

CHINA: RECENT TRENDS AND OUTLOOK – PART I

Introduction

Although China's economic take-off officially began in 1992, the world did not actually grasp the new reality of the world's most populous country until 2003. That's the year China emerged as a driver of global growth, became the world's biggest recipient of foreign investment and distinguished itself as a space power, demonstrating its scientific and technological prowess.

Among countries in the world, China now ranks seventh in GDP and second in Asia after Japan. Its economy expanded 9.1% in 2003, 8.0% in 2002 and 7.1% in 2001. This growth pace has catapulted China way ahead of the other economic powerhouses, i.e., the U.S., Japan, and especially the European Union.

Much of this growth has been and continues to be driven by the country's political authorities, whose decisions are nothing short of "revolutionary" given communism's centralist policies. In 2001, President Jiang Zemin decided to allow private entrepreneurs to join the Communist Party in the name of the "three represents," i.e., "China's productive forces, its culture and its people." Two commissions were created in March 2003 to restructure state-owned banks and enterprises, and finally, the constitution was amended in 2004 to recognize "the inviolability of private property."

The rest of the world views China with some ambivalence: While its gargantuan market of nearly 1.3 billion people offers many diverse opportunities for exporters and foreign investors, the country delivers stiff competition for manufactured products and is a threat to Western jobs due to its low production costs. This bulletin and the ones that follow are intended to inform readers about the economic and commercial realities of this country, as well as the risks, threats and business opportunities it offers our companies.

THE STRENGTH OF THE CHINESE ECONOMY

Key results and recent trends

China and its economy are in transition. The planned state economy is gradually being replaced by a market economy. It is shifting from a rural agricultural industry to urban industrialization. Lastly, its autarkic character is giving way to openness to the world's goods and capital markets.

However, despite these advances, the structure of the Chinese economy still resembles that of an emerging country, with its GDP broken down as follows:

- Primary sector (agriculture and extraction): 15%
- Secondary sector (manufacturing): 53%
- Tertiary sector (administration and services): 32%

China's GDP reached US\$1,409 billion in 2003, ranking seventh in the world, just after Italy. The country is expected to move to sixth place in 2004 and surpass France and the UK within two to three years.

China has a surplus trade balance, with exports reaching US\$438 billion in 2003 (an increase of 40% over 2002) and imports amounting to US\$413 billion (up 30% from 2002).

China buys most of its goods from Asia. Japan, Taiwan and South Korea were the country's three main suppliers in 2003, accounting for more than 40% of all goods shipped to the country. The U.S. represented only 8.17% of imports, followed by Germany at 5.88%. With US\$4.37 billion in sales to China, Canada's share was a mere 1.1%.

Faced with the prospect of an overheating economy, the Chinese central government is being more proactive than one would expect from a political regime that has been in power for more than 50 years. This risk was mainly identified in the property, automobile, steel and aluminum sectors, where productive investment, the main driver of Chinese growth, has reached a level that will result in overcapacity within a year or two.

China: a “factory of the world”

Some observers call China the “factory of the world,” which is perhaps apropos given that almost every stuffed animal, alarm clock and air conditioner is made in China.

Seven percent of the world’s manufactured goods come from China, a figure that is expected to jump to 25% within 20 years. (Europe’s current share is 27%, North America’s 30% and Japan’s 16%). Economists predict that at its current rate of expansion, China will soon surpass both Germany and Japan.

In this regard, the textile sector is a spectacular example. Today, China is the “biggest sewing plant in the world,” producing nearly 30% of all apparel sold in the world, a huge leap from the 19% recorded in 1995. According to WTO experts, China should see its textile market share triple in the U.S. (to 50%) and more than double in Europe (to 29%). Like many other manufacturing sectors, China’s textile industry has other weapons, which its rivals constantly rail against:

- Chinese workers earn 20 times less than Canadian workers.
- The Chinese currency (RMB), whose exchange rate is pegged to the U.S. dollar, is greatly undervalued.
- China’s forgery laws are extremely well formulated but largely unenforced.
- Finally, China is suspected of backing local enterprises through its state-controlled banks.

Another example is the consumer electronics sector, where China has been immensely successful since its foray five years ago in response to consumer demand by the “only child” generation, which insists on having all the creature comforts, including cutting-edge computers.

China is expected to control one-third of the world’s production by 2007. The computer giant Dell has just abandoned this niche to Chinese manufacturers, whose production costs are unbeatable, while in 2003, the Chinese company TCL teamed up with the French company Thomson, a major player in the European audio-video market.

China's power in figures

2003 data, unless otherwise indicated.

DATA	VALUE / PERCENTAGE	RANK
Population	1.28 billion	No. 1 in the world
Area	9.60 million km ²	No. 4 in the world
Gross Domestic Product (GDP)	US\$1,409 billion	No. 7 in the world
Per capita GDP	US\$1,090	No. 100 in the world
Colour TV production	52 million units (2002)	No. 1 in the world
Toy production	70% of the world's output	No. 1 in the world
White goods production	30% of the world's output	No. 1 in the world
Shoe production	50% of the world's output	No. 1 in the world
Port traffic	44 million TEU (2001)	No. 1 in the world