

Shanghai Flash

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Economic Situation of the Yangtse Delta Region in the First Half of 2004

1. General Situation

After an already rapid growth in 2003, China's economy is growing even faster these first six months of 2004. The Chinese authorities have taken some measures to moderate the economy's fast pace to a more manageable growth level and avoid a potential hard landing, similar to the experience in the 1990s. 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 investment and foreign trade.

China's economy increased by 9.8% in the first quarter of 2004, compared to the same period in 2003, while the growth rate in the second quarter fell slightly to 9.6%. On the whole, the gross domestic product (GDP) of China rose 9.7% to 5' 877.3 billion RMB in the first half of 2004, an equivalent of 710.08 billion USD (according to the official Chinese exchange rate: 100 USD = 827.7 RMB).

During the same period of time, the aggregate GDP of **the delta region** climbed to 1' 528.5 billion RMB (184.7 billion USD), accounting for 26% (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 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 341.78 billion RMB (41.29 billion USD) in the first half of 2004, an increase of 14.7% (11.8% for the whole of 2003) 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 675.68 billion RMB (81.63 billion USD), up 15.1% (13.5% for the whole of 2003) and 5.4 percentage points higher than the national average. The GDP of **Zhejiang** province reached 511 billion RMB (61.74 billion USD), up 15.5% (14% for the whole of 2003). Measured by per capita GDP (19,730 RMB or 2,385 US\$ in 2003), Zhejiang is the richest province in China.

2. Private Consumption: Increased obviously

The country's private consumption increased considerably during the first half of 2004, reflecting a increase of the personal income of Chinese consumers. Per capita income of Chinese residents in cities and towns in the first half of 2004 was RMB 4,815, up 11.9% from the same period of 2003, While per capita income of farmers at the same time was RMB 1,345, up 10.9%.

China's total retail sales growth went up to 12.8% in the first half of 2004 from 9.1% in 2003 as a whole. In the same period, retail sales in **Shanghai** totalled 121.51 billion RMB (14.68 billion USD), up 12.2% (compared with 9.1% for the whole of 2003) from the previous year; in **Jiangsu** it was 201.15 billion RMB (24.3 billion USD), up 17.5% (compared with 13.7% for the whole of

2003) and in **Zhejiang** it totalled 173.4 billion RMB (20.95 billion USD), up 15.5% (compared with 10.9% for the whole of 2003).

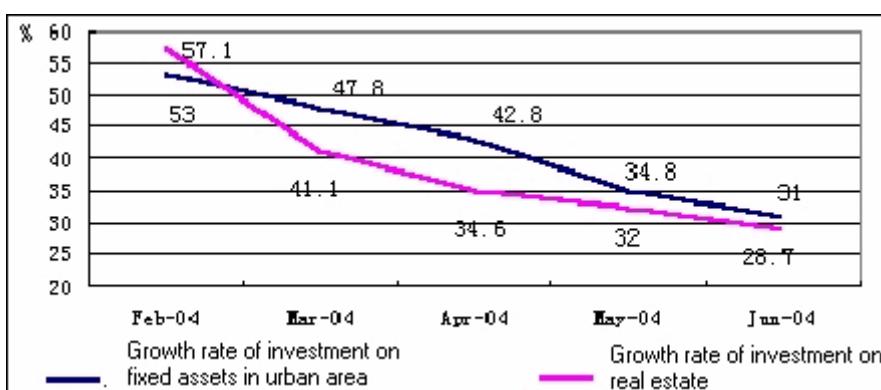
IN a parallel movement, the price level went higher as well. China's consumer price index has shown an upward trend since October 2003. It was up 2.8% in the first quarter of 2004, up 3.6% in the first half of the year, 4.4% in May and 5% in June.

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.

Since the second half of 2003, however, the sign of overheating appeared and the policy-makers had to adjust themselves to the opposite direction, trying to curb excessive investment in fixed assets.

The chart below shows that fixed investment growth subsided, but remained in the fast lane:



Reaching 2' 068.2 billion RMB (about 315.1 billion USD), enacted investments in fixed assets for the whole of **China** grew at a quite high rate of 28.6% during the first six months over the same period of last year. In the delta region, investments in fixed assets accelerated in the first half of 2004 as well: in **Shanghai**, they reached 139.62 billion RMB (corresponding to 16.87 billion USD), a rise of 25.9% (a rise of 12.1% for the whole of 2003); in **Jiangsu** they totalled 282.6 billion RMB (34.14 billion USD), a rise of 33.5% (up 38.6% for the whole of 2003) and they recorded 232.9 billion RMB (28.14 billion USD) in **Zhejiang**, an increase of 25.5% over the previous year (up 38.1% for the whole of 2003).

4. Foreign Investment: Massive Influx

China has become one of the most preferred destinations for foreign direct investments in recent years. Foreign direct investment (FDI) in **China** totalled 53.51 billion USD in actually utilized terms, an increase of 1.44% in 2003, in terms of contracted value an increase of 39%. This momentum has continued in the first half of 2004. Contracted FDI in China increased 42.7% to 72.7 billion USD over the same period of 2003, while actually utilized FDI reached 33.88 billion USD, up 12%. The number of newly approved foreign invested companies rose 14.9% to 21,688 in this period.

Multinationals are moving more and more of their manufacturing bases from world-wide production sites to China. By the end of July 2004, there were about 490'000 foreign invested enterprises in China, with contracted foreign investment of 1 trillion USD and actual foreign investment of 540 billion USD. It is important to realize, however, that more than two thirds of the capital under the heading of FDI is still coming from different ethnic Chinese sources.

The **Yangtze delta region** saw an accelerating influx of foreign investment since 2001. The total FDI of the region was about 17.7 billion USD in the first half of 2004 (27.1 billion USD in the whole year of 2003) in terms of actually utilised value, accounting for 52% of China's total. Actually utilised FDI in **Shanghai** was 3.84 billion USD (5.85 billion USD for the whole of 2003), an increase of 15 % over the same period last year (up 30.1% for the whole of 2003). In **Zhejiang** it amounted to 2.98 billion USD (5.45 billion USD for the whole of 2003), an increase of 37.7% (up 72.4% for the whole of 2003), and in **Jiangsu** it reached 10.87 billion USD (15.8 billion USD for the whole of 2003), an increase of 46.6% (52.4% for the whole of 2003). Jiangsu became the most preferred province for FDI, surpassing Guangdong province for the first time in 2003 in terms of both contracted and actually utilized FDI.

As China is realizing many promises in line with its WTO agreements, more capital will flow into fields such as banking, tourism, commerce, hospitals, education and etc.. The government's decision to encourage foreign investment in restructuring State-owned enterprises will also provide more opportunities for FDI.

5. Foreign Trade: Another Motor of Growth

China's **total foreign trade** volume increased by 39.1% on a year-to-year base to 523 billion USD in the first half of 2004. Exports rose 35.7% (up 34.6% for the whole of 2003) to 258.08 billion USD (438.37 billion USD for the whole of 2003); imports grew more rapidly by 42.6% (39.9% in 2003) to 264.9 billion USD (412.84 billion USD for the whole of 2003); the trade deficit stood at 6.82 billion USD, whereas the trade balance in the same period of 2003 showed a surplus of 4.5 billion USD. 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.

Another important factor for the negative trade balance was the soaring price of oil. China became a net oil importer in 1993 and the third largest oil consumer in the world in 1995. Oil prices rose as high as 49 USD a barrel recently, from 32 USD a barrel at the beginning of the year. China imported 61.02 million tons of crude oil in the first half of 2004 (120 million tons or 880 million barrels). More than a third of the country's oil supply for the whole year will thus be provided by imports, an increase of 39.3% over the same period of last year. The value grew 57.4% compared to the same period of 2003 to hit 5.2 billion USD. Imports of refined oil reached 19.85 million tons, a worth of 4.5 billion USD, up 56.6% and 66.1% respectively.

FDI enterprises in China are playing a more and more important role in China's foreign trade. According to the official statistics, FDI enterprises had a contribution of 57.3% to China's foreign trade in the first half of 2004, compared to 53.9 % for last year as a whole. Total imports and exports by FDI enterprises recorded 296.81 billion USD, an increase of 45.9% during the first half of 2004. Exports by FDI enterprises increased by 43.7% to 147.27 billion USD, accounting for 57.04% of the total exports of China. Imports increased by 48.22% to reach 149.55 billion USD, accounting for 56.46% of China's total imports.

The delta region held a leading position in China's foreign trade. The **export** value of Shanghai was 33.74 billion USD in the first half of 2004 (48.48 billion USD for the whole of 2003), an increase of 54.5% (up 51.2% for the whole of 2003) compared to the same period of the previous year. Jiangsu

exported goods in the value of 37.58 billion USD (59.14 billion USD for the whole of 2003), an increase of 53.3% (up 53.7% for the whole of 2003) and Zhejiang's exports grew 40.2% (41.5% for the whole of 2003) to reach an amount of 25.36 billion USD (41.60 billion USD for the whole of 2003). The region's total export value reached 96.68 billion USD (149.22 billion USD for the whole of 2003), accounting for about 37.5% (31% in 2002) of China's total export value.

Imports in the Yangtse delta region increased even faster than exports in the first half of 2004. During the first six months this year, Shanghai imported goods with a value of 41.74 billion USD (63.92 billion USD for the whole of 2003), an increase of 50% (57.4% for the whole of 2003) over the same period last year. Jiangsu imported 38.54 billion USD (54.53 billion USD for the whole of 2003), an increase of 68.5% (up 71.3% for the whole of 2003) and Zhejiang's imports grew 39.7% (up 58% for the whole of 2003) to reach an amount of 13.03 billion USD (19.8 billion USD for the whole of 2003). The region's total import value reached 93.31 billion USD (138.25 billion USD for the whole of 2003), accounting for 35.2% (29% in 2002) of China's total imports.

The **trade balance** of Shanghai therefore showed a deficit of 8.27 billion USD in the first six months this year (a deficit of 6.02 billion USD in the same period of 2003), 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 showed also a deficit of 96 million USD, compared to a surplus of 1.64 billion USD in the same period of 2003 and Zhejiang remained the most aggressive trading province in China with a trade surplus of 12.33 billion USD (a surplus of 8.78 billion USD in the same period of 2003), which ultimately contributed positively to China's trade balance.

6. The Challenges: Old and New

The economic situation in China will remain dynamic in the near future. The excessive large scale of fixed assets investment and "wasteful duplication" in some industries and regions have primarily come under control. *"The economy has maintained a momentum of stable and relatively rapid growth, which is mainly manifested by the fact that unstable and unhealthy factors in economic development have been curbed"*, according to the release of an executive meeting of China's cabinet held on July 14. The estimation made by the main Chinese research institutes for the forecast of economic growth in 2004 are mostly higher than 8.5 %. Another double-digit increase for the delta region provinces remains very likely for the current year again. The government measures were not as strong as reigning in the growth to an increase lower than last year.

The challenges therefore remain there as well. The old problems are not really resolved. Although employment in urban areas went slightly up by 552,000 to 109 million along with the booming trend of the national economy during the first half of 2004, unemployment rates were still high, and the hidden unemployment in the countryside in particular will not be corrected soon. Migration into urban areas has thus just helped to increase problems in these growth centres, it did not allow for an alleviation of the rural employment situation (see Shanghai Flash No.1, 2004).

The income gap, not only between urban and rural residents, but also among urban households as well, is still growing. According to the latest official statistics, the upper line of poor people's net income in 2003 was 637 RMB (77 USD), while the average annual income reached 2,622 RMB (316 USD). The gap between the annual income of the poor vs the national average has therefore become wider from 1:2.45 in 1992 to 1:4.12 in 2003. The number of persons with less than 637 RMB of annual net income rose by 800,000 to 29 million in 2003, accounting for 3% of China's population. This is the first time the number increased since China began opening-up in the late 1970s. The number of poor people in Henan, Anhui, Shanxi and Heilongjiang provinces alone increased to more than two million in 2003 due to a series of natural disasters.

China's efforts to slow down the economy through sudden and abrupt restrictions both in financial and in administrative means are gaining a certain foothold, but Chinese policymakers have to face the negative effects. By end of June, 2004, Chinese authorities have cancelled 4'735 development zones, which accounted for 70% of China's total zone number. The cancelled zones covered a land area of 24'100 km², accounting for 64% of the total planned area. The surviving development zones are running with unordinary shortage of land, electric power, oil and loans, that will generate a negative impact on the development of the national economy.

The Chinese central bank had ordered commercial banks to set aside more deposits as reserves, for the third time in a row since last September, freezing hundreds of billions of RMB which could otherwise be used for lending. Enterprises, small and medium-sized companies in particular, will thus lack funds for daily operations. Many projects could not obtain further loans, constructions could not be finished so far, thus increasing non-performing loans and banks' risks at the same time.

The biggest problem in operation and development of the national economy is the electric power shortage. Power shortage in China, particularly in the southeast coastal provinces, has hit a new high this summer. Since July 20, industrial operations in Hangzhou, the capital city of the Province, had to cease working for four days in a week for about 5,000 enterprises. 42% of the migrant workers in Hangzhou were left without work. Many companies could not finish their products before contractual deadlines due to blackouts. Facing an average power gap of 3.4 million kilowatts during summer, Zhejiang province has suffered the most severe power shortages in the country. It is estimated that the power crisis has reduced the province's total GDP by 36.6 billion RMB (4.4 billion USD) in the first half of 2004. Shanghai also had to use every means to save energy this summer. As part of the city's measures to guarantee local power supply, about 1,700 big energy consuming enterprises had been required to shift their operating time from midnight to early morning. Some 3,000 industrial enterprises had to temporarily halt their operations for rotating stints and make arrangements allowing their employees to take a week's vacation.

In order to increase the capacity of the national energy network and meet the country's mid-term power demand, China will invest more than 108 billion USD in the next five years. This will also provide a good opportunity of further investments for foreign firms.

Li Rongzhang

Current Economic Indicators* of the Swiss Consular Area

Year		2003		Jan.- Jun. 2004	
		volume	growth rate (%)	volume	growth rate (%)
GDP (billion RMB)	China	11669.40	9.1	5877.30	9.7
	Shanghai	625.08	11.8	341.78	14.8
	Jiangsu	1245.18	13.5	675.68	15.1
	Zhejiang	920.00	14.0	511.00	15.5
	Anhui	397.32	9.2	226.07	13.5
	Consular Area	3187.58			
Total Retail Sales of Consumer Goods (billion RMB)	China	4584.20	9.1	2524.90	12.8
	Shanghai	222.06	9.1	121.51	12.2
	Jiangsu	356.65	13.7	201.15	17.5
	Zhejiang	315.70	10.9	173.40	15.5
	Anhui	133.12	9.8	71.65	12.6
	Consular Area	1027.53			
Completed Investment in Fixed Assets (billion RMB)	China	5511.80	26.7	2608.20	28.6
	Shanghai	245.21	12.1	139.62	25.9
	Jiangsu	533.58	38.6	282.60	33.5
	Zhejiang	494.70	38.1	232.90	25.5
	Anhui	147.76	30.4	58.79	32.5
	Consular Area	1421.25			
Exports (billion USD)	China	438.37	34.6	258.08	35.7
	Shanghai	48.48	51.2	33.74	54.5
	Jiangsu	59.14	53.7	37.58	53.3
	Zhejiang	41.60	41.5	25.36	40.2
	Anhui	3.06	24.9	1.75	23.4
	Consular Area	152.28			
Imports (billion USD)	China	412.84	39.9	264.90	42.6
	Shanghai	63.92	57.4	41.74	50.0
	Jiangsu	54.53	71.3	38.54	68.5
	Zhejiang	19.80	58.0	13.03	39.7
	Anhui	2.88	66.6	1.68	20.1
	Consular Area	141.13			
Foreign Direct Investment (during the period)					
Projects	China	41'081	20.22	21'688	14.89
	Shanghai	4'321	43.5	2'297	-7.6
	Jiangsu	7'301	25.9	4'048	17.0
	Zhejiang	4'442	32.0	1'949	2.4
	Anhui	431		208	26.8
	Consular Area	16'495			
Contracted (billion USD)	China	115.07	39.03	72.70	42.66
	Shanghai	11.06	23.5	6.15	1.3
	Jiangsu	30.81	56.6	20.71	49.3
	Zhejiang	12.05	77.5	6.98	42.0
	Anhui	1.02			
	Consular Area	54.94			
Actually Utilised (billion USD)	China	53.51	1.44	33.88	11.99
	Shanghai	5.85	30.1	3.84	15.0
	Jiangsu	15.80	52.4	10.87	46.6
	Zhejiang	5.45	72.4	2.98	37.7
	Anhui	0.39	4.1	0.60	63.4
	Consular Area	27.49			

Source: Chinese Authorities

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