

CHINA'S ECONOMY 2002.

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Rarely in the 23 years since China launched its modern era of "reform and opening" has the gulf between the country's impressive headline growth and its largely hidden structural problems been so wide.

For this reason, it is important neither to get carried away with the apparent stellar nature of China's performance, nor to become depressed by the huge problems that the country still faces. A balanced approach is required.

Certainly, the numbers this year appear encouraging. Gross domestic product rose 7.6 per cent in the first quarter of the year, after a 7.3 per cent expansion in the whole of 2001.

Foreign direct investment from January to April soared 29 per cent on the year to \$14.136bn as foreign investors geared up for Beijing to open its markets wider. China joined the World Trade Organisation in December. Official estimates have put actual FDI at \$50bn this year, up from \$46.8bn last year - but the current rate of increase suggest that this figure may be eclipsed.

Industrial output leapt 12.1 per cent in April to Rmb256.9bn (\$31bn, £21bn), the national bureau of statistics said. That compared with a 10.9 per cent increase in the first quarter and a target of 9 per cent for the whole year set by the State Economic and Trade Commission, the key industrial ministry.

Exports surged 17.2 per cent in April from a year earlier, far outpacing the 3.4 per cent in March. The trade surplus for the first four months was \$8.24bn, up 53 per cent on the 2001 period.

But despite all of these positive signs, there remains deep structural problems. Non-performing loans in the "big four" state banks are officially put at around 25 per cent but many independent economists believe the figure is nearer 50 per cent. This gives China the weakest banking system in Asia. In addition, its policy options in shifting the mountain of bad debt are limited.

The rural economy is in near crisis. Real wages have been falling for Chinese farmers over the past few years. Rural Credit Co-operatives, the main vehicle for providing finance to small rural enterprises, are saddled with a huge burden of bad debt and poor management. Deflation in rural areas is widespread and some 150m rural workers are said to be at least seasonally unemployed.

State owned enterprises, which still employ around 50 per cent of the urban workforce, remain in bad shape. Unemployment in the cities is rising, leading to outbreaks of unrest and rising crime rates. Intellectual property rights violations are rife.