

# Shanghai Flash

ISSUE NO.5 ❖ August 2005

## Economic Situation of China and the Yangtze River Delta For the First Half of 2005

### 1. General Economic Assessment

Despite the measures of macro-control aiming at cooling down the national economy, the growth reported for the first half of 2005 remained on the same level as the average of last year with 9.5%, the GDP totalling 6.74 trillion yuan (USD 812.3 billion) for the first six months of 2005. It was thus only 0.2% below the comparable figure for the first half of 2004. Clearly, the People's Republic of China further strengthened its position as the world's fastest growing economy. The Yangtze Delta Region, embracing the city of Shanghai and the two provinces of Jiangsu and Zhejiang, continues to play a locomotive role in the country's economy, though both Shanghai and Guangdong province saw a stronger slowdown in the growth rate compared to last year (see tables attached).

The effect of government measures on investment can be felt, though it remained quite high with 25.4%. In general analysts agree that the investment rate will slowly go down. Foreign direct investment in particular has shown a downward trend in the Yangtze Delta region (see tables attached).

The trade balance for the first half of 2005 amounted to USD 39.65 billion, thus exceeding the net exports of USD 31.98 billion for the whole of 2004. The contribution of foreign trade to GDP thus continued to increase considerably. Foreign trade dependency increased to 79% of GDP, compared to 70% in 2004, 60% in 2003 and 51% in 2002.

Generally speaking, China's economy has maintained a stable and relatively fast growth trend, the inflationary pressure seems to be under good control, the first half being marked by a CPI inflation of 2.3% on average for the period.

#### 1.1 The Yangtze Delta Region

Widely acknowledged as the world's sixth largest metropolitan area, the Yangtze Delta Region is one of China's most developed regions in economic terms. With only 2.2% of the country's land area and 10.4% of the total population, it contributed 31% of China's GDP and provided 38% of total foreign trade in the first half of 2005. The trend for the Delta Region to become the most important economic driver in China is clearly visible, although there was a slow down in growth of FDI in the region. But it still remains the most popular foreign investment destination and the part of actually utilised FDI in the region went up again from 41.8% of the country's total actually utilised FDI in 2004 to a new height of 53.14% for the first half of this year.

**Shanghai** reported a GDP of RMB 393.06 billion, with an increase of 10.3%. For the first time, the growth rate dropped 4.5% from the pace of the same period of last year.

Heavily hit by the macro-economic control measures, the fixed-assets investment (growth rate dropped 10.8%) and industrial output slowed down (dropped 6.6%). Some pillar industries, like steel and iron, petrol-chemical and auto industry were also influenced by the rise of crude oil, change of exchange rate of U.S. dollar, as well as the change of foreign trade environment.

Especially the output of car industry saw a decline of 30.6% and profits of automobile firms dropped 67.7% to 4.4 billion yuan (as an example, SAIC fell out from the top 500 list).

**Jiangsu** Province, the second largest provincial economy after Guangdong Province, reported a GDP of 821.29 billion yuan, an increase of 14.5% over the same period of last year, and 5 percentage points higher than the national average.

**Zhejiang** Province is ranked the fourth provincial economy after Guangdong, Jiangsu and Shandong Province. The 1<sup>st</sup> half of 2005, its GDP amounted to 609.4 billion yuan with an increase of 12%. Measured by per capita GDP, Zhejiang is the richest province in China.

## 1.2 New Economic Situations

### Foreign Trade

Mainly due to the steep slowdown of domestic investment spending caused by the macro-economic tightening, China's imports shrank deeply during the first half of 2005, while exports remained robust with a year-on-year rise of 32.7%, well ahead of the 14% increase in imports and making the trade surplus the main driving force behind the expanding economy.

The **Yangtze Delta Region** is still leading China's export with its 39.5% contribution to the country's total exports for the 1<sup>st</sup> half of 2005. During this period, the export volume of **Shanghai** was USD 42.66 billion, up 26.4% from 1<sup>st</sup> half of 2004. Among the city's exports, the contribution of foreign-funded companies declined with a growth rate of 26.2%, below the average export growth, while the exports from private enterprises increased 94.9%, accounting for 7.9% of the city's export volume. **Jiangsu** exported goods in the value of USD 55.18 billion, an increase of 46.8% over the high growth rate of 53.3% of same period of last year, while import growth dropped dramatically from 68.5% to 24.9%. For the same period, **Zhejiang's** exports grew 37.6% to USD 34.86 billion, among which the contribution of foreign-funded and private enterprises were 35% and 29% respectively, with a stronger growth momentum from private enterprises.

While China's economy moves towards more export-orientation, it's also facing increasing international trade frictions. The shoes and furniture from Zhejiang private enterprises were boycotted in some places abroad; according to the statistics of the Jiangsu authorities, there were 71 companies involved in international trade disputes in the first six months of this year. Moreover, new challenges remain in the way towards a foreign-trade driven economy if taking into account the cost of environment, the relatively low price of resources and the low social benefits for China's large pool of migrant workers.

On the other hand, although the revaluation of China's currency has only minor influences on its exports, the pressure for further appreciation still remains. In the longer run, this will hurt the global competitiveness of China's manufactures and will eventually affect China's net exports.

**Swiss trade relations with the Yangtze Delta Region** showed a deep decline in imports but remained strong in exports (see tables attached). **Shanghai** was the only place in the Yangtze Delta Region that saw an increase of imports from Switzerland with a rising volume of imported watches and watch components (USD 131.4 million, compared to USD 209.4 million for the whole year of 2004). Machines, high-tech products and raw materials still made the majority of the imports, in terms of commodity brackets, while light industrial products were the main exported goods. Some imports were re-exported to Switzerland. With the continued expansion of the Swiss presence in the region, Swiss-invested companies also contributed a considerable part to the total export volume.

## Foreign Investment

Affected by macro-economic control measures, energy supply shortage as well as rising business costs, China's foreign direct investment (FDI) slowed down during the first six months of this year. Although the contractual volume of FDI increased 19% to USD 86.2 billion, actually utilised FDI declined 3.2% to USD 28.6 billion. In contrary to the national average of the FDI situation, **the Yangtze Delta Region** reported a lower growth rate in contracted FDI volume, but a higher growth rate in actually utilised FDI, reflecting a high quality of utilised foreign investment.

During this period, Jiangsu Province was leading the influx of FDI in the region, with an increase of 36.8% in actually utilised FDI. While Shanghai and its neighbouring cities were getting selective towards FDI due to limited land and rising business costs, the middle and small cities in the mid and north part of Jiangsu Province became new destinations for FDI. In terms of growth rate of actually utilised FDI, Taizhou of Jiangsu Province topped the list with 180%, followed by Zhenjiang, Suzhou and Changzhou.

New FDI trends show in the tertiary industry in **Shanghai**. Although actually utilised FDI only increased by 0.8% over the same period of last year, the contracted foreign investment in the service sector has increased 63.9%, accounting for 50.9% of the total contracted FDI, comparing to only 35.9% for the 1<sup>st</sup> half of 2004. In the meantime, the percentage of the foreign invested manufacturing sector companies was reduced to 31.6% from over 50%.

## Declining industry profits

Although the overall economy as well as industry remained on a relatively fast growth track, the industry profits growth dropped 22.5% over the same period of last year. With the soaring prices of oil and other raw materials, the profits mainly benefited the upstream sectors, which were mostly monopolised by the state, while the downstream sectors, such as light manufacturing and services, constrained by strong market competition and administrative control, could not translate the rising producer prices into the consumer prices. The excess production capacity caused by several years' over-investment was another reason for profits squeezing industry. Therefore many firms operated with only a marginal profit or even heavy losses. Among these companies were mainly foreign-funded and private manufacturers.

## 2. Outlook for the 2nd half of 2005

Although **GDP** growth for the first half of the year was 9.5% it may well be possible that the second half will see a slightly lower growth rate, showing the effect of the slowdown in key economic regions like the Yangtze Delta. Especially the slowdown of the investment rate has not yet led to a real slowdown in the statistics on actually used FDI. The actually used part has still be growing considerably in the Yangtze region.

Due to the slowing of the economic growth rate the **risk of inflation** has abated as well. The continuing rise of crude oil prices will start to have a certain effect on consumption already, though the government has not put the whole price rise on the consumer. Road and water transportation are key factors in the Chinese logistic system, a price rise of petrol and diesel for cars and boats would hamper the network considerably.

Growth will continue to be led by **exports**, even textile exports will probably increase more than envisaged by China's trading partners due to problems of distribution and retail sales outlets in the EU. The quota had, according to Chinese press reports, "a boomerang" effect on some countries in the EU. According to some analysts the trade surplus could surpass USD 100 billion and thus attain treble the level of 2004. But basically the trade dynamics is due to a shrinking import part. The export growth rate remains more or less comparable to last year.

### 3. Useful Sources of Information

Ministry of Commerce of P.R. China: <http://www.mofcom.gov.cn/>

National Statistics Bureau: <http://www.stats.gov.cn>

Shanghai Municipal Government Foreign Economic Relations & Trade Commission:  
<http://www.smert.gov.cn/default.asp>

Department of Foreign Trade and Economic Cooperation, Jiangsu Province:  
<http://www.jsmoftec.gov.cn/index.asp>

Department of Foreign Trade and Economic Cooperation, Zhejiang Province:  
<http://www.zftec.gov.cn/index/index.jsp>

Department of Foreign Trade and Economic Cooperation, Anhui Province:  
<http://www.ahbofcom.gov.cn/index/index.asp>

China Daily: <http://www.chinadaily.com.cn>

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Table. 1

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

Year		2004		Jan – June 2005	
		volume	growth rate (%)	volume	growth rate (%)
<b>GDP (billion RMB)</b>	<b>China</b>	<b>13'651.50</b>	<b>9.5</b>	<b>6'742.2</b>	<b>9.5</b>
	Shanghai	745.03	13.6	393.06	10.3
	Jiangsu	1551.24	14.9	821.29	14.5
	Zhejiang	1124.30	14.3	609.40	12
	Anhui	481.27	12.5	256.81	11.4
	<b>Consular Area</b>	<b>3901.84</b>		<b>2'080.56</b>	
<b>Total Retail Sales of Consumer Goods (billion RMB)</b>	<b>China</b>	<b>5'395.00</b>	<b>13.3</b>	<b>2'961</b>	<b>13.2</b>
	Shanghai	245.46	10.5	140.93	10.9
	Jiangsu	415.97	16.6	236.38	17.5
	Zhejiang	364.50	15.5	202	14.5
	Anhui	150.31	12.9	79.89	12.8
	<b>Consular Area</b>	<b>1176.24</b>		<b>659.20</b>	
<b>Completed Investment in Fixed Assets (billion RMB)</b>	<b>China</b>	<b>7'007.30</b>	<b>25.80</b>	<b>3'289.5</b>	<b>25.4</b>
	Shanghai	308.47	25.8	160.76	15.1
	Jiangsu	682.76	28	372.17	31.7
	Zhejiang	594.50	20.2	253.68	8.7
	Anhui	191.42	29.6	89.61	30.6
	<b>Consular Area</b>	<b>1777.15</b>		<b>876.22</b>	
<b>Exports (billion USD)</b>	<b>China</b>	<b>593.4</b>	<b>35.4</b>	<b>342.3</b>	<b>32.7</b>
	Shanghai	73.52	51.6	42.66	26.4
	Jiangsu	87.56	48.1	55.18	46.8
	Zhejiang	58.16	39.8	34.86	37.6
	Anhui	3.94	28.5	2.38	36
	<b>Consular Area</b>	<b>223.18</b>		<b>135.08</b>	
<b>Imports (billion USD)</b>	<b>China</b>	<b>561.4</b>	<b>36</b>	<b>302.7</b>	<b>14.0</b>
	Shanghai	86.51	35.3	44.50	6.61
	Jiangsu	83.25	52.7	48.38	24.9
	Zhejiang	27.07	36.6	14.61	11.8
	Anhui	3.27	13.5	1.85	10.3
	<b>Consular Area</b>	<b>200.1</b>		<b>109.34</b>	
<b>Foreign Direct Investment (during the period)</b>					
<b>Projects</b>	<b>China</b>	<b>43'664</b>	<b>6.29</b>	<b>21'216</b>	<b>- 2.18</b>
	Shanghai	4'334	0.8	1'909	- 16.9
	Jiangsu	7'187	-1.56	3'566	- 11.9
	Zhejiang	3'428	-13.9	1'466	- 24.8
	Anhui	472	10	184	- 13
	<b>Consular Area</b>	<b>15'421</b>		<b>7'125</b>	
<b>Contracted (billion USD)</b>	<b>China</b>	<b>153.48</b>	<b>33.38</b>	<b>86.2</b>	<b>19</b>
	Shanghai	11.69	12.6	7.10	15.5
	Jiangsu	36.08	17.1	23.92	15.5
	Zhejiang	14.56	20.8	6.31	- 9.6
	Anhui	1.21	18.6	0.71	53.8
	<b>Consular Area</b>	<b>63.54</b>		<b>38.04</b>	
<b>Actually Utilised (billion USD)</b>	<b>China</b>	<b>60.63</b>	<b>13.32</b>	<b>28.6</b>	<b>- 3.2</b>
	Shanghai	6.54	11.8	3.87	0.8
	Jiangsu	12.14	14.5	8.06	36.8
	Zhejiang	6.68	22.6	2.94	- 1.5
	Anhui	0.55	40	0.35	38.3
	<b>Consular Area</b>	<b>25.91</b>		<b>15.22</b>	

Source: Chinese Authorities

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

**Table. 2**

**Swiss - Yangtze-Delta Region Economic Relations\***

	Import from Switzerland				Export to Switzerland			
	2004		Jan - June 2005		2004		Jan - June 2005	
	Million USD	Growth rate	Million USD	Growth rate	Million USD	Growth rate	Million USD	Growth rate
<b>Shanghai</b>	903.30	64.39	484.14	9.99	175.20	95.37	108.02	54.75
<b>Jiangsu</b>	355.00	40.16	142.19	-15.7	181.00	62.76	87.27	16.5
<b>Zhejiang</b>	198.31	38.26	70.76	-32.28	180.69	86.96	96.52	37.03
<b>Anhui</b>	32.53	79.30	9.25	-49.98	9.89	102.8	4.97	46.28
<b>Delta Region</b>	<b>1,489.14</b>		<b>706.34</b>		<b>546.78</b>		<b>296.78</b>	
<b>China</b>	<b>3,621.37</b>	<b>35.0</b>	<b>1,870</b>	<b>8.2</b>	<b>1,505.77</b>	<b>79.3</b>	<b>890</b>	<b>48.4</b>

Source: Chinese authorities

**Table. 3**

**Swiss Investment**

	Investment in Jan. – June 2005			Accumulated by end of June 2005		
	Project	Contracted million USD	Actually million USD	Contracted	Actually	Projects
<b>Shanghai</b>	19	264	-	141.37	-	201
<b>Jiangsu</b>	9	31.98	52.20	458	328	87
<b>Zhejiang</b>	5	1.87	2.93	66.65	27.71	17
<b>Anhui</b>	0	0.26	0.36	36.79	-	5
<b>Delta Region</b>	<b>23</b>	<b>297.85</b>		<b>702.81</b>		<b>310</b>
<b>China</b>	<b>58</b>	<b>320</b>	<b>92.25</b>	<b>3,130</b>	<b>2,190</b>	<b>759</b>

Source: Chinese authorities