



Report on China's Public Finance

(English Version)

Editorial Committee of Report on China's Public Finance 2009
Center for Public Policy Studies of SUFE

Shanghai University of Finance & Economics Press

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Editorial Committee of Report on China's Public Finance 2009

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Preface

Since 1999, the Center for Public Policy Studies of Shanghai University of Finance and Economics has presented to readers a "Report on China's Public Finance" annually. This year we bring you this condensed version in English. Although substantially reduced in size compared to the Chinese version, this English version still inherits the consistent style of "Report on China's Public Finance", paying close attention to changes of fiscal policies in different times and their effects and reflecting hot issues in current economic society in time. Due to the outbreak of the global financial crisis in 2008, we focus on "fiscal policies to boost domestic demand under the impacts of the global financial crisis" as the theme of "Report on China's Public Finance 2009", from which this English version is adapted. Limited in length, as compared with the Chinese version, the English version has omitted a lot of contents but retained the most featured parts in "Report on China's Public Finance" to mainly include five chapters as below: 1) an overview of China's national economic performance in 2008; 2) China's fiscal revenue and expenditures in 2008; 3) performance of treasury bonds in 2008; 4) analysis of major policies on fiscal revenue in 2008; and 5) analysis of major fiscal expenditure policies in 2008. This arrangement represents the basic structure of Section One of the annual Report on China's Public Finance and

includes information reflecting the overall performance of China's public finance. In addition, due to the shift from prudent fiscal policies to proactive ones in the second half of 2008, Chapter 11 "An Empirical Analysis of Domestic Demand Driven up by Government Investment in China's Proactive Fiscal Policies Since 1998" of the Chinese version is also included in the English version as an attachment to make comparisons with the proactive fiscal policies that China implemented in the past.

"Report on China's Public Finance" in English is a crystallization of the collective wisdom of the Center for Public Policy Studies of Shanghai University of Finance and Economics. Major contributors to the current English version are Song Jianmin and Sun Yue (Chapter 1), Zhao Yongbing (Chapter 2, 4 and 5), Gong Yangshu (Chapter 3) and Zhu Ping (the Attachment), mainly writers of relative chapters in Chinese. Adapted by Song Jianmin, it was finally translated into English by Wei Nanhai, Shen Jun, Kong Yan and Yang Haiyan.

It is the first time for us to release an English version of "Report on China's Public Finance", a brand product of the Center for Public Policy Studies of Shanghai University of Finance and Economics. The purpose is to help friends at home and abroad interested in China's economic development understand China's fiscal performance and the overview of China's current fiscal policies from our perspective. It is certainly a hard task. But we are willing to strive for it. We also encourage and look forward to criticism and feedback on its defects from all men of insight in order to further improve it.

《2009 中国财政发展报告》编委会

Editorial Committee of Report on China's

Public Finance 2009

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1 An Overview of China's National Economic Performance in 2008

Due to complex domestic and international situations in 2008, China experienced severe challenges and tests in its economic and social development. Domestically, snow disaster in the South and catastrophic earthquake in Wenchuan, Sichuan Province caused people to suffer heavy losses of lives and properties with adverse impact on China's economy. Globally, affected by the spreading financial turbulence triggered by the U. S. subprime mortgage crisis, turmoil in the international financial market and slowdown of the global economy contributed to significant increase of uncertainty and instability in the international economic environment, its impact on China's economy becoming more and more apparent. However, China still successfully hosted the Olympic Games and the Paralympic Games in 2008, and the overall national economy realized the good developing momentum of faster growth,

stabilized prices, optimized structures and improved welfare. ①The macro-economy has taken on the following features.

1.1 As the Economy Entered a Period of Adjustment, the Trend of Industrial Restructuring has Taken in Shape While the Overall Arrangement for Steady and Rapid Development has Remained Unchanged

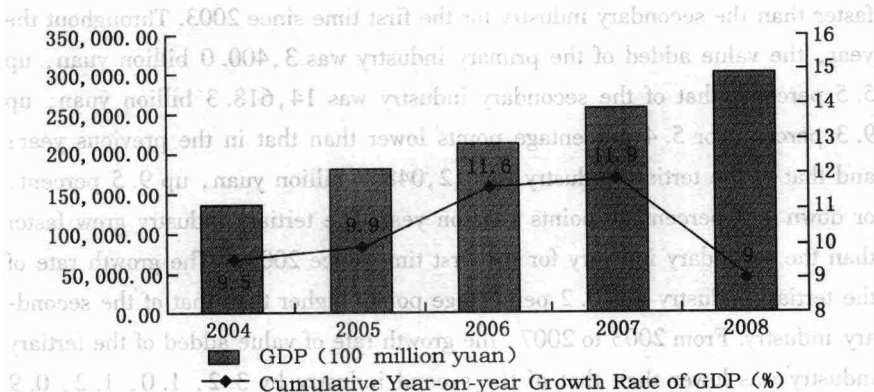
After years of double-digit growth consecutively, China's economy was slowed down in growth as affected by internal and external factors in 2008. Throughout the year, the economy remained hot in the first half, but was suddenly declined in the second half with a severe slip in the fourth quarter.

According to the National Bureau of Statistics (NBS), the gross domestic product (GDP) for the year was 30.067 trillion yuan in 2008, breaking through 30 trillion yuan for the first time and up 9 percent over the previous year (as shown in Figure 1-1). In terms of growth by quarters, it was up 10.6 percent for the first quarter, 10.1 percent for the second, 9.0 percent for the third and 6.8 percent for the fourth. As can be seen in Figure 1-2, the growth rate of China's GDP in the fourth quarter was respectively 2.2, 3.3 and 3.8 percentage points lower than that in the third, the second and the first quarters.

Despite a downturn in its growth rate, China's economy was "blooming" in 2008 when compared with the global economy at an average growth rate of 3.9 percent, ②especially developed countries at negative growth rates, say, the United States and Japan. In 2008 China's economy has achieved a growth

① Ma Jiantang, *National Economy: Steady and Fast Growth in 2008*, delivered at a press conference by the State Council, <http://finance.people.com.cn/GB/8712288.html>, Beijing, January 22, 2009.

② Data provided by the International Monetary Fund in World Economic Outlook.



Source: Processed based on data from websites of the National Bureau of Statistics and the Development Research Center of the State Council of the People's Republic of China, namely, <http://www.stats.gov.cn/> and <http://www.drcnet.com.cn>. Unless otherwise specified, data in the following are taken from the two websites.

Figure 1-1 GDP (100 million yuan) and Year-on-year Growth Rate (%), 2004-2008

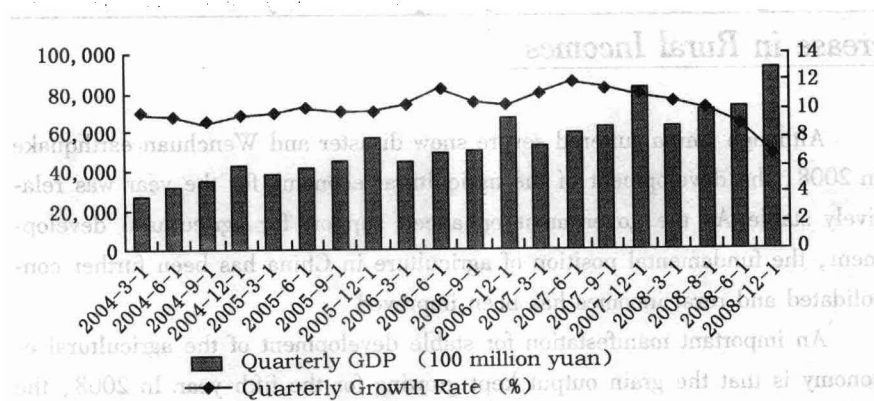


Figure 1-2 Quarterly GDP (100 million yuan) and Year-on-year Growth Rate (%), 2004-2008

rate of 9 percent, based on the large economic scale where GDP growth rate was more than 10 percent for five consecutive years. According to preliminary estimation, China's economy contributed over 20 percent to the world economic growth in 2008. In terms of growth by sectors, the tertiary industry grew

faster than the secondary industry for the first time since 2003. Throughout the year, the value added of the primary industry was 3,400.0 billion yuan, up 5.5 percent; that of the secondary industry was 14,618.3 billion yuan, up 9.3 percent, or 5.4 percentage points lower than that in the previous year; and that of the tertiary industry was 12,048.7 billion yuan, up 9.5 percent, or down 4.3 percentage points year on year. The tertiary industry grew faster than the secondary industry for the first time since 2003.^①The growth rate of the tertiary industry was 0.2 percentage points higher than that of the secondary industry. From 2003 to 2007, the growth rate of value added of the tertiary industry was lower than that of the second industry by 3.2, 1.0, 1.2, 0.9 and 0.9 percentage points respectively. The industrial structure has been improved apparently. It can be seen that decline in the growth rate may not affect adjustment of the growth structure. On the contrary, the economic growth will be more healthy and harmonious if the structure is optimized.

1.2 Agricultural Economy Kept a Steady Growth with Increase in Rural Incomes

Although China suffered severe snow disaster and Wenchuan earthquake in 2008, the development of the agricultural economy for the year was relatively stable. As the government enhanced support for agricultural development, the fundamental position of agriculture in China has been further consolidated and rural incomes has been improved.

An important manifestation for stable development of the agricultural economy is that the grain output kept growing for the fifth year. In 2008, the total output of grain was 528.50 million tons,^② an increase of 26.90 million tons or up 5.4 percent over the previous year. Increase in grain output in 2008

① Xie Hongguang, *Great Progress Made in Severe Challenges—Review of Statistical Communiqués* 2008, http://www.stats.gov.cn/tjfx/grgd/t20090226_402540712.htm.

② National Bureau of Statistics: *Statistical Communiqué of the People's Republic of China on the 2008 National Economic and Social Development*, http://www.stats.gov.cn/tjfx/jdfx/t20090226_402542733.htm.

had 5 characteristics as follows: First, the sown area was increased. The total sown area of grain amounted to about 1.6 billion mu, an increase of more than 10 million mu over the previous year. Of this total, the sown areas of rice, corn and soybean were considerably increased. All the year round, 1.179 million hectares of farmland were increased with effective irrigation systems and another additional 1.39 million hectares of farmland were guaranteed by water-saving irrigation systems. Second, a new record was made in terms of per unit yield. The per unit yield of grain exceeded 320 kilograms for the first time. Compared with the previous year, the average yield of rice, wheat, corn, and soybean per mu was raised variably. Third, grain output increased quarter by quarter. Fourth, grain output increased in most of the provinces. Fifth, grain quality was further improved. About 65 percent of the four categories of grain were of high quality, up 4 percent over the previous year. ①

In addition to grain production, other aspects of agricultural production also kept a stable growth in 2008.

In the year, the output of cotton was 7.50 million tons, a decrease of 1.6 percent over the previous year; that of oil-bearing crops was 29.50 million tons, up 14.8 percent; that of sugar crops was 130 million tons, a growth of 6.7 percent; that of tobacco was 2.60 million tons, an increase of 19.6 percent; that of tea was 1.24 million tons, a growth of 6.4 percent; and that of timber was 78.94 million cubic meters, a growth of 13.2 percent. Stimulated by the market prices, farmers were apparently enthusiastic to engage in the livestock-raising sector. As a result, the total output of meat for the year reached 72.69 million tons, up 5.9 percent; that of poultries and eggs was 26.38 million tons, up 4.3 percent; that of aquatic products amounted to 48.95 million tons, up 3.1 percent.

① Wang Qianhai, *Economic Review 2008: Growing for the Fifth Successive Year, Grain Production Enters a Period of Steady Development*, China Information Gazette, http://www.stats.gov.cn/tjfx/ztfx/2005sbnjjspx/t20090203_402535635.htm.

In 2008, the per-capita net income of rural people was 4,761 yuan,^① and after deducting the price factors, the actual increase was 8.0 percent over the previous year. The proportion of expenditure on food to the consumption expenditure by the rural household accounted for 43.7 percent. According to the poverty standard of RMB1,196 yuan designated for rural areas in 2008, the population under the poverty line (including population with low income and population absolutely poverty-stricken) was 40.07 million by the end of 2008, a decrease of 3.13 million from 43.20 million estimated in 2007 based on the then poverty standard of RMB1,067 yuan.

1.3 Value Added of Industrial Production Slowed down with a Drop of Profits Made by Enterprises, but the Internal Structure was Optimized and the Situation was Improved at the End of the Year

(1) As affected by reduced demands in the global market caused by the international financial crisis, China's export weakened by the appreciation of the RMB and insufficient domestic demand, the value added of industrial production apparently dropped. According to the "Statistical Communiqué of the People's Republic of China in the 2008 National Economic and Social Development" (hereinafter referred to as "Statistical Communiqué") by the National Bureau of Statistics of China, in the year of 2008 the total value added of the industrial sector above the designated size (including all state-owned industrial enterprises and non-state-owned industrial enterprises with annual product sales more than 5 million yuan, the same below) was 12,911.2 billion yuan, up 12.9 percent over the previous year, while the growth rate was 5.6 percentage points lower than that in 2007. The year-on-year growth rate in the first quarter, the first half of the year, the third quarter and the entire

^① National Bureau of Statistics: Statistical Communiqué of the People's Republic of China on the 2008 National Economic and Social Development, http://www.stats.gov.cn/tjfx/jdtx/t20090226_402542733.htm.

year was up 16.4 percent, 16.3 percent, 15.2 percent and 12.9 percent respectively.

In terms of ownership, the value added of the state-owned and state-holding enterprises grew by 9.1 percent, a year-on-year decline of 4.7 percentage points; that of the collective enterprises went up by 8.1 percent, a year-on-year drop of 3.4 percentage points; that of the share-holding enterprises increased by 15.0 percent, a year-on-year decrease of 5.6 percentage points; that of the enterprises by foreign investors and investors from Hong Kong, Macao and Taiwan soared by 9.9 percent, a year-on-year fall of 7.6 percentage points. In terms of different areas, the growth in eastern, central and western regions went up by 11.6 percent, 15.8 percent and 15.0 percent respectively. Analyzed by light and heavy industries, the growth of the light industry was 12.3 percent, a year-on-year decline of 6.4 percentage points and that of the heavy industry was 13.2 percent, a year-on-year drop of 4.0 percentage points.

(2) In the first half of 2008, prices of international commodities rose rapidly, but declined speedily in the second half, thus causing enterprises that accumulated large amounts of inventory at high prices without sufficient time to digest to suffer loss of profits. In addition, enterprise financing costs and rising labor costs were also forces driving down growth of enterprise profits. In the first eleven months of 2008, the profits made industrial enterprises above the designated size realized a profit of 2,406.6 billion yuan, 4.9 percent higher than that in the same period of last year, but the growth rate was down by 31.8 percentage points year on year. In the first five, eight and eleven months of 2008, the profits made by industrial enterprises above the designated size realized a year-on-year increase of 20.9 percent, 19.4 percent and 4.9 percent respectively.

Grouped by different sectors, due to the strict price control on products of some industries as required by the state macro-control policies, the profits fell sharply for processing of petroleum, coking, processing of nuclear fuel, and the industry of electric power. The growth of profits by processing of petroleum, coking and processing of nuclear fuel was 4.3 percent or a decline of 9.1 percentage points over the previous year; that for production and supply

of electric power and heat power was 8.6 percent, or 5.2 percentage points lower than that in the previous year. Among the 39 industrial divisions, the growth of profits made by many divisions was registered lower than that in the previous year, of which the growth of profits by processing of food from agricultural product, manufacture of electrical machinery and equipment, manufacture of computers and other electronic equipment, manufacture of general machinery and manufacture of transport equipment were down by 1.9, 3.4, 6, 9 and 11 percentage points over the previous year.

Analysis of different types of enterprises showed that the profits by the state-owned and state holding enterprises reached 798.5 billion yuan, down by 14.5 percent over the previous year; that by the enterprises funded by foreign investors or investors from Hong Kong, Macao and Taiwan amounted to 637.4 billion yuan, down by 3.1 percent year on year; that by the shareholding enterprises reached 1,346.7 billion yuan, up by 11.4 percent year on year, or 23.7 percentage points lower than that in the previous year; and that by the private enterprises reached 549.5 billion yuan, up by 36.6 percent year on year, or 14.3 percentage points lower.

(3) Though China's industrial economy declined substantially in the second half of the year, its internal structure was gradually optimized, to be improved by the end of the year.

As indicated by the Statistical Communiqué, the growth of value added for high-tech industry was 4 percentage points higher than that for high energy consuming industry, while its decrease of growth rate was 5.1 percentage points lower than that of for the high energy consuming industry. The growth of the value added for the major six high energy consuming industries were 10.0 percent, 8.9 percentage points lower than that in the previous year, of which, that of the manufacture of non-metallic mineral products was 16.9 percent, smelting and pressing of ferrous metals 8.2 percent, manufacture of raw chemical materials and chemical products 10.0 percent, smelting and pressing of non-ferrous metals 12.3 percent, production and supply of electric power and heat power 8.6 percent and 4.3 percent for processing of petroleum, coking, processing of nuclear fuel. The growth rate of the output of high energy consuming industries fell sharply. The output of rolled steel, crude