China Report

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BOOMING CHINESE ECONOMY OVERSHADOWED BY SARS

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1 2003

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In the first quarter of this year, GDP growth hit a record level of 9.9%, the fastest quarterly growth for six years. But growth fell back in the second quarter to only 6.7%, due to the 'severe acute respiratory syndrome' (SARS) epidemic negatively affecting in particular the services sector and certain regions, above all Beijing and the province of Guangdong, while some sectors of the economy such as real estate, steel, construction materials and automobiles continued to boom. Overall economic growth during the first half of the year came to 8.2%. In both quarters, the Chinese economy was supported by a rapid increase of investment and fast rising exports, while consumer demand was relatively weak in the first quarter already and further decelerated in the April to June period. With the SARS crisis overcome, GDP growth may reach 8.1% for the whole year 2003 and probably run up to 8.3% in 2004.

Key developments in the first quarter

The very fast growth in the first quarter 2003 was mainly driven by the acceleration of investment which expanded at a rate of 27.8%, compared to 19.6% in the first quarter of the previous year and 16.1% during the whole year 2002. Foreign direct investment surged by 33%, reaching USD 13.5 billion. Exports expanded faster than last year as well (33.5%), fuelled by a real depreciation of the yuan and taking further advantage of China's WTO membership. But imports increased even stronger (52.4%), resulting in a small trade deficit of USD 1 billion, the first deficit since many years. In contrast, consumer demand, measured by retail trade turnover, has slowed down, rising 9.4% (in real terms) only, compared to typically more than 10% in the recent past. Nevertheless, the consumer price index (CPI) showed a slight increase of 0.5% (after decline of 0.8% in 2002). On the supply side, the industrial sector was fuelled by the fast growing demand for investment goods and exports and rose at a rate of 12.3%, also the growth of the primary and the tertiary sector was higher than in the same period last year as well, rising at 3.5% and 6.2% respectively.

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Growth slowing down in the second quarter, due to SARS

Economic development in the second quarter was over-shadowed by the spread of the 'severe acute respiratory syndrome' (SARS) from Guangdong to other parts of China, in particular to Beijing.

GDP growth slowed down considerably and existing imbalances in the economy became more pronounced. However, due to the strong performance in the first quarter, GDP growth in the first half of the year still reached an impressive rate of 8.2%. While investment activity accelerated further, pushing the growth rate of investment for the first half of the year up to 31.1%, the fastest rate since 1994, retail trade turnover of consumer goods slowed down significantly, expanding at a (real) rate of only 4.9% in May and of 8.4% in the first 6 months of the year. Export growth remained fast, but imports growth weakened. This resulted in a substantial trade surplus of USD 4.5 billion by the end of June, supporting the domestic economy. On the supply side, due to the continuous strong demand for investment goods and exports, value added of the booming industrial sector decelerated only slightly expanding at a rate of 11.6% in the first half of the year. But the services sector was hit very hard by the SARS epidemic and parts of the agricultural sector were seriously affected as well, showing growth rates of 4.2% and 2.7% for the first six months of the year only.

However, due to the fact, that the epidemic broke out in the midst of an economic up-swing and was brought under control within in a relatively short period, the *overall impact* of SARS on the economic development in China is considered rather limited, probably bringing down the potential GDP growth-rate of 8.5%-8.7% (without SARS) by half a percentage point to 8.0% -8.2% for the whole year 2003.

A brief chronology of SARS

In November 2002, the first case of a previously unknown, highly infectious and antibiotics-resistant pneumonia-like disease was observed in the southern province of Guangdong. The disease spread quickly to the doctors, nurses and other persons who had close contact with the patients. In January 2003, the number of cases rose sharply in Guangdong's capital, Guangzhou, and accelerated in the coming weeks. Deaths were being reported daily, driving local residents into a state of near panic by early February. The provincial government of Guangdong then officially declared the outbreak of 'atypical pneumonia', later described by the World Health Organisation (WHO) as 'SARS'. But it took until April that a new type of coronavirus was identified as responsible for causing SARS. In the meantime, the disease had spread first to Hong Kong, then to Beijing and to other cities outside China, with close relations to the mainland, such as Singapore and Vancouver, calling attention of the WHO, which urged the Chinese government to take effective measures to control the disease. It also criticised the official information policy, in particular concerning the numbers of SARS cases in Beijing (the first SARS case in Beijing had been registered at the beginning of March already, but was played down by officials).

In the second half of April, finally, a more transparent and effective government policy on SARS was implemented. But at the same time, SARS cases in Beijing seemed to explode, soon overtaking the number observed in Guangdong. In the third week of April, six 'SARS-only hospitals' were designated, the number of which was increased to 16 later, including a new hospital in a northern suburb of Beijing which was built in a record time of only one week. As of 8 May, 3600 special hospital beds were in use. International events in Beijing were cancelled and tourists were staying away. On April 23 the WHO advised international travellers to cancel trips to Beijing. The local population started to wear face-masks and began to avoid public space, such as restaurants, shopping centres, etc. Official order put a stop to all business dealing with entertainment and indoor sports facilities; schools were closed. Thousands of people, which possibly had come into contact with SARS patients or were showing SARS-like symptoms were quarantined[1].

The week-long Labour Day holiday was cut to five days and a ban put on cross-region travel – but migrant workers nevertheless fled the city. By the end of April, the peak of SARS outbreaks in Beijing was reached and with the extensive control measures in place, cases declined rapidly during May[2]. On June 24, after no new SARS cases had been reported in the capital for 12 consecutive days, the WHO lifted the travel-ban for Beijing[3] and the situation in the capital and China as a whole quickly returned back to normal. (By the end of June, in total about 5300 SARS cases had been registered in China, of which 320 had died.)

Sector-specific and longer-term impacts of the disease

The economic impact of SARS is spread very unevenly across different sectors of the economy and is regionally concentrated on Guangdong and Beijing (together producing around 15% of the Chinese GDP). The most affected sectors are services, in particular tourism, retail trade, catering and transportation, but certain non-durable consumer goods industries were seriously hit as well. Also, the informal sector (e.g. street vendors) providing livelihood for mostly low-income earners, may have suffered over-proportionately. On the other hand, the demand for medicine, disinfectants, certain kinds of food stuff (hoarding!), consumer electronics and especially for telecom services (international long-distance calls, broadband internet services) was higher than normal. This was also true Similar is true for imports of pharmaceuticals and medical and scientific equipment. In Guangdong, the negative effects were strongest in February and March, while the Beijing economy was hit hardest in April and May.

From a longer-term perspective, exports in the second half of the year may suffer from less orders placed during the February-May period, in particular in sectors where face-to-face business contacts are the rule, such as in the clothing industry[4]. For similar reasons, less revenue from foreign tourism can be expected for the rest of the year. In addition, a small part of foreign direct investment may be delayed and become realised next year only. Furthermore, forgone income of migrant workers returning home have reduced rural per capita income in absolute terms (-35 yuan), bringing down the relatively fast income growth of the rural population in the first quarter (7.5%) to only 2.5% for the first half of the year, which is a major reason for the weakening of consumer demand. A quick survey on farmers, including five provinces, showed that by the middle of June only 23% of the farmers who had given up their jobs in the big cities had returned yet[5]. In general, the impact of SARS on employment is considered more serious than on output[6]. Some *indirect* negative effects have to be considered as well, such as the reduced demand for Chinese exports from other Asian economies which have been hit even harder by SARS than China itself (Singapore, Hong Kong and probably Taiwan).

To counterbalance the negative impacts on the economy, the Chinese government has taken several measures, including direct payments for the hardest hit sectors like aviation, tourism, catering, taxis etc., speeding-up construction works to help unemployment and granting tax relief for SARS victims. Local governments were advised to provide assistance to those who have slipped below the minimum income level due to SARS.

Is the Chinese economy still overheated?

Despite the strong decline of GDP growth in the second quarter, some economists believe that the Chinese economy is still overheated. They point to the high and accelerating growth of investment, exports and money supply and to the rise of the consumer price index indicating inflationary pressure. But the other side of the coin shows high and rising unemployment, in particular of migrant workers, a very low increase of rural incomes in the first half of the year and a high share of non-performing loans. Furthermore, looking into more detail, the acceleration of investment is largely a consequence of real estate investment, rising at a rate of 33% during the first half of the year, infra-structure investment and booming investment in the up-stream industries (steel etc.). The rise of the CPI, which is still moderate (0.6 %), is largely driven by domestic oil prices which soared 40 % in the first quarter in anticipation of the Iraq war and certain food prices as a consequence of distribution problems during the SARS crisis, while many industrial consumer goods such as clothing, electric appliances, consumer electronics etc. are still in surplus and suffering from falling prices[7]. The rapid growth of M2 (21%) in the first half of the year was driven by loans (23%) and by a strong inflow of foreign currency due to fast rising foreign direct investment (USD 30.3 billion) and a substantial trade surplus (USD 4.5 billion). But in addition, the central bank had to buy a great amount of hard currency on the foreign exchange market to reduce the pressure for the yuan to appreciate and expectations that the yuan may appreciate induced a reversion of 'capital flight' attracting 'hot money'. (During the first half of the year, official forex reserves increased by USD 60 billion, coming to a year-on-year increase of 47%.)[8] The current state of the Chinese economy thus may be characterized as fairly unbalanced rather than generally overheated. Beyond doubt, a 'real estate bubble' is building-up and part of the infra-structure investments may be considered not very efficient. Also, industries, taking particular advantage of the real estate and infra-structure boom, such as the steel industry, aluminium and construction materials, show signs of overheating. Furthermore, huge investments in the automobile industry bear the danger of over-capacities in the future. These industries, which are highly energy-intensive are also putting a severe strain on the general power-supply and some North, East and South China regions, including Shanghai municipality, are expected to experience temporary power shortages this summer[9].

Skyrocketing steel industry

China has been the world's largest steel producer since 1996 already, but has become the top steel importer last year as well, digesting 211 million tons of steel, one quarter of global consumption. Steel prices in China started to rise in the first quarter of last year already and have strongly accelerated this year. Striking profit margins and good prospects for the industry in the short as well as medium run have attracted large amounts of investment skyrocketing beyond a rate of 150% in the first quarter and 130 % for the first six months of 2003. Apart from the high energy consumption, the production of steel is putting a heavy strain on water resources as well, which is often neglected by local governments giving green lights to steel-related investment projects.

Selective measures to cool down the economy

Under the given situation, the Chinese government has decided to use selective policy measures targeting specific sectors rather than turning to an overall restrictive monetary and fiscal policy. It is applying selective credit controls such as putting restrictions and higher interest rates on loans to developers of luxury homes, hotels and offices and tightening loans to home buyers who are purchasing more than one property. Other measures suggest a closer check of projects in the automobile sector and adjustment of preferential electricity prices for certain industries. To put a brake on the stronger than desired rise of the money supply, the People's Bank of China has decided to adjust the legal reserve ratio and use open market operations rather than to raise the general interest level, as it feared that this would add to the burden of domestic enterprises which are still struggling and may also aggravate the 'bad loan problem'.

Foreign investors beginning to tap China's A-share market

The booming steel sector has become a primary target for foreign financial institutions investing under the new 'qualified foreign institutional investor' (QFII) scheme adopted at the end of last year. Holding a QFII license approved by the China Securities Regulatory Commission (CSRC), allows foreign institutional investors to buy so called 'A-shares' and yuan denominated bonds. In China, the stock market is split into to parts: The A- and the B- share market. On the A-share market, yuan denominated shares of Chinese companies are traded, which have so far been reserved for domestic buyers only. B-shares are denominated in foreign currency and could be acquired by foreigners as well. The A-share market is much bigger (USD 500 billion) than the B-share market (USD 11 billion), but due to strong domestic demand, A-shares tend to be overvalued. Nevertheless, some shares are considered to have a considerable growth potential. From the Chinese side, the QFII scheme is expected to bring more fresh funds and expertise as well as transparency to China's security market. On 26 May, UBS Warburg and Nomura Securities became the first two overseas companies to get a QFII license, Citigroup Global Markets followed in June. On 9 July, UBS placed its first order, comprising shares of top steel maker Baoshan Iron & Steel, telecoms gear maker ZTE Corp., Shanghai Port Container, and logistics provider Sinotrans Air[10].

The new Chinese government: continuity with fresh accents

In March, a new Chinese government was approved by the National People's Congress, the legislative body of the PRC. President Jiang Zemin was replaced by Hu Jintao and Premier Zhu Rongji is followed by Wen Jiabao. The position of Li Peng, Chairman of the National People's Congress (NPC), was taken over by Wu Banguo. This reshuffle had been prepared already at the 16. National Congress of the Communist Party of China (CPC) in November last year, when Hu Jintao succeeded Jiang Zemin as 'Party Leader' and when what was called 'the biggest orderly generational change in the CPC leadership' was implemented'[11]. The new government stands for continuity, in economic as well as political respects.[12] There are, however, some signs that Hu Jintao might put more emphasis on social problems (poverty, unemployment) and income disparities, in particular the urban-rural income gap, corresponding to his major fields of activity – agriculture and development policy – as Zhu Rongji's deputy during the past five years. Two other major problem areas stated in his first press conference were: unsolved structural problems of state-owned enterprises and the 'bad loan problem' haunting the financial sector. These problem areas shall be addressed by a newly established 'State Asset Management Commission' on the one hand and the 'China Banking and Regulatory Commission' a new body outside the Central Bank on the other.

Shortly after being installed, the new government came under severe pressure from the WTO and from its citizens too, for concealing the truth about SARS. It reacted promptly and effectively. In an unprecedented action, the Mayor of Beijing and the Minister for Health were exchanged overnight and extensive measures to fight the disease, were quickly implemented, including enhanced international co-operation. By bringing the epidemic under control surprisingly fast, the new government has earned respect from inside and outside China.

A fresh approach to the management of SOEs

The newly launched 'State-owned Assets Supervision and Administration Commission' (SASAC) will be responsible for supervising and managing state-owned assets under the *central* government. (Later, further state asset management offices will be installed to supervise enterprises affiliated to *local* governments.) The Commission is authorized to guide and push forward the reform and restructuring of state-owned enterprises, appoint and remove their chief officials, evaluate the enterprises' achievements, draft laws and regulations concerning the management of state-owned assets and will also have a say in the transfer of state holdings, corporate mergers, closures and other major changes to the enterprises. However, the commission would not interfere directly in an enterprise's production and other business operations. The SASAC thus is a fresh attempt to separate management functions from those of the owner (investor) in SOEs. Furthermore, it may take over the role of 'privatisation agencies' existing in other countries and help to monitor the eventual disposal of state assets in a more transparent, fair and open way.

Turning a new page in banking supervision in China

On 29 April 2003, the China Banking Regulatory Commission (CBRC) has taken over the task of supervising banks and other deposit-taking financial institutions from the People's Bank of China (PBOC), China's central bank. The establishment of an independent banking supervisory authority is bringing China a step closer to international 'best practice'. This is expected to strengthen the supervision of the banking sector and to make the PBOC more independent in conducting monetary policy. The major tasks of the new commission are: to formulate supervisory rules and regulations for banking institutions, to authorize the establishment, change, termination, branching and business scope of banking institutions, to conduct proper tests for directors and senior managers, and to conduct off-site surveillance and on-site examinations of banking institutions. (More details will be unveiled after the 'Law of the People's Bank of China' is amended, which has so far defined the PBOC as the sole regulator of financial institutions.) A special objective put forth by the new chairman of the CBRC, Liu Mingkang, is to accelerate the reform of China's creaky rural credit co-operatives, the main source of finance in rural areas and thus playing a key role for rural development.

Resisting international pressure for yuan revaluation

The rapidly increasing foreign exchange reserves and rising trade deficits with major trading partners such as the US and Europe have raised calls from various sides for a revaluation of the yuan and/or a more flexible exchange rate regime. The EU's trade deficit with China reached 49 billion and that of the US ballooned to USD 100 billion in the year 2002. The yuan is pegged to the US currency within a narrow band between yuan 8.276 to yuan 8.278 per USD.[13] With the US dollar depreciating against all major currencies since last year, especially against the euro but also against the yen, the Chinese currency has become cheaper as well and thus Chinese exports have become more competitive. Between January 2001 and end of June 2003, the yuan depreciated by 22% in terms of euro and 9% in terms of yen. One option would be to peg the yuan to a basket of currencies instead of the dollar alone. Under the assumption that the yuan was pegged to a currency basket giving a weight of 60% to the USD and weights of 20% to each, the euro and the yen, which is roughly in line with the shares of Europe and Japan in Chinese trade, the yuan would have *appreciated* in terms of USD by around 8%, and depreciated in terms of euro by 16% and in terms of yen by 2% between January 2002 and June 2003. Another possibility would be to widen the band in which the yuan is allowed to fluctuate or even to let it float freely.

It seems, however, that the Chinese government will stay firm at least until the end of this year, when the full effect of the SARS epidemic will have materialised. And there are indeed, some good reasons from the Chinese side, to stick to the dollar peg: The export industry, focusing on labour intensive products, is a very important employer, high profits of the industry support investment and help to keep the bad loan problem in check. The trade surplus supports growth and a cheap currency is also conducive to FDI, in particular export-oriented investment. (Currently, about half of Chinese exports come from enterprises with foreign ownership[14].) Revaluation of the yuan in terms of USD would also imply declining competitiveness relative to other Asian countries pegging their currencies to the USD, e.g. Malaysia. Also, higher pressure from imports is expected for the future with safe-guard clauses expiring and further reductions of tariffs and quotas ahead, as stipulated in China's Accession Treaty to the WTO, plus a fast increasing oil bill[15]. Another argument brought forward by the Chinese authorities is that the value of the dollar might soon go up again with the economic recovery in the United States gaining momentum and that the Chinese economy is not sufficiently prepared for fluctuating exchange rates yet; furthermore, a stable yuan was beneficial for the region as well. But in the longer term, the Chinese will have to prepare for an adjustment of their currency taking account of their major trading partners and of the rise in productivity. Otherwise pressure from their trading partners using anti-dumping suits and other instruments available under the framework of WTO, such as the introduction of tariffs and quotas in case of severe market distortions through imports, will further increase[16] and political relations might deteriorate as a consequence as well. In the meantime, faster opening-up of the Chinese market, including the financial market and encouraging Chinese expenditures abroad by loosening exchange controls may help to alleviate the pressure from the international community.[17]

Prospects for the whole year 2003 and 2004

Growth of the Chinese economy is likely to remain high in the second half of the year and the momentum will carry on into 2004 as long as no rebound of the SARS epidemic occurs in the region.[18]

Investment will remain the driving force of the economy for the rest of the year, although expanding at a slower pace than in the first six months, as selective policy measures to cool down certain sectors of the economy will become effective. Foreign direct investment is expected to stay strong but will probably expand at a slower pace than in the first half of the year. Private consumption will rebound from the dent in the second quarter but may not fully recover because of the longer-term negative income-effect of SARS. Chinese exports should take advantage of the global economy showing signs of recovery on the one hand but may suffer from deferred negative impacts of SARS on the other, as less orders placed in spring will show up in trade three to six months later. However, import growth is expected to further outpace export growth because of continuously high demand for inputs and supported by an increasingly encouraging government attitude towards imports in the face of ample currency reserves and political pressure from trading partners facing high trade-deficits with China. We thus expect the trade surplus to be much smaller than last year, probably reaching USD 12 billion only. Also, despite the recent rebound of international tourism, altogether less foreign tourists will come to China this year, but an increasing number of Chinese tourists is travelling abroad and thus the surplus of the Chinese balance of services will be smaller than in previous years. We therefore may expect a considerably lower current account surplus of about USD 15 billion for the year 2003.

Under the assumption, that slower growth of investment in the second half of the year is not fully compensated by faster growth of private consumption and that there will be a moderate trade surplus supporting the domestic economy only, we expect GDP to expand at a rate of 8.1% over the whole year 2003. However, if the investment boom continues, an even higher rate of growth may result.

In 2004, the development of the Chinese economy should be more balanced and will be supported by a more vigorous growth of the global economy[19]. Thus GDP may rise at a slightly higher rate than this year, probably at 8.3%.

Notes

1 At a given day in early May, some 20 000 people in the capital were in quarantine (China Daily 14-15 June 2003).

2 The number of weekly reported SARS cases dropped to 65 in the last week of May, from 666 in the first week of the month.

3 The WHO travel-ban for Guangdong was lifted in May already (Neue Zürcher Zeitung, 27 May 2003)

4 For example, at the important 'Chinese Export Commodity Fair' taking place in Guangdong in April each year, this year's deals were worth USD 3.31 billion only, compared to USD 9.33 billion last year (China Daily, 23 April 2003).

5 In addition, SARS had a negative impact on many farmers' profits from sales of agricultural products due to distribution problems and less demand (China Daily, 18 July 2003).

6 Even the official unemployment rate comprising registered urban unemployment only, was reported 0.2 percentage points higher at the end of June this year compared to the rate at the end of 2002 (China Daily, 30 July 2003). The actual unemployment rate is generally considered much higher, most probably reaching more than 10 %.

7 In May, fresh vegetable prices were rising 18.3%, but clothing prices fell 2.4% compared to the same period last year. According to official sources, 80% of the 600 most important consumer goods are still in surplus.

8 Official foreign exchange reserves have increased by USD 74.2 billion last year already, due to a high current account surplus of USD 35.4 billion (because of the big trade surplus of USD 30.3 billion mainly) and a capital account surplus of USD 36.5 billion, including USD 46.8 billion net inflow of FDI and a USD 10.3 billion deficit in securities investment as well as a positive 'error term', indicating unregistered capital inflows. Notably, in the past, the term 'errors and omissions' in the Chinese balance of payments was typically negative, indicating unregistered capital outflows rather (1999: - USD 14 billion, 2000: - USD 12 billion).

9 In the first half of the year, electricity consumption has increased by 15.4% compared to the same period last year (China Daily, 18 July 2003).

10 However, with high barriers to entry and complicated institutional arrangements, financial experts predict that the QFII scheme will at best attract USD 10 billion over the next two years (China Daily, 11 July 2003). Notably, in addition to obtain a QFII licence from the CSRC, foreign financial investors have to apply for a 'foreign exchange investment quota' at the State Administration of Foreign Exchange' and have to use approved 'custodian banks' for making transactions. The first 'custodians' approved by the CSRC in March include the Shanghai branches of Citibank, Standard Chartered and HBSC (China Daily, 15 March 2003):

11 Jiang Zemin (76), Zhu Rongji (74) and Li Peng (74) are the core of the '3rd generation leadership', while Hu Jintao (59), Wen Jiabao (59) and Wu Banguo (60) are representatives of the '4th generation'.

12 This is also reflected in the fact that Jiang Zemin retained his position as chairman of the powerful ' Military Commission' and that Zeng Qinghong, confidant of Jiang Zemin, was appointed President Hu Jintao's deputy.

13 China has a controlled floating exchange rate since 1994. From 1 January 1994 to 30 June of this year, the yuan appreciated about 5% in terms of USD, but this appreciation occurred mostly between January 1994 and May 1995. At that time, the band of movement for the exchange rate was narrowed. The band further narrowed to less than 0.05 per cent in 1998, when the Chinese government wanted to hold the yuan stable in the face of the Asian financial crisis.

14 A part of the rising trade deficits of the EU and the US with China is actually a consequence of European and American enterprises shifting production to China and serving the home market from abroad and/or relocating production from other (Asian) countries to China.

15 Last year China, the world's second biggest oil consumer after the United States, imported about 70 million tons of crude oil. In the first half of this year, crude oil imports reached 43.8 million tons, up 32.8% from the same period last year.

16 Already now, the EU has initiated 50 dumping cases against China, more than against any other country in the world. And it has started to set down special provisions similar to 'Section 201' in the US law, which may be used to fight rapid increases of imports from China in case that they threaten to impede the 'orderly development' in certain industries, e.g. textiles. Recently 'preserved mandarins' from China became the target, after imports in this category have increased by 174 % during the last 4 years and were accused of threatening the existence of the tinned fruit industry in Murcia and Valencia in Spain (Handelsblatt, 4 August 2003). Also, health standards and food safety regulations have been applied extensively to fend off Chinese imports and certain products from China have been excluded from reduced tariffs under the Generalised System of Preferences (GSP) by the EU recently. In the USA, the American Textile Manufacturers Institute has filed a petition with the US Government recently, which could result in additional quotas on certain textile products.

17 Recently, the Foreign Exchange Control Bureau has introduced new rules which are supposed to make it easier for domestic firms to expand their activities abroad. (China Economic Review, August 2003, p. 11). Also, the amount of foreign currency that Chinese residents are allowed to purchase from designated banks has been increased and the amount that can be taken across the border without reporting has been raised from 2000 to 5000 yuan.

18 A very thorough analysis of the current situation and future development of the Chinese economy is given in a recent report drafted by a research team from the State Information Centre in China.

19 According to estimates of the World Bank and the IMF, the world GDP will reach 4% next year, 1 percentage point higher than 2003.

Table CN

China: Selected Economic Indicators

	1990	1999	2000	2001	2002	2002 Jan-Mar	2002 Jan-Jun	2003 [1] Jan-Mar	2003 [1] Jan-Jun	2003 forecast
Population, mn pers., end of period	1143.3	1259.1	1265.8 [2]	1277.3	1288.0	. .				
Gross domestic product, CNY bn, nom.	1854.8	8191.1	8940.4	9593.3	10239.8	2102.0	4553.6	2356.2	5005.3	.
annual change in % (real)	3.8	7.1	8.0	7.3	8.0	7.6	7.8	9.9	8.2	8.1
GDP/capita (USD at exchange rate)	339.1	785.7	853.0	907.1	960.5	.	.	.	.	.
GDP/capita (USD at PPP - WIIW)	1307.8	3696.4	4059.1	4444.3	4818.3	.	.	.	.	.
Industrial value added										
annual change in % (real)	3.2	8.8	9.9	8.9	9.9	9.3	9.6	12.3	11.6	.
Agricultural value added										
annual change in % (real)	7.3	2.8	2.4	2.5	2.9	.	2.6	3.5	2.7	.
Services value added										
annual change in % (real)	2.3	6.9	7.8	7.0	7.3	.	6.6	7.6	4.2	.
Goods transport, bn t-km	2620.7	4049.6	4445.2	4535.8	4787.2	1102.1	2319.7	1235.7	2523.6	.
Total investment in fixed assets, CNY bn [3]	451.7	2985.5	3291.8	3689.8	4320.2	467.2	1446	615.8	1934.0	.
annual change in % (nominal)	2.4	5.1	10.3	12.1	16.1	19.6	21.5	27.8	31.1	27
Construction output, CNY bn	194.8	1515.1	1678.1	.	.	.	.	.	.	.
annual change in % (nominal)	-10.2	10.3	10.8	.	.	.	.	.	.	.
Employment total, mn pers., end of period	567.4	705.9	711.5	.	.	.	.	.	.	.
annual change in %	2.6	0.9	1.0	.	.	.		.	.	.
Unemployed (urban) reg., th, end of period	3832	5750	5950.0	.	.	.	.	.	.	.
Unemployment rate (urban) in %, end of per. [4]	2.5	3.1	3.1	3.6	4.0	4.0	4	4.1	4.2	.
Average gross annual wages, CNY [5]	2140	8346	9371	10870	12466	11158	11103	12701	12558	.
annual change in % (real) [6]	9.2	13.1	11.1	15.3	15.5	18.5	17.5	13.3	12.5	.
Retail trade turnover, CNY bn	725.0	3113.4	3415.3	3759.5	4191.1	1017.0	1944.84	1110.9	2155.6	.
annual change in % (real)	0.4	10.1	11.1	10.9	10.6	10.0	10.2	9.4	8.4	9.2
Retail prices, % p.a.	2.1	-3.0	-1.5	-0.8	-1.8	-1.6	-1.6	-0.2	-0.4	.
Consumer prices, % p.a.	3.1	-1.4	0.4	0.7	-0.8	-0.6	-0.8	0.5	0.6	1.0
General government budget, CNY bn										
Revenues	293.7	1144.4	1339.5	1637.1	1891.4	.	.	.	.	.
Expenditures	308.4	1318.8	1588.6	1884.4	2206.3	.	.	.	.	.
Deficit (-) / surplus (+)	-14.6	-174.4	-249.1	-247.3	-314.9	.	.	.	.	.
Money supply, CNY bn, end of period										
M0, Currency outside banks	264.1	1345.6	1465.3	1568.9	1727.8	1554.5	1509.74	1710.7	1695.7	.
M2, Money + quasi money	1468.2	11989.8	13461.0	15830.2	18500.7	16406.5	16960.12	19448.7	20490.7	.
Refinancing rate of NB % p.a., end of period [7]	7.9	3.2	3.2	3.2		2.7	2.7	.	.	.
Current account, USD bn	12.0	15.7	20.5	17.4	35.4	.	13.6	.	.	15.0
Official forex reserves excl. gold, USD bn	11.1	154.7	165.6	212.2	286.4	227.6	242.8	316.0	346.48	.
Gross debt, USD bn	52.5	151.8	145.7	170.1	168.5	.		.	.	.
Foreign direct investment, USD bn	3.5	40.3	40.7	46.9	52.7	10.1	24.6	13.5	30.3	.
Exports total, USD bn	62.1	194.9	249.2	266.2	325.6	64.7	142.1	86.3	190.3	.
annual change in %	18.2	6.1	27.8	6.8	22.3	9.9	14.2	33.5	34.0	.
Imports total, USD bn	53.4	165.8	225.1	243.6	295.2	57.4	128.5	87.3	185.8	.
annual change in %	-9.8	18.2	35.8	8.2	21.2	5.2	10.3	52.4	44.5	.
Trade balance, USD bn	8.7	29.1	24.1	22.5	30.3	7.3	13.6	-1.0	4.5	12.0
Average exchange rate CNY/USD	4.78	8.2783	8.2784	8.2770	8.2769	8.2768	8.2769	8.2771	8.2770	8.2770
PPP (CNY/USD), WIIW [8]	1.24	1.76	1.74	1.69	1.69					

Notes: CNY: ISO-Code for the Chinese yuan. - 1) Preliminary. - 2) Census results from 1st Nov. 2000. - 3) 1990 excl. projects with a value of 20,000-50,000 yuan which are not listed in the state plan. Quarterly data excl. investments by rural collectives and urban and rural individuals. - 4) Ratio of registered urban unemployed in per cent of urban employed and unemployed. - 5) Average gross annual wages of staff and workers, defined as: total wages of staff and workers per average number of staff and workers (quarterly data: staff and workers end of period). 'Staff and workers': urban employed in state-owned enterprises, urban collectives and cooperatives, joint ownership units, limited liability corporations, share holding corporations and foreign funded enterprises. Since 1998: "staff on duty" only. - 6) Staff and workers cost of living index is used as deflator for calculating real wage (quarterly data: consumer price index). - 7) Overnight rate. - 8) Purchasing power parity, ICP-method; see Ren Ruoen, *The Vienna Institute Monthly Report* 1996/2.

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