

CHINA: RECENT TRENDS AND OUTLOOK – PART II

Strong domestic demand

A recent phenomenon has been stimulating the Chinese economy: skyrocketing domestic demand. Private consumption increased 6.6% in 2002 and 2003, and is expected to rise slightly more than 8% in 2005.

A good illustration in this regard is the automobile industry, which began to emerge around the year 2000. In three years, production jumped from 1.5 to 5 million vehicles (more than Germany), while domestic sales surged 80% in 2003 alone.

Mobile telephony is just one example of a consumer goods sector in which China is the largest market in the world. As a result of this status, it is in a position to dictate global industry standards.

Research and development

According to an OECD study, China ranks third in the world in terms of R&D spending, behind the U.S. and Japan.

Already recognized for its excellence in physics, chemistry and mathematics, China has in recent years made spectacular inroads in biotechnology. Each year, the universities of Shanghai, Peking, Nanking and Shenzhen turn out some 400,000 quality engineers and scientists whose rates are the lowest in the developed world.

Foreign investment

China is today the second largest recipient of foreign direct investment, just behind the U.S. FDI inflows were US\$80 billion in 2003.

Growth outlook

In April 2004, the Chinese authorities implemented a “macroeconomic control policy” to prevent the economy from overheating. Although the most recent statistics confirm a slowdown, it is very slight despite tightening bank credit.

GDP growth for 2004 is expected to be slightly more than 2003 (over 9%), fuelled by ongoing strong foreign investment and trade. Household consumer appetite continues unabated in urban areas and is expanding to the countryside.

The real slowdown is expected in 2005, provided real estate speculation is reined in and healthy companies are given access to the capital they need to grow. At

8%, the GDP growth projected for 2005 remains quite high by North American and European standards.

The outlook for 2005 could also change if oil prices surge, which would adversely affect the global economy, including dampening demand for Chinese exports and increasing Chinese production costs.

KEY AREAS OF DEVELOPMENT

Although China is an immense country, its spectacular development has been concentrated in just a few regions. The three most dynamic markets are located in the eastern part of the country, on or near the coast. In the interior, the government seems to be focusing only on one region at this time.

Historically, the Chinese economy has developed around the cities of **Canton and Shenzhen and in the southern part of the country**. In recent years, foreign investments and foreign companies have followed the leading sectors of the local economy, namely, electronics and energy. Nuclear energy has experienced particularly strong growth in this area.

Since the early nineties, the most spectacular growth has been observed in **Shanghai and East China** (around the Yangtze River estuary), which have benefited from substantial foreign investment in communications, automobile production (vehicles and parts) and consumer goods.

The food industry has also thrived thanks to soaring local purchasing power. In fact, in the last decade, personal income has grown the fastest in Shanghai.

North China, and particularly Peking, the former seat of the central government, has also enjoyed strong economic growth in the last few years.

Although Peking houses mainly sales and head offices, numerous industrial (aerospace, chemistry, pharmaceutical) and commercial (general and specialty big-box stores) projects are under way, and the hotel industry is thriving. In 2009, Peking will host the Summer Olympics, and many construction projects are related to this event.

Further in the interior, **Chengdu** is the political window of the Great West, thanks to a voluntary government policy ("Go West") implemented five years ago. Like other coastal cities, Chengdu is a mushrooming urban centre with its attendant traffic snarls.

A bridgehead to the West, Chengdu is also a new market and as such is the least competitive one in China today. Foreigners, especially Europeans, have already set up cement factories, hotels, aeronautic outsourcing plants, superstores and insurance companies. The city has also managed to attract a number of electronics leaders such as Motorola, Alcatel, Siemens, Ericsson and Intel.

Finally, the **Chinese interior** is struggling to follow suit, with Xinjiang and Tibet trailing far behind.

- 30 -