

Shanghai Flash

ISSUE NO.2 ❖ October 2006

Current Economic Situation: China and the Yangtze Delta Region

- *In 2005, China became the fourth biggest economy in the world.*
- *China's investments in fixed assets grew 30% during the first half of 2006.*
- *FDI in Shanghai is slowing, while accelerating in Jiangsu and Zhejiang.*
- *China's foreign exchange reserve climbed to 940 billion USD by end of June 2006.*
- *By mid 2006, Swiss FDI accounted for 1.5 billion USD in Shanghai, 0.62 billion USD in Jiangsu and 0.14 billion USD in Zhejiang.*

1. General Situation: Still Dynamic

China's economy has been growing rapidly and steadily after a soft landing in 2002. This pattern was also kept in the year 2005 and 2006. The Yangtze 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 10.2% in 2005, compared to 2004. The gross domestic product (GDP) rose to 18,308.5 billion RMB in 2005, an equivalent of 2,289 billion USD, and that made China the fourth biggest economy in the world, after USA (12,455 billion USD), Japan (4,506 billion USD) and Germany (2,782 billion USD), and surpassing UK (2,193 billion USD) and France (2,110 billion USD). The growth went even faster since last quarter of 2005, so that China's GDP totaled 9,144.3 billion RMB (1,143 billion USD) during the first half of 2006, an increase of 10.9% over the same period of 2005.

The aggregate GDP of **the Yangtze Delta region** climbed to 4,078.1 billion RMB (505.3 billion USD, see Shanghai Flash, Issue No.1) in 2005, accounting for 22.4% of China's total GDP, a remarkable result compared to its rather low percentages of population (10.3%) and area (2.2%).

Shanghai reported a GDP of 478.19 billion RMB, an equivalent of 59.77 billion USD and an increase of 12.6% in the first half of 2006 (11.1% for the year of 2005) over the same period of the previous year, after successive fourteen years with double-digit growth rate. During the same period of time, **Jiangsu** Province, the second largest provincial economy in China after Guangdong province, recorded a GDP of 987.12 billion RMB (123.39 billion USD), up 15.4% (14.5% for the year of 2005) and 4.5 percentage points higher than the national average; and the GDP of **Zhejiang** province reached 712.30 billion RMB (89.04 billion USD), up 14.1% (12.4% for the year of 2005). Measured by per capita GDP (27,552 RMB or 3,414 USD in 2005), Zhejiang has the highest provincial income in China.

2. Private Consumption: Increased Steadily

The country's private consumption increased considerably during the first half of 2006: **China's** total retail sales climbed to 3,644.82 billion RMB, up 13.3% (compared with 12% for the year of 2005); retail sales in **Shanghai** totaled 165.35 billion RMB, up 13.1% (11.9% in 2005) from the previous year; in **Jiangsu** it was 315.87 billion RMB, up 24.8% (28% in 2005) and in **Zhejiang** it totalled 297.20 billion RMB, up 17.6% (15.1% in of 2005). Private consumption in China is mainly restrained by traditionally higher saving ratio of the consumers as well as by insufficient social insurance, otherwise it could be a more active factor for the growth of the national economy.

During the same period, in spite of the pressure of soaring oil price, price increases were kept at low levels in China. The consumer price index has moved up only 1.8 percent in 2005 and 1.3 percent in the first half of 2006.

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

Domestic investment in fixed assets has been one of the main engines of China's growth since 1998 (after the Asian financial crisis). Chinese economic growth has been strongly driven by a pro-active fiscal policy, leading to heavily increased investments in fixed assets, especially in the field of infrastructure such as construction of highways, railways, new factories and houses.

Reaching 3,636.84 billion RMB (about 454.6 billion USD), enacted investments in fixed assets for the whole of **China** grew at a quite high rate of 31.3% in the first half of 2006 (25.7% in 2005) over the same period of previous year. In the delta region, investment in fixed assets kept high in the first half of 2006 as well: in **Shanghai**, they reached 175.99 billion RMB (corresponding to 22 billion USD), a rise of 9.5% (14.8% in 2005); in **Jiangsu** they totalled 315.87 billion RMB (39.48 billion USD), a rise of 24.8% (28% in 2005) and they recorded 297.20 billion RMB (37.15 billion USD) in **Zhejiang**, an increase of 17.6% (15.1% in 2005) over the previous year. All these developments took place even under a slight tightened monetary policy in 2006.

4. Foreign Investment: Remained on High Level

China has become one of the most preferred destinations for foreign direct investments in recent years. Foreign direct investment (FDI) in China in actually utilized terms totalled 60.30 billion USD in 2005, a slight decrease of an half percentage, but still on an high level.

More and more multinationals move their world-wide manufacturing bases to China. By end of June, 2006, there were 572,692 foreign invested enterprises in China, with a total actually utilized foreign investment of 650.85 billion USD. It is important to realize, however, that about two thirds of the capital under the heading of FDI is assumedly coming from Chinese diaspora sources.

Recently, the **Yangzte delta** region still saw a massive influx of foreign investment, but the momentum in Shanghai is obviously weakening. The total FDI of the region was about 27.75 billion USD in 2005 in terms of actually utilised value, accounting for 46% of China's total. Actually utilised FDI in **Shanghai** was 4.01 billion USD in the first half of 2006, an increase of only 3.5 % over the same period of 2005, which shows a downward growth rates: up 4.7 % in 2005, up 11.8% in 2004 and up 30.1% in 2003. On the contrary, in **Zhejiang** it amounted to 3.89 billion USD, an increase of 32.5% (up 15.6% in 2005), and in **Jiangsu** it reached 8.5 billion USD, an increase of 75.3% (up 29.2% in 2005). Jiangsu became the most preferred province for FDI, surpassing Guangdong province since 2003 in terms of both contracted and actually utilized FDI.

5. Foreign Trade: Another Motor of Growth

China's **total foreign trade volume** increased by 23.4% to 795.74 billion USD in the first half of 2006. Exports rose 25.2% (up 28.4% in 2005) to 428.59 billion USD (762 billion USD in 2005); imports grew by 21.3% (17.6% in 2005) to 267.14 billion USD (660.1 billion USD in 2005). China's foreign trade in the first half of 2006 showed therefore a surplus of 61.45 billion USD, an increase of 54.9% over the same period of 2005 (surplus in 2005: 101.9 billion USD and in 2004: 32 billion USD). China's economic boom, the stronger domestic competition and the rising export capacity of foreign-funded enterprises have spurred exports.

China's main export markets are USA (21%), EU (19%), Hong Kong (16%), Japan (10%), ASEAN (7.5%) and South Korea (5%); and the country's main import sources are Japan (15%), EU (11.4%), South Korea (11.3%), ASEAN (11.1%), Taiwan (11%) and USA (8%). **The major imported commodities** with value over 10 billion USD are machinery and electronic products, high-tech products, integrate circuit and micro-electronic components, crude oil etc.; and **the major exported commodities** with value over 10 billion USD are machinery and electronic products, primary electro-machinery products, high-tech products, accessories of garment and dress and so on¹.

The delta region holds a leading position in China's foreign trade. The region's total export value in the first half of 2006 reached 169.11 billion USD (290.52 billion USD in 2005), accounting for about 39.5% (38.1% in 2005 and 37% in 2004) of China's total export value. Imports in the Yangtze delta region increased slower than exports. The region's total import value reached 126.73 billion USD (231.17 billion USD in 2005), accounting for 47.4% (35% in 2005) of China's total imports.

As Table 1 shows, all the delta-region provinces had surpluses in their foreign trade during the first half of 2006: 0.79 billion USD in Shanghai, 13.59 billion USD in Jiangsu and 28 billion USD in Zhejiang, which, as the most aggressive trading province, ultimately contributed positively to China's trade balance.

As a result, China's **foreign exchange reserve** reached 853.7 billion USD by the end of February 2006, surpassing Japan to become the world's largest FOREX holder, which climbed rapidly to 941.1 billion USD by the end of June 2006.

6. Yangtze Delta Region: Crossroad of Sino-Swiss Economic Relations

The Yangtze Delta region plays an important role in the Sino-Swiss bilateral economic relation: about one third of the Sino-Swiss bilateral trade, in terms of both import and export, is conducted through the Yangtze Delta region and four fifths of the total contracted Swiss investment in China goes to the region. In terms of accumulated capital two thirds of the Swiss investment at the end of 2005 was in the Yangtze Delta region.

¹ **The major imported commodities** with value over 10 billion USD are machinery and electronic products, high-tech products, integrate circuit and micro-electronics components, crude oil, LCD board, plastics in primary forms, iron ore and fine mine, steel, components of television, radio and telecommunication equipment, automatic data processing equipment and components, spare parts for automatic data processing equipment and finished oil; and **the major exported commodities** with value over 10 billion USD are machinery and electronic products, primary electro-machinery products, high-tech products, accessories of garment and dress, automatic data processing equipment and components, yarn, fabric and products, spare parts for automatic data processing equipment, wireless telephone, handset or vehicle mounted, components of TV, radio and telecommunication equipment, footwear, steel, integrate circuit and micro-electronic components and furniture and parts.

Swiss trade relation with the Yangtze Delta region continued to develop smoothly. As Table 2 shows the region imported goods with a total value of 1,466.98 million USD from Switzerland in 2005, a slight decrease of 0.71% over the previous year, and exported a total value of 638.94 million USD to Switzerland with an increase of 19.01%, but both export of the Yangtze Delta region to Switzerland (up 44.8%) and import to the region from Switzerland (up 16.8%) saw a rapid increase in the first half of 2006. With the expansion of the Swiss presence in the region, Swiss-invested companies also contributed a considerable part to the total export volume. These figures do not include the indirect trade via Hong Kong, therefore the numbers do not show the increasing demands of high quality Swiss made consumers goods, which are mainly distributed by Hong Kong agencies.

Swiss direct investment is increasing steadily in China and the Yangtze Delta Region. Last year, there was a total of 125 Swiss-invested projects in China, with a great part (71 projects) concentrated in the Yangtze Delta Region, and a third of them (39 projects) in Shanghai. By the end of year 2005, Swiss direct investment totalled 3,382 million USD in terms of accumulated contractual value for 826 projects in China. Among them, 1,451 million USD is located in Shanghai (by end of June 2006: 1,514 million USD), while the numbers for Jiangsu and Zhejiang were 546 million USD (by end of June 2006: 616 million USD), and 81 million USD (by end of June 2006: 137 million USD), respectively (See Table 3). The large number of Swiss companies in the Delta Region is mainly due to considerable investments of Swiss SMEs around Shanghai.

7. Important Challenges remain to be faced

Many signs show that the development of the Chinese national economy remains dynamic. A GDP growth rate about 10% in 2006 is regarded reasonable by the main economists. Chinese government aims still high. According to the official source, China's economy is planned to grow at an annual rate of 7.5% during the 11th Five-Year Plan period (2006-2010). The GDP volume should increase from 18'308.5 billion RMB (2'289 billion USD) in 2005 to 26.1 trillion RMB (3.26 trillion USD) in 2010; Per capita GDP will be up 6.6% annually from 13,985 RMB (1,748 USD) in 2005 to 19,270 (2,409 USD) in 2010. The Economy of the Yangtze Delta region will grow "traditionally" faster and another double-digit growth rate for the coming year is likely to be expected.

However, the economy is facing many challenges, old and new: huge but very inefficient energy consumption; serious environmental pollution and ecological damage; the aging trend of China's population; the enlarging income gap and the rampant corruption, just as some examples which were discussed a lot among the Chinese experts.

The persistent social, economic and political problems maintain structural weaknesses in the system, and could put in danger the sustainability of China's economic development.

LI Rongzhang

Table. 1

Current Economic Indicators* of the Yangtze-Delta Region

Year		2005		2006.1-6.	
		Volume	Growth Rate (%)	Volume	Growth Rate (%)
GDP (billion RMB)	China	18,308.50	10.2	9,144.30	10.9
	Shanghai	914.40	11.1	478.19	12.6
	Jiangsu	1,827.21	14.5	987.12	15.4
	Zhejiang	1,336.50	12.4	712.30	14.1
	Anhui	537.58	11.8	288.61	11.9
	Consular Area	4,615.69		2,466.22	
Total Retail Sales of Consumer Goods (billion RMB)	China	6,717.70	12.0	3,644.82	13.3
	Shanghai	297.30	11.9	165.35	13.1
	Jiangsu	569.99	16.0	324.19	15.9
	Zhejiang	463.20	13.2	257.30	14.5
	Anhui	176.50	13.3	95.42	14.6
	Consular Area	1,506.99		842.26	
Completed Investment in Fixed Assets (billion RMB)	China	8,860.40	25.70	3,636.84	31.30
	Shanghai	354.26	14.8	175.99	9.5
	Jiangsu	873.97	28.0	315.87	24.8
	Zhejiang	665.20	15.1	297.20	17.6
	Anhui	252.10	31.7	138.96	50.5
	Consular Area	2,145.53		983.02	
Exports (billion USD)	China	762.00	28.4	428.59	25.2
	Shanghai	90.74	23.4	53.24	24.8
	Jiangsu	122.98	40.5	70.73	28.2
	Zhejiang	76.80	32.1	45.14	29.6
	Anhui	5.19	31.8	2.90	22.0
	Consular Area	295.71		172.01	
Imports (billion USD)	China	660.10	17.6	267.14	21.3
	Shanghai	95.62	10.5	52.45	17.8
	Jiangsu	104.96	26.1	57.14	18.1
	Zhejiang	30.59	13.0	17.14	17.3
	Anhui	3.93	20.0	2.56	38.5
	Consular Area	235.10		129.29	
Foreign Direct Investment (during the period)					
Projects	China	44,001	0.80	19,750	-6.90
	Shanghai	4,091	-5.6	1,859	-2.6
	Jiangsu				
	Zhejiang	3,396	-11.2	1,631	11.3
	Anhui	421		244	32.6
	Consular Area				
Contracted (billion USD)	China	189.07	23.2		
	Shanghai	13.83	18.3	7.22	1.7
	Jiangsu	45.72	18.5	17.32	55.9
	Zhejiang	16.13	10.8	7.76	22.9
	Anhui	1.55	29.0	0.99	39.9
	Consular Area	77.23		33.29	
Actually Utilised (billion USD)	China	60.30	- 0.50	28.43	- 0.50
	Shanghai	6.85	4.7	4.01	3.5
	Jiangsu	13.18	29.2	8.50	75.3
	Zhejiang	7.72	15.6	3.89	32.5
	Anhui	0.69	26.0	0.50	42.8
	Consular Area	28.44		16.90	

* All statistics not including Taiwan, Hong Kong and Macao; Figures of the year 2005 refer to the revised ones.

Table. 2

Swiss - Yangtze-Delta Region Trade Relations*

	Import from Switzerland				Export to Switzerland			
	2005		2006.1-6.		2005		2006.1-6.	
	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %
Shanghai	979.43	8.43	527.92	9.04	225.18	28.50	140.52	30.08
Jiangsu	343.00	-3.21	210.00	46.66	210.00	15.85	155.00	77.00
Zhejiang	144.55	-27.10	77.30	9.33	203.76	12.80	127.03	31.61
Delta Region	1,466.98	0.71	815.22	16.81	638.94	19.01	422.55	44.80
China	3,880.73	7.40	1,935.08	3.60	1,946.72	29.3	1,185.57	33.60

Table. 3

Swiss Investment in Delta Region

In the Region	Swiss Investment						Accumulated by end of June, 2006		
	Project		Contracted million USD		Actually million USD		Project	Contracted million USD	Actually million USD
	2004	2005	2004	2005	2004	2005			
Shanghai	44	39	*-150.00	300.94			243	1,514.05	
Jiangsu	11	23	91.34	120.32	46.02	67.47	106	616.00	390.00
Zhejiang	5	9	38.96	16.05	16.89	11.10	49	137.00	84.10
Delta Region	66	71	*-18.06	437.31			398	2,267.05	
China	88	125	*30.42	577.00	203.00	206.00			

* One withdrawal of investment of 220 million UDS deducted already, which explains the unusual difference between contracted and actually used amounts.

General remarks:

1. GDP volumes are at prices of the reported years (not adjusted).
2. GDP growth rates are price-adjusted.
3. All figures are based on the unrevised data of China's statistical authorities.