from a weak U.S. dollar as the RMB is virtually pegged to the US currency. On the other hand, China's economic boom, the rising demand by foreign-funded enterprises and by private firms and the reduced import tariffs and licences as a result of China's entry to the WTO have spurred imports.

The delta region held a leading position in China's foreign trade. The **export** value of Shanghai was 21.84 billion USD in the first half of 2003 (32.06 billion USD for the whole of 2002), an increase of 50.5% (16% in 2002) compared to the same period of the previous year. Jiangsu exported goods in the value of 24.52 billion USD (38.48 billion USD for the whole of 2002), an increase of 48.2% (33.3% in 2002) and Zhejiang's exports grew 42% (28% in 2002) to reach an amount of 18.11 billion USD (29.42 billion USD for the whole of 2002). The region's total export value reached 64.47 billion USD (100 billion USD for the whole of 2002), accounting for about 34% (31% in 2002) of China's total export value.

**Imports** in the Yangtze delta region increased even faster than exports in the first half of 2003. During the first six months this year, Shanghai imported goods with a value of 27.86 billion USD (40.61 billion USD for the whole of 2002), an increase of 62.8% (22.1% in 2002) over the same period last year. Jiangsu imported 22.88 billion USD (31.82 billion USD for the whole of 2002), an increase of 76.1% (41.6% in 2002) and Zhejiang's imports grew 83.9% (27.7% in 2002) to reach an amount of 9.33 billion USD (12.54 billion USD for the whole of 2002). The region's total import value reached 60.07 billion USD (85 billion USD for the whole of 2002), accounting for 32.3% (29% in 2002) of China's total imports.

The **trade balance** of Shanghai therefore showed a deficit of 6.02 billion USD in the first six months this year (a deficit of 8.55 billion USD in the whole year 2002), reflecting the city's increasing demand for foreign goods in the high-tech and higher quality brackets due to internationalisation in the field of consumer goods, due to a fast and steady increase in personal income and due to the growing import demand of foreign-funded enterprises as well. Jiangsu reduced her trade surplus to 1.64 billion USD (6.66 billion USD for the whole of 2002) and Zhejiang remained the most aggressive trading province in China with a trade surplus of 8.78 billion USD, compared to China's total trade surplus of only 4.5 billion USD in the same period. In 2002, Zhejiang's trade surplus of 16.88 billion USD accounted for 55.6% of China's total surplus.

## 6. The Challenges: Old and New

The economic situation in the delta region will remain very dynamic in the near future. It is estimated by the main Chinese research institutes and some international financial institutions that China's GDP growth rate of this year will be higher than 7.5 %. Another double-digit increase for the delta region provinces is thus very likely for the current year as well.

But the challenges are there as well. The Chinese government is facing a series of tough challenges, facing not only the sluggish world economy and an uncertain global political situation, reducing demand from abroad, but also the deflationary pressures in the home market marked by slower growth of private consumption and by a considerable overproduction in many fields. High unemployment rates and a stagnant rural income growth will very likely continue to challenge government policies.

The most serious problem, however, remains the high **unemployment pressure**. According to official statistics, with 7.95 million registered unemployed in China's urban areas, unemployment climbed to 4.2% by the end of June 2003, 0.2 percentage points higher than at the end of last year and 0.6 percentage points higher than at the end of 2001. But these figures do not include the "laid-off workers" (about 4.1 million according to the Chinese official estimate) and the floating population (about 150 million, concentrated in big cities like Beijing, Shanghai and Shenzhen, mainly composed of the jobless rural laborers). Actual urban unemployment is then estimated at about 7%. The central government has vowed to keep its registered unemployment rate below 4.5% this year and create more than 8 million new jobs. This is obviously not enough for the urban job-seekers, who stand currently at about 30 million and will grow to 50 million in the next five years, if GDP growth continues on a level as high as 8%.

Shanghai's unemployment rate was at 4.77% at the end of July 2003 as reported by the Shanghai Labor and Social Security Bureau, with a registered figure of 289,000 persons unemployed. In Jiangsu it was 4.2% and in Zhejiang 4.3% with 288,400 persons registered unemployed. Again, these statistics do not include the "laid-off workers" and the migrant population, which is totalling 3.7 million out of the 16 million people in Shanghai.

A second problem is the rapid increase in the amount of **money supply**. M2, the broad measure of money supply that covers cash in circulation and all deposits, soared by 20.8% (the fastest since August 1997) at the end of June 2003 and by 20.7% at the end of July (to 20.62 trillion RMB, an equivalent of 2.48 trillion USD) on a year-to-year basis. **New loans** lent by financial institutions - a major driving force of money supply growth - hit 1.78 trillion RMB (an equivalent of 214 billion USD) in the first half of this year, close to the total amount of loans (1.85 trillion RMB) granted for the whole of 2002. This will unavoidably lead to more non-performing loans under the current credit mechanism of lax internal supervision, and could in the end lead to a bubble economy, especially in the field of real estate.

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## Current Economic Indicators\* of the Swiss Consular Area

Year		2002		First half of 2003	
		volume	growth rate (%)	volume	growth rate (%)
<b>GDP (billion RMB)</b>	<b>China</b>	<b>10239.79</b>	<b>8.0</b>	<b>5005.30</b>	<b>8.2</b>
	Shanghai	540.88	10.9	282.57	11.4
	Jiangsu	1063.63	11.6	547.03	13.0
	Zhejiang	767.00	12.3	412.00	12.7
	Anhui	356.90	8.9	178.29	9.5
	<b>Consular Area</b>	<b>2728.41</b>		<b>1419.89</b>	
<b>Total Retail Sales of Consumer Goods (billion RMB)</b>	<b>China</b>	<b>4091.10</b>	<b>8.8</b>	<b>2155.60</b>	<b>8.0</b>
	Shanghai	203.52	9.3	108.30	8.8
	Jiangsu	321.58	12.1	171.22	12.7
	Zhejiang	287.80	12.6	150.19	8.6
	Anhui	122.87	7.5	63.63	8.9
	<b>Consular Area</b>	<b>935.77</b>		<b>493.34</b>	
<b>Completed Investment in Fixed Assets (billion RMB)</b>	<b>China</b>	<b>4320.20</b>	<b>16.1</b>	<b>1934.80</b>	<b>31.1</b>
	Shanghai	215.84	8.2	110.88	21.2
	Jiangsu	384.92	16.5	211.73	26.9
	Zhejiang	345.80	24.9	156.00	46.0
	Anhui	113.33	17.6	44.37	69.7
	<b>Consular Area</b>	<b>1059.89</b>		<b>522.98</b>	
<b>Exports (billion USD)</b>	<b>China</b>	<b>325.57</b>	<b>22.3</b>	<b>190.3</b>	<b>34.0</b>
	Shanghai	32.06	16.0	21.84	50.5
	Jiangsu	38.48	33.3	24.52	48.2
	Zhejiang	29.42	27.9	18.11	42.0
	Anhui	2.45	7.5	1.42	28.2
	<b>Consular Area</b>	<b>102.41</b>		<b>65.89</b>	
<b>Imports (billion USD)</b>	<b>China</b>	<b>295.22</b>	<b>21.2</b>	<b>185.8</b>	<b>44.5</b>
	Shanghai	40.61	22.1	27.86	62.8
	Jiangsu	31.82	41.6	22.88	76.1
	Zhejiang	12.54	27.7	9.33	83.9
	Anhui	1.73	29.6	1.40	87.0
	<b>Consular Area</b>	<b>86.70</b>		<b>61.47</b>	
<b>Foreign Direct Investment (during the period)</b>					
<b>Projects</b>	<b>China</b>	<b>34'171</b>	<b>30.7</b>	<b>18877</b>	<b>22.3</b>
	Shanghai	3'012	22.5	2'486	85.2
	Jiangsu	5'801	62.0	3'460	33.2
	Zhejiang	3'364	45.6	1'996	39.7
	Anhui	338	30.0	164	
	<b>Consular Area</b>			<b>8'106</b>	
<b>Contracted (billion USD)</b>	<b>China</b>	<b>82.8</b>	<b>19.6</b>	<b>50.96</b>	<b>40.3</b>
	Shanghai	10.58	43.4	6.07	40.1
	Jiangsu	19.67	132.8	13.87	60.1
	Zhejiang	6.79	35.4	4.92	54.7
	Anhui			0.33	
	<b>Consular Area</b>			<b>25.19</b>	
<b>Actually Utilised (billion USD)</b>	<b>China</b>	<b>52.743</b>	<b>12.5</b>	<b>30.26</b>	<b>34.3</b>
	Shanghai	5.03	14.5	3.34	44.5
	Jiangsu	10.37	75.4	7.42	70.5
	Zhejiang	3.16	42.9	2.17	63.3
	Anhui	0.38	11.4	0.19	
	<b>Consular Area</b>	<b>18.94</b>		<b>13.12</b>	

Source: Chinese Authorities

\* All statistics not including Taiwan, Hong Kong and Macao.