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# Report on China's Public Finance

(English Version)

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## Preface

China's Fiscal Development Report is an annual research report launched in 1998 by the Public Policy Research Center of Shanghai University of Finance and Economics. After the Chinese versions had been continuously published for 10 years, the first annual report in English was released in 2009, which was compiled based on parts of the Chinese version. This is the second time that an English version of the report is published.

Since the launch of the China's Fiscal Development Report, the China economy has undergone tremendous changes. In 2010, for the first time, China surpassed Japan as the world's second largest economy in terms of nominal GDP, only next to the United States. It is evident that the China economy has played an important role in the development of global economy in recent years. It is also more and more important to enhance the mutual understanding between China and the rest of the world. In this context, it is our great pleasure and responsibility to release once again an abbreviated English version of the China's Fiscal Development Report.

This English version is the translation of the first chapter of the 2011 China's Fiscal Development Report, Analysis of China's Fiscal and Economic Situation, which collected and analyzed the data on China's macroeconomy, fiscal revenue and expenditure as well as fiscal policy in 2010. The research result indicates that the monthly growth rates of China's economy and fiscal revenue both showed a high-to-low trend line; yet overall this year's growth remained robust, with an average annual growth rate of 10.3% and 21.3% respectively. In terms of fiscal expenditure, in 2010, as priority for public finance was shifted to adjust the pattern of national income distribution, the government strengthened supports to a few key policy areas, including agriculture, rural areas, farmers, education, science and technology, medical and health care, social security, low-income housing, energy saving and emissions reduction as well as fiscal transfer to underdeveloped regions. Therefore, Chi-

na's public finance has been transforming from "development-focused public finance" into "people's livelihood finance". However, there are still many problems in China's economic structure, which needs to be adjusted as soon as possible, and China's financial system has yet to be constantly improved. We believe that this report will provide readers with the opportunity for and means of thinking and understanding these issues of China. All errors are the authors' and translators', and comments from the readers will be greatly appreciated.

Editor

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# 1 China's Macroeconomy in 2010

## 1.1 An overview of China's National Economic Performance in 2010

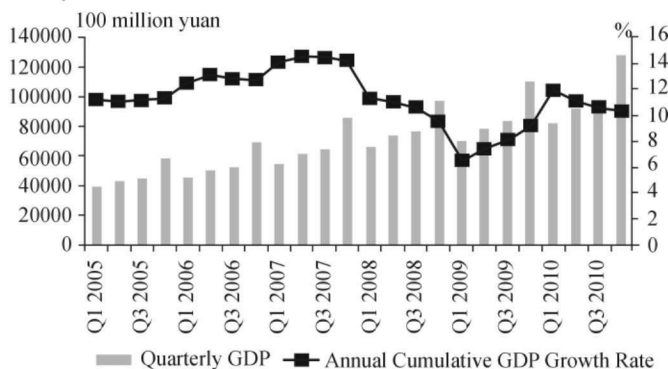
The China economy witnessed complicated operations in 2010. On the one hand, with its strong economic growth, China surpassed Japan as the second largest economy in the world; the inflation, although higher than anticipated, still remained manageable; and the job market observed a positive trend, thanks to economic growth and supportive policies. On the other hand, global economic recovery was not yet on a solid footing, considering that no significant improvement had been achieved in the situation of weak consumption, high level of unemployment and credit tightening in major developed countries; with the implementation of the quantitative easing policy by the United States, the prices of major international commodities went up rapidly, which put external pressures on already rising domestic consumer price index (CPI) and made inflation control at the top of the government's economic agenda. Overall, despite slow global economic recovery and complex domestic and international situations, China's economy in 2010 was basically heading toward the macro control target as China accelerated the transformation of its economic development pattern and the adjustment of its economic structure while continuously implementing the package plan in response to the financial crisis. In 2010, China's economy showed the following characteristics.

### 1.1.1 The Economic Growth Continued, Although at a Slightly Slower Rate

With the gradual implementation of the package plan in response to the global financial crisis and a variety of policies and measures, China's econo-

my maintained steady and fast growth in the year of 2010. According to data issued by the National Bureau of Statistics of China, the gross domestic product of the year 2010 reached 39798.3 billion yuan, up by 10.3%<sup>①</sup>, or 1.1 percentage points greater than that of the previous year.

From a quarterly perspective, the economic growth gradually slowed down ( See Figure 1.1 ) , with a growth rate of 11.9% in the first quarter, 11.1% in the second, 10.6% in the third and 10.3% in the fourth. For one thing, it related to a range of measures on the control of real estate market, energy saving and emission reduction, as well as the regulation of local government financing platform, which has been put into effect since the beginning of the year 2010 to adjust the economic structure; for another, it was also caused by the growth base. The growth of China's economy showed an upward trend in 2009, which had significant impact on the economic trend of 2010 ( See Figure 1.1 ) . On the whole, the year of 2010 observed a trend of economic development with declining growth rates, indicating that China's economy has been heading toward the target of macro-control with accelerated transformation of economic development pattern and adjustment of economic structure.



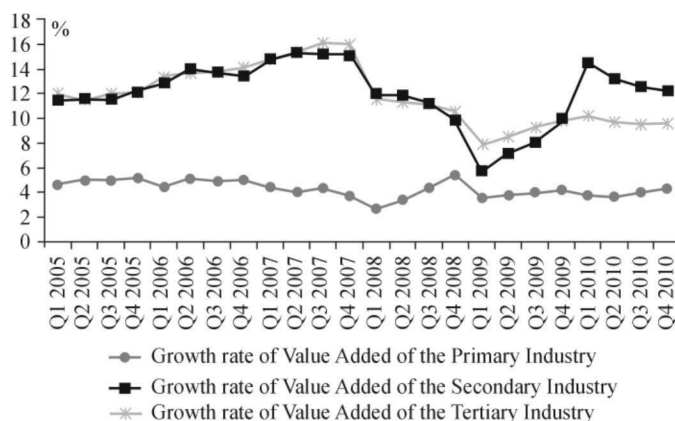
**Figure 1.1 Year-on-year GDP Growth Rates in 2005-2010**

Notes: Quarterly GDP was calculated at current prices and annual cumulative GDP growth rates were calculated at comparable prices.

Data source: Obtained through analyzing data from the statistical database provided by the China Economic Information Network at <http://db.cei.gov.cn/>. Unless otherwise specified, data in this report are all taken from this database.

① It refers to cumulative year-on-year growth rate, calculated at comparable prices.

Of the total GDP achieved in 2010, the value added of the primary industry was 4049.7 billion yuan, up by 4.3% over the previous year, that of the secondary industry was 18648.1 billion yuan, up by 12.2% and the tertiary industry was 17100.5 billion yuan, up by 9.5%. Except for the tertiary industry with a growth rate slightly lower than that of the previous year (9.6%), the growth rates of the primary and secondary industries were higher than those of the previous year (4.2% and 9.9% respectively). Regarding industrial growth trend, the growth rate of the secondary industry showed a clear descending trend quarter by quarter, while that of the primary and the tertiary industries almost remained stable (See Figure 1.2). This suggested that tightening macro-control policies implemented since 2010 did result in greater impact on the secondary industry. Nevertheless, the secondary industry still remained a high growth rate, significantly higher than that of the tertiary industry, indicating that China still has a long way to go for realizing its economic structure transformation.



**Figure 1.2 Cumulative Year-on-year Growth Rates of Value Added of the Primary, Secondary and Tertiary Industries in 2005-2010**

Notes: The year-on-year growth rates of value added of the industries are cumulative growth rates calculated at comparable prices.

### 1.1.2 Agricultural and Rural Economy Kept Stable Development, and Farmers' Incomes Increased Rapidly

As the last year of the 11<sup>th</sup> Five-Year Plan period, 2010 was an extraordinary year. The complex and volatile economic situations both at home and a-

broad, abnormal price fluctuations in the agricultural commodity market, especially more frequent natural disasters, such as severe droughts, cold waves and floods, altogether brought extreme difficulties for the development of agriculture and rural economy. Despite the complex situations and severe challenges, agriculture and rural economy continued steady and fast growth in 2010 as agricultural sector at all levels conscientiously implemented the requirement by the central government on “stabilizing grain production to ensure supply, increasing farmers’ income to benefit their life, deepening reforms to promote overall planning and strengthening basis to increase development impetus” and focused on the goal of “doing everything possible for two maintenances and making all efforts to provide two guarantees” ( that is, do everything possible to maintain a stable grain output of above 500 million tons and a growth of farmers’ income by over 6%; and make all efforts to guarantee no occurrence of regional major animal epidemics and serious incidents concerning quality and safety of agricultural products) set by the Ministry of Agriculture at the beginning of the year. Progress has been made in the following aspects:

(1) Agriculture remained dominant in the primary industry, providing impetus for the development of the entire industry

In the first three quarters of 2010, gross output value of agriculture, forestry, animal husbandry and fishery reached 4.3917 trillion yuan, and cumulative year-on-year growth rate was 4.2%, 0.3 percentage points lower than that of the previous year. The total output value of the agricultural sector was 2.3483 trillion yuan, up by 3.8% than last year, or 0.1 percentage point higher than the growth rate of the previous year, and agriculture still remained the major sector of the primary industry. Especially, annual national grain output hit new historic high of 1092.8 billion tons, an increase of 31.2 billion tons over the previous year, and it was the first time during the last half of this century that grain production had continued to rise for seven consecutive years and exceeded 1000 billion tons for the fourth consecutive year. Growth of grain output in 2010 showed the following characteristics. First, the major grain-yielding area achieved a greater increase in grain production, with an increment of 29.5 billion tons by the 13 major grain-yielding provinces, accounting for 94.6% of national grain output added. Second, the output of agricultural products with a tightening supply in the market increased substan-

tially. The output of corn increased over 20 billion tons and that of non-glutinous rice was raised above 8 billion tons, taken together accounting for over 90% of the total output added. Third, unit output increased substantially and reached 331.5 kg, up by 6.9 kg against the previous year. The growth of unit output contributed to 72% of total output addition. Meanwhile, oil-bearing crops and sugar crops achieved stable development and sharp declining in cotton sowing area was effectively restrained.<sup>①</sup>

#### (2) Vegetable basket products made stable progress

Total annual output of meat, eggs and milk in 2010 reached 78.5 million tons, 27.6 million tons and 37.4 million tons, up by 2.6%, 1.5% and 0.2% respectively over the previous year; that of aquatic products was 53.5 million tons, up by 4.6%; that of vegetables and fruits was 637 million tons and 131 million tons, up by 3.1% and 6.7% respectively. In particular, despite adverse impact of price slump in the first half of the year, production of pigs achieved a stable growth, and the number of slaughtered pigs was 655 million, up by 1.5% against the previous year.

#### (3) Growth rate of animal husbandry further declined

In 2010, annual output value of animal husbandry added up to 2082.6 billion yuan, slightly higher than 1946.8 billion yuan of last year, yet the growth rate declined by 1.0 percentage point year on year. Broken down by quarters, cumulative year-on-year growth rate of output value of animal husbandry started to decline from the first quarter, respectively 5.1% in Quarter 1, 4.5% in Quarter 2 and 4% in Quarter 3.

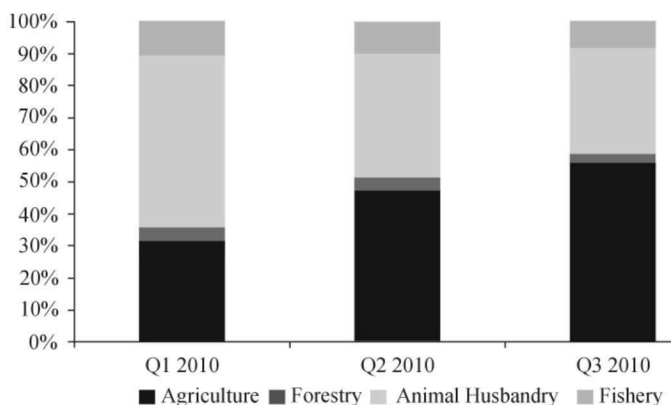
#### (4) Growth of fishery gradually speeded up

National output value of fishery reached 356.64 billion yuan in the first three quarters, up by 5.1% year-on-year, or 0.5 percentage point higher than that in the same period of last year. By the end of the year, national output value of fishery rapidly increased to 642.2 billion yuan. Although low temperature and snow disaster caused tremendous impacts on fishery production, aquatic-product market ran stable, no sign of market shortage and dras-

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① The website of the Ministry of Agriculture "Speech by Han Changfu, Minister of Agriculture, on National Agricultural Work Conference", December 21, 2010, [http://www.moa.gov.cn/govpublic/BGT/201012/t20101230\\_1800586.htm](http://www.moa.gov.cn/govpublic/BGT/201012/t20101230_1800586.htm).

tic price fluctuations. In addition, overall quality and safety of aquatic products had been continuously and steadily improved, ensuring stable and sustainable development of the aquaculture industry. Sampling inspection at place of origin reached a qualification rate of 97.9% in 2010, remaining at a level above 96% for the eighth consecutive year. <sup>①</sup>



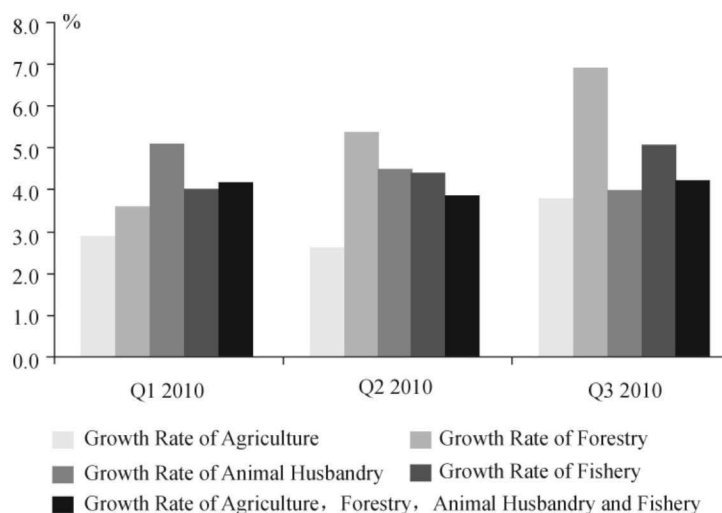
**Figure 1.3 Percentage Distribution of Output Value by Agriculture, Forestry, Animal Husbandry and Fishery in 2010**

#### (5) Farmers' income kept growing rapidly

In 2010, farmers' per capita net income rose up to 5919 yuan, and the per capita disposable income of urban households was 19109.4 yuan. In the first three quarters, the per capita cash income of rural residents reached 4868 yuan, up by 9.7 percentage points in real terms, 2.2 percentage points higher than the income growth rate of urban residents in the same period. Besides great increase in income from major agricultural products including grain, income from transfer payments such as government subsidies went up steadily. With the recovery of China's macroeconomy, the number and salary of migrant workers from rural areas grew up correspondingly. By the end of Quarter 3, the population of migrant farmers was 157.76 million, an increase of 5.78 million over the same period last year, up by 3.8%; the average monthly sal-

<sup>①</sup> General Affair Department of Fishery Bureau of the Ministry of Agriculture "Aquatic Products Quality and Safety Supervision and Management Hit New Level During the Eleventh Five-year Plan period", February 24, 2011, <http://www.cnfm.gov.cn/info/display.asp?sortid=95&id=57339>.

ary was 1659 yuan, up by 14.9% against the same period last year<sup>①</sup>.



**Figure 1.4 Cumulative Growth Rates of Agriculture, Forestry, Animal Husbandry and Fishery in 2010**

### 1.1.3 Industrial Production Recovered With Significantly Improved Efficiency

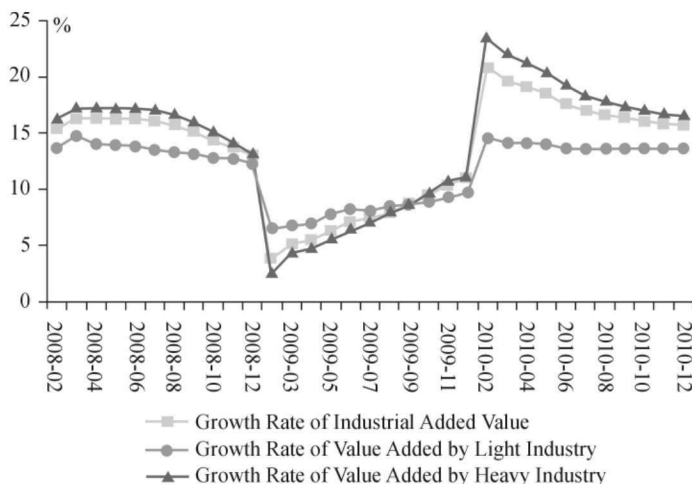
(1) Industrial production rebounded rapidly while monthly growth rate continued to drop

Guided by the package plan, policies and measures of central government, China's industrial production remained a high growth rate through 2010. By the end of the year, China's industrial added value realized a year-on-year growth of 15.7%, 5.7 percentage points higher than that of the same period last year.

Due to adverse effects of weak recovery of global economy and slowdown in domestic economic development, the growth of industrial production gradually declined quarter after quarter, with a growth rate of 19.6% in Quarter 1, 17.6% in Quarter 2, 16.3% in Quarter 3, and 15.7% in Quarter 4 respectively.

<sup>①</sup> Annual Planning Division of Rural Area Economic Department of National Development and Reform Commission, 2011: "Economic Situation in Rural Areas in 2010 and Work Focus in 2011", *China Economic & Trade Herald*, Issue 3, pp. 18-20.

At the year-end, the year-on-year growth of the heavy industry was 16.5%, 5 percentage points higher than that of the same period last year; and 13.6%, for the light industry, 3.9 percentage points higher than that of the previous year. In contrast to the stable growth of the light industry, the heavy industry experienced an obvious decline in the monthly year-on-year growth rate (See Figure 1.5), indicating that macro-control policies, such as energy saving and emission reduction, elimination of backward production capacity, did bring certain impacts on the heavy industry.



**Figure 1.5 Cumulative Growth Rates of Industrial Added Value in 2008-2010**

Notes: The growth rates are cumulative year-on-year growth rates calculated at comparable prices.

Throughout the year, the value added of the state-owned and state-holding enterprises increased by 13.6%, that of the share-holding enterprises went up by 16.8% and that of foreign-funded enterprises grew by 14.5%, respectively higher than that of the same period last year. In particular, the value added of the state-owned and state-holding enterprises and that of foreign-funded enterprises increased at a much higher growth rate, compared with 6.9% and 6.2% respectively of the same period last year. However, the value added of the collective enterprises rose by 9.4%, 0.8 percentage point lower than last year.

Broken down by different products, among the total 503 products, the output of 407 products in November showed a year-on-year growth. Among