

Shanghai Flash

ISSUE NO.1 ❖ March 2003

Current Economic Situation of the Yangtse Delta Region

1. Yangtse Delta Region Continues to Play the Role of Economic Locomotive

2002 proved to be a considerably better year for China's economy than was expected by the Chinese leadership. The influence of the global economy on Chinese developments was not as negative as foreseen. 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 daily consumption. Shanghai is rapidly moving into a trend-setting role for the Chinese consumer.

The GDP of **China** rose 8.0% (7.3% in 2001) to 10' 239.79 billion RMB in 2002, an equivalent of 1' 237.1 billion USD (according to Chinese official exchange rate: 100 USD = 827.7 RMB). The aggregated GDP of **the delta region** climbed around 11% to 2' 728.41 billion RMB (329.6 billion USD) in 2002, accounting for 26.6% (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 robust performances by industrial firms, buoyant consumer spending and infrastructure construction, **Shanghai** reported a GDP of 540.88 billion RMB (65.35 billion USD) in 2002, an increase of 10.9% over the previous year. This was the eleventh consecutive year of double digit growth and the highest growth rate since 1998. Income per head thus passed the 4'500 USD threshold.

Jiangsu Province, as the second largest provincial economy in China (after Guangdong province), recorded 1' 063.63 billion RMB (128.5 billion USD) in GDP last year, up 11.6% over 2001 and 3.6 percentage points higher than the national average.

The GDP of **Zhejiang** province reached 767 billion RMB (92.67 billion USD) in 2002, up 12.3% over the previous year and 4.3 percentage points above the national average. Zhejiang is the richest province in China when measured by per capita GDP (14' 700 RMB, or 1' 776 USD in 2001).

2. Private Consumption: One of the Major Engines for Growth

In 2002, retail sales growth in **China**, reflecting the expansion of personal consumption, slowed down to 8.8% from 10.1% in 2001. Retail sales of consumer goods in the delta region, however, grew faster in the same period: in **Shanghai** retail sales reached 203.52 billion RMB (24.59 billion USD), up 9.3% (up 8.1% in 2001) from the previous year; in **Jiangsu** it recorded 321.58 billion RMB (38.85 billion USD), up 12.1% (up 10.2% in 2001) and in **Zhejiang** it totalled 287.8 billion RMB (34.77 billion USD), up 12.6% (up 11.2% in 2001).

Due to a rapid growth of sales both in the domestic market and abroad, the employment situation in Shanghai, Jiangsu and Zhejiang was much better than in many other provinces. Income growth and

consumer confidence in this region remained quite high. Key consumer articles like personal computers, mobile phones, and even cars and houses, sold very well.

Growth of private consumption in the region was fuelled by an improved financial system, too. In Shanghai, for example, outstanding loans for cars rose to 4.1 billion RMB at the end of December 2002, up 900 million RMB from a year earlier, while the outstanding housing loans totalled 109.078 billion RMB, up 15.7 billion RMB.

3. Investment in Fixed Assets: Another Growth Engine

Since 1998 (after the Asian financial crisis), the Chinese national economy was driven by heavily increased investment in fixed assets, especially in the field of infrastructure. This situation continued in 2002. Statistics show that completed investments in fixed assets grew at a rapid rate of 16.1%, increasing to 4' 320.2 billion RMB for the whole of **China**. Fixed-asset investments in infrastructure construction rose 16.4% to 1' 725 billion RMB and the investments in real estate rose 21.9% to 773.6 billion RMB.

In the delta region, investments in fixed assets accelerated in the year 2002 as well: they reached 215.84 billion RMB (26.08 billion USD) in **Shanghai**, a rise of 8.2% (up 6.1% in 2001), totalling 384.92 billion RMB (46.5 billion USD) in **Jiangsu**, a rise of 16.5% (up 10.3% in 2001) and recording 345.8 billion RMB (41.78 billion USD) in **Zhejiang**, an increase of 24.9% over the previous year (up 22.1% in 2001).

4. Foreign Investment: Increasing Continuously

Foreign direct investment (FDI) in **China** totalled 52.743 billion USD, an increase of 12.5%. China therefore became the preferred destination for foreign investments, surpassing the United States for the first time in 2002. So far, there are more than 420' 000 foreign invested enterprises in China, with contractual foreign investment of 828.06 billion USD and actual foreign investment of 447.966 billion USD. It is important to realize, however, that roughly 60% percent of the capital under the heading of FDI is still coming from different Chinese sources.

The Yangste delta region saw an accelerating influx of foreign investment since 2001. The total FDI of the region reached 18.56 billion USD in 2002 in terms of actually utilised value, accounting for 35.2% (30% in 2001) of China's total (52.743 billion USD). In **Shanghai**, FDI was 5.03 billion USD in 2002, increased by 14.5% over the year before. In **Jiangsu** it reached 10.37 billion USD, an increase of 75.4% and in **Zhejiang** the amount was 3.16 billion USD, an increase of 43% over the year 2001.

5. Foreign Trade: Rapid Growth both in Export and Import

China's total imports and exports increased by 21.8% to 620.8 billion USD last year. Exports rose 22.3% to 325.57 billion USD; imports grew 21.2% to 295.22 billion USD; the trade surplus stood at 30.35 billion USD. 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.

The delta region held a leading position in China's foreign trade. The export value of **Shanghai** was 32.06 billion USD in 2002, an increase of 16% compared to the previous year. **Jiangsu** exported goods in the value of 38.48 billion USD, an increase of 33.3% and **Zhejiang's** exports

grew 28% to reach an amount of 29.42 billion USD. The **region's total** export value increased by 22.3% compared to the previous year, and reached 100 billion USD, accounting for about 31% of China's total export value.

The vast increase was seen not only in exports but also in **imports** in the Yangtse delta region. In 2002, **Shanghai** imported goods with a value of 40.61 billion USD, an increase of 22.1% over the previous year. **Jiangsu** imported 31.82 billion USD, an increase of 41.6% and **Zhejiang's** imports grew 27.7% to reach an amount of 12.54 billion USD. The **region's total** import value increased by 30%, and reached 85 billion USD, accounting for 29% of China's total imports. The rapid increase of China's imports was partly due to the fall of import tariffs as a result of China's entry to the WTO. China's average tariff level fell to 12% last year from 15.3% in 2001. The statistics prove that the region was profiting considerably by the new WTO regulations, allowing cheaper imports due to the lowered customs duties and profiting by better access to world markets due to the WTO membership conditions.

The **trade balance** of **Shanghai** therefore showed a **deficit** of 8.55 billion USD in 2002, reflecting the city's increasing demand for foreign goods in the high-tech and higher quality brackets due to the process of the internationalisation in the field of consumer goods and due to a strong drive in industrialisation as far as the production base was concerned. Jiangsu had a trade surplus of 6.66 billion USD and Zhejiang remained the most aggressive trading province in China with a trade surplus of 16.88 billion USD, accounting for 55.6% of China's total trade surplus.

6. The Challenges: Still Serious

The economic situation in the delta region will remain dynamic and stable in the near future. It is estimated by Chinese research institutes that China's GDP growth rate of this year will be about 7.5%. Another double-digit increase for the delta region provinces is thus very likely.

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

The most serious problem, however, remains the **unemployment pressure**. According to official statistics, the rate of unemployment in urban areas across the country reached 4% by the end of 2002, which was 0.4 percentage point higher than that by 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, mainly composed of the jobless rural laborers). Actual urban unemployment is 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 (currently about 23 million) and is far below the necessary numbers of jobs for migrant workers in big towns. In Shanghai alone, the migrant population amounts to 3.7 million persons, many of them working on a short contract basis. Without any social security protection, standing in the most unfavorable social positions, the migrant workers are posing mounting challenges to Chinese government agencies, not only in economic and social terms, but more and more also in a political context.

Li Rongzhang

Current Economic Indicators* of the Swiss Consular Area**

Year		2001		2002	
		volume	growth rate (%)	volume	growth rate (%)
GDP (billion RMB)	China	9'593.30	7.3	10'239.79	8.0
	Shanghai	495.08	10.2	540.88	10.9
	Jiangsu	951.46	10.2	1063.63	11.6
	Zhejiang	670	10.5	767.00	12.3
	Anhui	329.01	8.6	356.90	8.9
	Consular Area	2'445.55		2'728.41	
Total Retail Sales of Consumer Goods (billion RMB)	China	3'759.50	10.1	4'091.10	8.8
	Shanghai	186.1	8.1	203.52	9.3
	Jiangsu	286.9	10.2	321.58	12.1
	Zhejiang	255.5	11.2	287.80	12.6
	Anhui	114.3	8.4	122.87	7.5
	Consular Area	842.81		935.77	
Completed Investment in Fixed Assets (billion RMB)	China	3'689.80	12.1	4'320.20	16.1
	Shanghai	198.4	6.1	215.84	8.2
	Jiangsu	330.3	10.3	384.92	16.5
	Zhejiang	276.9	22.1	345.80	24.9
	Anhui	96.26	11	113.33	17.6
	Consular Area	901.9		1'059.89	
Exports (billion USD)	China	266.16	6.8	325.57	22.3
	Shanghai	27.63	9	32.06	16.0
	Jiangsu	28.88	12.1	38.48	33.3
	Zhejiang	22.98	18.2	29.42	28.0
	Anhui	2.28	5.1	2.45	7.5
	Consular Area	81.77		102.41	
Imports (billion USD)	China	243.61	8.2	295.22	21.2
	Shanghai	33.27	13.3	40.61	22.1
	Jiangsu	22.47	13.1	31.82	41.6
	Zhejiang	9.82	17.1	12.54	27.7
	Anhui	1.34	13.9	1.73	29.6
	Consular Area	66.9		86.7	
Foreign Direct Investment (during the period)					
Projects	China	26'139	16		
	Shanghai	2'458	35.5	3'012	22.5
	Jiangsu	3'581	35.4	5'801	62.0
	Zhejiang	2'310	40.7	3'364	45.6
	Anhui	260	5.3	338	30.0
	Consular Area	8'609			
Contracted (billion USD)	China	69.200	10.4	82.800	19.6
	Shanghai	7.373	15.4	10.576	43.4
	Jiangsu	15.090	42.2	19.670	132.8
	Zhejiang	5.020	99.9	6.790	35.3
	Anhui	1.272	69.2		
	Consular Area	13.665			
actually Utilised (billion USD)	China	46.800	14.9	52.743	12.5
	Shanghai	4.392	39	5.030	14.5
	Jiangsu	7.350	11.5	10.370	75.4
	Zhejiang	2.210	37.1	3.160	43.0
	Anhui	0.480	15	0.380	11.4
	Consular Area	14.432		18.940	
Foreign Exchange Reserve (in billion USD)		212.2		286.4	

Source: Chinese Authorities

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

**The Swiss Consular Area refers to Shanghai, Jiangsu, Zhejiang and Anhui.