

中国人民大学

# 中国经济发展 研究报告 2010

复苏中的中国宏观经济



RENMIN UNIVERSITY OF CHINA

RESEARCH REPORTS ON CHINA ECONOMIC DEVELOPMENT 2010

CHINA'S MACRO ECONOMY IN RECOVERY

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这让我们深感欣慰，也增强了我们继续做好这项工作的责任和信心。正是基  
于这样的责任和信心，加上近一年的努力，我们又编写出版了中国人民大学  
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展研究报告》的依托单位，在组织和写作方面发挥了主要作用。其中，经学



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报告的编写出版工作现已纳入学校的年度工作规划,成为一项常规性工作。

由于报告所涉及的问题大多具有重大、复杂和前沿性的特点,加上写作与出版周期较短及研究水平的局限,尽管我们尽了努力,报告中的不足或易引起争议的地方仍在所难免。欢迎专家和学者批评指正。

中国人民大学发展研究报告编委会

2010年3月1日



## Abstract

### 1. Macroeconomic Control Principle Adjustment in the Mentality of Reform

China's macro economy, on the whole, has stepped from depression into recovery. However, in terms of four phases of the macro recovery cycle which explains the general rule from reaching bottom to full recovery, China's macro is still in the transition period from policy stimulus rebound to market demand rebound, as the foundation for a full recovery is still weak. This stimulus package is in essence an investment-driven plan, but the short-term stimulus policy still falls short to bail China out from the periodical and overall economy recession. In this sense, when we boost domestic demand and transit the growth model, both measures should be preceded with reform; the efficiency of the short-term macro economy stimulus policy is not determined by stimulus scale, but lies in the restructuring of micro transmission mechanism. Therefore, it is very important to adjust the mac-



ro control principle in the mentality of reform.

The adjustments to the macro control principle shall be taken in the following areas: (1) Avoid disorder or confusion of macro governing targets. (2) Maintain stability and protect the circular flow of economy from breaking, rather than simple pursuit of the GDP growth. (3) Be aware that investment-oriented stimulus policy in short term still falls short to bring China totally out of the periodical and overall recession. (4) Strengthen the role of economic stimulus policy in employment guidance. (5) Strengthen the role of economic stimulus policy in consumption guidance. (6) Optimize the mechanism for transmitting macro policies. (7) Give more precise consideration over the intensity and timing of the stimulus policy.

## **2. Aggregate & Structural Effect of Government Input Expansion**

By employing input-output analysis and data, we performed a calculation of policy efficiency to maintain economic growth as government investment is enlarged to cover the impact of export decline. The conclusions of this research show as follows: First, China export decline caused by global financial crisis has great impact on economy. Second, different industries have been affected in different degrees as export-driven economic growth is replaced with investment-fueled rise. Third, multiplier effect has been curbed by a relatively low consumer tendency in terms of economy-driven effect on the whole. Fourth, investment stimulus effect is limited as consumer tendency stays at a relatively low level. Fifth, the investment-led economic growth is subject to the rise of consumption tendency and the enlargement of induced investment. Sixth, China's economic structure has gradually deepening dependence on export during the long-time transition. Seventh, according to input-output tables in series of year 1987—2005, the overall investment-driven effect is decreasing year on year as China's consumer tendency goes down every year.

Due to long time sliding consumption coupled with the growth of export-oriented economy, the whole industry system, even the entire econo-





my, are driven increasingly by export. When there is insufficient export-driven force in the economy, if added with lack of proactive changes in consumption and social investment, it will possibly define some new proactive signs in present economy as temporary response to short-term stimulus and may turn to challenges for sustainable development in the long run. Therefore, the key to economic growth lies in provoking consumption, raising spending tendency and increasing social investment.

### **3. Fiscal Policy Adjustment amid Projection for Economic Pick-up**

The four-trillion stimulus package mainly consists of a proactive fiscal policy which centers on large scale government input and a supporting moderately easy monetary policy. As a result of these policies, China's macro economy showed obvious signs of recovery since the third quarter of 2009. With the main macro economic data of the first nine months of 2009, analysis of China's present economic situation has been carried out. The analysis showed the following results: China has basically achieved the targets of the proactive fiscal policy; the economic environment where fiscal policy is implemented has seen fundamental changes; in the long term, there is still no benign interaction between social investment and public spending, guided by fiscal policy.

In our view, we should promptly make structural adjustments to fiscal spending according to the recovery situation. We need to be on alert of asset bubble and inflation while maintaining the continuity of policy. Meanwhile, as economy further recovers, timely adjustments need to be made in areas including government spending and taxation, gradually transforming the proactive fiscal policy into a steady one.

### **4. Policies on Social Security Spending as Part of the Macroeconomic Stimulus Policy**

Social security not only provides important guarantee for society stabili-



ty, but also serves as an important measure to counteract the effects of the global economic crisis. Judging from present situation, China's social security programs, especially the spending scale, still fall far short to meet the needs to ensure the long-term steady and rapid economic development. China's social security also cannot play due important role in policy choosing in the process of tackling economic predicament. As a result, the priority for China's social security spending in short term is to construct the stabilizer and a safety net for stable economic and social development, which, on the basis of the provision of basic living allowances, coordinates social interest relationships in various ways, balances social distribution, alleviates negative impact of economic downturn, stabilizes domestic consumption, eases the increasingly serious employment pressure, maintains steady and rapid economy development and promotes social harmony and stability. In the long term, we need to base on social insurance, social assistance and social benefits, and focus on systems including basic old-age insurance, basic medical care, and minimum cost of living allowances. Supplements will cover charity programs and commercial insurance. With measures above, we can accelerate improvement of social security, promote economic restructuring and maintain good and rapid development of national economy.

## **5. Impact of Chinese Residents' Wealth & Income Distribution Patten on Consumption Demand**

Lack of domestic demand has brought severe imbalance to China's economy, affecting its sustainable development. In China, main reason of insufficient domestic demand is depressed consumption. And the main reason for depressed consumption is a too low wealth per capita level, with unreasonable wealth distribution. On one hand, low wealth per capita level will affect consumer spending in both direct and indirect systems. On the other hand, unequal distribution and consumer insufficiency affect each other, which set up a vicious cycle, limiting resident's consumption. Besides, huge gap between rural and urban development has revealed China's feature



of structural inflation, which lowers the wealth level of rural residents and further decreases the aggregate consumption demand.

So to boost domestic demand, we have to better wealth distribution situation by raising the wealth level of residents. With insufficient domestic demand, Chinese government should attach importance to raising domestic consumption, especially from the residents. We need to raise the wealth of residents by macro control and change the severe imbalance of wealth distribution. Especially we need to increase agricultural funding, raise wealth level of rural residents and expand immense market in China's rural areas. To put it more specifically, many measures are suggested to promote consumption from residents in China.

## 6. Rural Spending: Deciding Factors & Policy Options

In recent years, the family spending of rural residents has shown two important features: (1) It's getting a gradually lower percentage in their net income; (2) Engel's coefficient is decreasing significantly. We analyzed rural spending with microeconomic data and found: increase in income and wealth will bring direct consumption growth; rural financial development can not only encourage consumption, but also resist the negative impact of income risks; high population in family has caused low average spending per person. Higher labor ratio and better education can promote rural spending.

All these conclusions can provide certain policy guidelines for how to encourage rural spending by raising the farmers' income. First, we need to better the rural residents' welfare, with income and wealth increase as the most important. Meanwhile, the present rural spending can be raised by controlling population size, offering better education, increasing opportunities of off-farm employment, bettering rural financial services, promoting rural medicare and providing education subsidies to rural students. Even today, despite economic fluctuations, these measures can still drive up rural demand.



## **7. Financial Crisis: History, Experience & Inspirations to China**

With an overview of recent researches on financial crisis history, we found that the one triggered by subprime mortgage crisis recently shares similarities with those in the past. Therefore, we can learn experience to deal with the crisis from the past policies and economic history. Present research shows that various short-term government policies, implemented to tackle the crisis, have neither efficiently lowered the depth or fasten the recovery. The reason may be in such periods, it is the resource adjustment between industries and new industry development that can be functional to raise productivity. Although short-term policy from government can help stabilize some credit relations, it is still not very useful due to lack of focus on external restructuring. In order to walk out of the crisis, the most important is promoting industrial restructuring and bringing in new sector in the meantime. In the long term, new industry is the basic way out. In this sense, this time we also need to promote new industry to help world economy out of the slump.

With these experiences, China needs to stabilize economy with fiscal and monetary policies in short term. But external restructuring in medium term is more crucial, which means we shall vigorously promote development of sectors including service and transportation, and encourage use of computer in traditional industries, completing information reform. In the long term, we shall develop new energy and new material industries, in order to raise social productivity.

## **8. Monetary Policy in Financial Crisis: Experience Comparison & Policy Reading**

Empirical research shows that monetary supply and inflation are positively correlated with each other with the former can be felt in inflation in a

bout one or two quarters. In addition, rising inflation will also accelerate currency circulation, at the speed that every single percent of inflation rate beyond the projection may cause shortfall rise of 0.8% in currency circulation next year. So, monetary supply has a significant impact on aggregate demand. However, during the economic crisis, the impact transmit channel of currency circulation got blocked due to the deteriorating financial situation of financial institutions and manufacturers, hence the time lag of the ongoing monetary policy will be prolonged.

Monetary supply and credit balance have been rapidly growing since 2009. History warns that this undoubtedly foreshadows a rise of inflation rate, which requires cautious attention. However, we must also notice that, with an interest rate system not yet totally market-oriented, China's nominal interest rate still lags behind in adjustment. Price rise in the second half of 2009 actually decreased the growth of real interest rate. When inflation expectancy arises, real interest rate declines, production quickly recovers, rampant inflation will possibly take place. So in time of the V mirage of China's economy, we need to prepare for a rainy day, in case of undue economic fluctuations.

## **9. China's Monetary Policy: Control Logic, Predicament & Policy Suggestions to Reform**

The basic logic of China's monetary policy is to offset the external-driven rise of foreign exchange reserve by adjusting reserve ratio and issuing central bank bills, thus to control credit scale and *M2*.

But such control mode will cause the following three problems: First, as quantity control is further strengthened, it can hardly improve the credit structure when we adjust the interest rate; Second, as hedging is too much dependent on the adjustment of reserve ratio, paradox occurs when hedging from the central bank replaced the commercialized actions from the banks, therefore, hedging in the monetary policy will in a way deviate from the true demand of the real domestic economy; Third, the quantity-biased hedging



invalidates the linkage of interest rate and foreign exchange rate.

In order to solve the predicament of monetary policy control and raise efficiency when monetary policy plays role of resource arrangement, we need to fasten the market-oriented reform on interest rate, adjust the present hedging way and foster linkage between interest rate and foreign exchange rate. To be more specific: First, credit scale and *M2* are still effective intermediate targets of China's present monetary policy, but reform must be done to the credit structure, which will rely on the adjustment of fund cost. We also need to step up market-oriented reform of interest rate. Second, in order to change the present monetary hedging situation, we should not rely too much on the adjustments of reserve ratio, but mainly on issuing central bank notes, to cover the growth of foreign exchange reserve. Third, we need to build up the system linking interest rate and FX rate in China's economy.

## **10. Re-understanding of Export-Oriented Growth Mode from the Perspective of Balancing Domestic & Oversea Demands**

Since 1980s, Chinese history has seen a continuous growth of driven by three majors which proves that the export-oriented development strategy, as a whole, contributed to economic growth though with high fluctuation risks. China entered gold age of export-driven growth during 2005—2007, when all the three economic engines ran great. (The three engines are net export, consumption and investment.) We shall have a full understanding of the following points while reading the export-oriented development strategy from the perspective of balancing domestic and oversea demands:

First, the gold age of export-oriented mode in year 2005—2007 can never occur again either in the next three to five years, or in the longer future. But due to the significant impact of export in driving GDP growth and easing inflation pressure, it is still China's developing mode to pursue in the future to balance domestic and oversea demands.



Second, stabilize the present policy of tax rebate and ensure gradual recover in labor-intensive manufacturing sector and ordinary trade export by stabilizing the foreign exchange rate.

Third, fasten technology improvement in independent innovation, break the limits of late-developing advantage, avoid the low added value symptom of high-tech products and deepen the potential of specialization.

Fourth, encourage new growth poles for external demand by speeding up combination of the financial and regional trade policies.

### **11. External Demand in China's Economy: Role & Fungibility**

We introduced products' tradability difference into balance relationship in open macro economy to find out the fundamental source of China's trade surplus and fungibility of external demand. Research results show: First, China's domestic supply structure is biased to tradable products while domestic demand structure is biased to non-tradable ones. The enlarging gap between the two is the fundamental cause of the growing trade surplus. Second, supply shortage of non-tradable goods provoked forced savings, which limited growth of consumer spending and prevented it from efficiently replacing external demand. Third, when both domestic supply and demand have fixed structural features, rising external demand is the necessity for a growth of domestic investment, and investment demand cannot replace external demand.

Based on the conclusions above, we suggest that in terms of aggregate demand policy, we must distinguish supporting plans in medium term and restructuring in the long term. First, the most effective measure in short term is export supporting policy; Second, in the long term, in order to realize new balance of aggregate demand, especially to raise the ratio of domestic consumption demand out of all, we cannot simply rely on the management policy of aggregate demand or income distribution plan. We also need to adopt the measures to promote supply restructuring.



## 12. Economic Restructuring & Development of China's Service Sector

The development of china's service sector is not driven by technology, but more on the gradual growth of demand. It suffers greater constraints particularly when China's consumption demand stays at a low level. Our research results also point out some proactive changes have taken place in the service sector in recent years, especially when those related to commercial service have shown obvious growth. These changes have revealed the deepening connection of economy and finance, and possibly suggested the starting point of a big step forward in China's service sector. In addition, there is much room for the development of China's service sector in terms of productivity and employment potential. Fastening the development of service sector has become an important direction of restructuring.

Two problems have caused the lack of development in service industry: First, the technologies only focus on the way of production without further efforts to widen and deepen the service sector centering around the producing process. Second, there is still shortage of consumption demand out of the final demand. As a result, focusing on the questions above, we suggest different policies targeted for various service industries. To improve the demand-driven services, we need to adjust policy in income distribution, and strive to raise social benefits. To improve the enterprise-driven services, we need to give encouragement by implementing relevant policies including differential tax in service sector, in order to cultivate the market. In addition, we need to research and perfect the system reform in public institutions such as technology, and draw a more clear dividing line between market-orientation and government orientation. More government support shall be given to sectors such as medicare and education, which are essential but difficult to be market-oriented.





### 13. Ten Major Planned Industries & Economic Growth

The invigoration and adjustment of the ten key industries, namely automobile, steel, textile, equipment manufacturing, shipbuilding, information technology, light industry, petrochemical, non-ferrous metal, and logistics industries, will directly decide whether steady and rapid economic development can be achieved in China. We set up numeric and econometric models in fields including  $K$ ,  $L$  and TFP, performed empirical research with industry data in year 1989—2007 and reached some new conclusions. For example, China's absolute quantity of export has positive impact on industrial economic growth, while the percentage of export has negative impact. According to standardized regression coefficients, the positive impact is greater than the negative one. "Diversion signals" turn up in both investment and employment, which means in some industries and areas, the marginal increase of employment and investment will hurt growth and efficiency. This is a question on whether investment and employment are still functional, although they used to be the key factors to support a rapidly developing economy.

Based on above conclusions and discussion, we mapped out the following policy input: (1) Guarantee the quantity of export but lower its percentage; (2) Turn from the focus on "hard investment" to "soft investment"; (3) Seek to ease employment pressure in multi-sectors including the tertiary industry, rather than totally depending on the traditional industries; (4) Establish and systemize the long-term system promoting technology progress and human capital incubation and accumulation.