

KEY WORDS OF CHINESE ECONOMY 2009

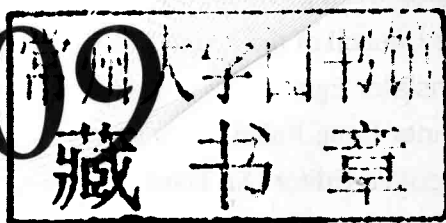
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Preface

2009 was the most difficult year for China's development since the start of the new century. However, it has mainly been the Chinese economy that has taken the lead in breaking through the global financial crisis, thereby providing a glimmer of hope for the global economic recovery. Faced with the serious effects of the global financial crisis, the Chinese government and people are united, collectively moving forward and overcoming the challenges at hand. China, in an attempt to move towards stable economic development, has achieved gratifying results and gained the world's attention.

In 2009 the CPC Central Committee and the State Council persisted in regarding the maintenance of smooth, relatively fast economic development as their chief task, maintaining a proactive fiscal policy and a moderately loose monetary policy, fully implementing a comprehensive stimulus plan in response to the serious effects of the financial crisis, effectively restraining a lag in economic growth trend, thereby successfully achieving the goal of "an 8% GDP growth." In 2009 the main themes in the economy are highlighted by the following points: maintaining economic growth, structural adjustment, expanding domestic demand, benefiting

the livelihood of people, financial and taxation reform, financial regulation and optimal adjustment of the credit structure, complete implementation of blueprints on regional planning, vigorously revitalizing the ten primary industries and emerging strategic industries, actively developing new energy sources and a low-carbon economy, "Three Rural Boost" policy, stabilizing the overseas market demand policy, protecting the people's livelihood, amongst others, which were collectively written for the harmonious development of the Chinese economy in 2009.

2009 is a memorable year for us. If we were to pick one key word regarding economic development in 2009, it would allow us to find the best channel for describing our impressions of the Chinese economic development. The focus of this book lies in the following areas: macro-economy, fiscal policy and taxation, financial investment, regional planning, industrial economics, the "issues concerning agriculture, countryside and farmers," energy and environmental protection, foreign trade, ensuring the people's livelihood and other various hot topics. From the current situation, background, policy measures and the consequences of those policies being implemented, so as to provide a concise, objective description with annotations provided, this work strives to provide an outline of the general picture regarding China's economy.

This book was compiled by the

Writing Group, Information Center of the Development Research Center of the State Council. Many experts from the Development Research Center of the State Council, including Zhao Jinping, Feng Fei, Xu Xiaoqing, Zhang Chenghui, Zhang Liqun, Ni Hongri, Chen Changsheng, Fan Jianjun, and Wang Zhonghong, provided significant guidance and suggestions, and for their assistance we would like to express our deepest gratitude. Throughout the process of compiling this work, the statistical data of relevant commissions has been referenced, as well as the interpretations regarding the policies and legal regulations. This work has drawn from the opinions and views of domestic specialists and scholars, and also

received strong support and assistance of China Intercontinental Press. For them and all the others who assisted us, we would like to extend our sincere thanks.

Our aspiration is to use succinct language to reveal rich content. Our aim is to provide for the cadre, managers of companies, college level instructors, students and all others in need an interpretation of some of the key points and issues drawing popular attention regarding the development of China's economy and society in 2009. However, due to the level and limited experience of the compilers, and time limitations, mistakes and omissions were inevitably made. We encourage readers to extend their comments and criticisms.

Key Words of Chinese Economy 2009 Writing Group
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MACRO-ECONOMY

China Successfully Achieves the Target of an 8% GDP Growth

Due to the impact of international financial crisis and the cyclical downturn of economy, the growth of Chinese economy has started to slow down since the second half of 2008. In the first quarter of 2009, China's GDP growth rate dropped to 6.1%. In the face of such a severe situation, China's central government took it as the primary task in 2009 to maintain smooth and rapid economic development, and spared no effort to guarantee the economic growth. In the *Government Work Report* adopted at the second meeting of the 11th National People's Congress held in March 2009, the central government put forward a target of achieving GDP growth rate of around 8% in 2009.

According to the decisions of the central government, all effective measures have been taken to drive economic growth, and a package of economic stimulus plans, which contains four contents, has been drawn up to stimulate economic growth, including remarkably increasing government expenditure and adopting structural tax relief, implementing industrial adjustment and revitalization plan on a large scale, vigorously promoting technical innovation and upgrade, and largely raising the social security. To be

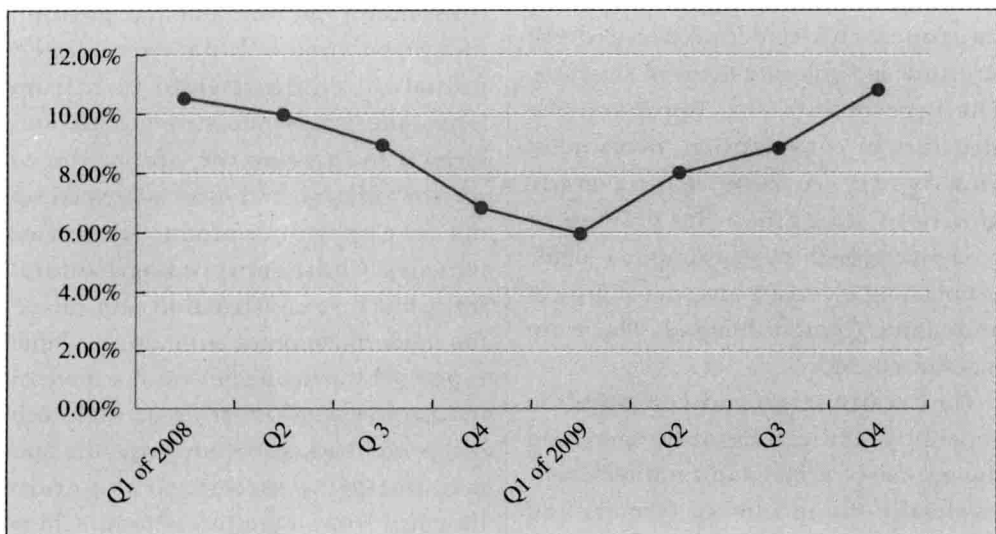
specific, the central government arranged for investments of RMB 1.18 trillion by central government infrastructure investment, central government fund investment, other public investments of the central government and post-disaster reconstruction investment. These, together with local government investments and social private investments, totaled RMB 4 trillion, boosting economic growth. During January–March 2009, related ministries and commissions of the State Council successively released 10 key industrial restructuring and revitalization plans covering steel, automobile, ship, petrochemical, textile, light industry, nonferrous metal, equipment manufacturing, electronic information and logistics. The 10 industries created more than 100 million jobs and concerned the livelihood of 300 million farmers. Except for the logistics, the remaining nine industries contributed nearly 80% of the total industrial value added and nearly one third of the total GDP. Nearly 60% of the companies listed in Shanghai and Shenzhen stock markets are coming from the 10 industries. These plans are of great importance for China to maintain smooth and rapid economic growth, expand domestic demand and add to the potential for future economic development. In order to encourage independent innovation and help enterprises solve such issues as weak independent innovation capability, low industrial concentration, weak industrial competitiveness, excessive

dependence on foreign demand and undiversified product mix, the central and local governments inputted a total of RMB 100 billion in specific research and development projects in 2009 and 2010, while providing preferential policy in terms of financing.

A package of economic stimulus plans effectively gave an impetus to economic stabilization and recovery. Despite the GDP growth rate of merely 6.1% in the first quarter of 2009, the sign of economic stabilization has shown. Industrial production tended to be stable; fixed asset investment and social consumption grew rapidly; new loans of financial institutions hit a quarterly record high; manufacturing procurement manager index, entrepreneur confidence index and

national enterprise prosperity index have all shown a favorable trend of upturn. In the second quarter, GDP grew by 7.9%, showing an increasingly clear trend of economic recovery; in the third quarter, GDP growth rate continued to rebound, reaching 8.9%; in the fourth quarter, GDP growth rate went up to 10.7%, showing a clear V-shape upturn. Thanks to a package of economic stimulus plans, China's GDP reached RMB 33,535.3 billion in 2009, a year-on-year increase of 8.7% based on constant prices, successfully achieving the target for a GDP growth of not less than 8%.

GDP Growth Rate in 2008–2009



Economic Restructuring

In response to the financial crisis, the central government decided to accelerate the change of development mode and structural adjustment in 2009 as a major move to guarantee the economic growth. The RMB 4 trillion investments, focusing on some weak links and areas relevant to the people's livelihood, were used to support the restructuring of key industries and economic revitalization projects, encourage a number of independent innovation and high-tech projects and boost the development of small and medium-sized enterprises. The central government investments effectively and vigorously improved China's economic structure.

The investments promoted the improvement of economic growth structure and adjusted demand structure. The investments also improved the structure of consumption, investment and export. In 2009, China made efforts to strengthen the driving of economic growth by consumption, while maintaining moderate investment growth and stable foreign demand. The main measures include:

(1) Greatly improved consumption capability, and continuously increased the income of urban and rural residents, especially the income of farmers and

low-income urban residents, based on economic development and creation of more jobs. (2) Improved the supply structure, and enabled production to better meet the diversified and multi-level consumption demands of urban and rural residents. (3) Optimized consumption environment, enhanced infrastructure construction such as commercial and trade circulation, regulated and standardized market order, and strengthened foodstuff and medicine safety supervision. (4) Guided consumption expectation and enabled the people to increase immediate consumption. Gradually improved social security system, gradually expanded security coverage and increased security level, and dismissed the concern about medical treatment and pension from residents.

China intensified efforts to restructure the three industries, and continued to consolidate the fundamental position of agriculture. China encouraged industrial enterprises to turn from large enterprises into strong ones, and strived to increase the proportion of service industry, and especially sped up the development of productive service industry. China enhanced agricultural infrastructure construction and raised the modernization of agriculture. China expedited the development of a modern industry system centering on high-tech sector and backed by infrastructure and manufacturing sectors, so as to turn industry from large into strong. China

accelerated the development of service industry, and strived to develop it into one of the pillar industries of national economy. A new pattern has taken shape whereby the three industries jointly drive economic growth.

China also paid attention to the internal restructuring of industries. On the one hand, it endeavored to eliminate obsolete capacity; on the other hand, it went all out to foster emerging industries. In the first half of 2009, the State Council released 10 industrial revitalization plans and adopted measures for six industries involving overcapacity or construction of redundant projects, such as steel and cement. China made great efforts to develop new energy, energy conservation and environmental protection industries, and gradually enhance the research and development ability in new-energy automobile; actively developed new generation information industry such as the third generation mobile communication and high-speed internet; accelerated the development of new material industry concerning information network, transportation, energy-saving buildings, aviation and aerospace, and equipment manufacturing, as well as bio-industry, including biological breeding and biomedicine.

China further strengthened independent innovation and encouraged service innovation, and gave priority to the development of productive service industry, such as financial insurance,

technical research and development, cultural originality, industrial design, and modern logistics, promoting interactive development of modern service and manufacturing industries; China promoted the transition and upgrade of living service industry, including community service, information consultation, and tourist culture.

China gradually improved income and distribution structure, and changed the status quo that the proportion of resident income in national income and that of remuneration for labor in the primary distribution of the national income were relatively low and the gap of income between different groups of residents continued to broaden.

China continued to make overall arrangements for urban and rural development, and strived to promote the urbanization and integrated development of urban and rural areas, while strengthening the construction of new socialist countryside. On the one hand, China propelled more farmers to become townsmen so as to increase income and living standards; on the other hand, China created conditions for raising the intensive level and labor productivity of agriculture, thus increasing farmers' income.

To address the imbalance of regional economic development, the central government investments were inclined to the middle and western regions. In 2009, the growth of investments in the middle and western regions was 10 percentage

points higher than that in the eastern region, and higher than the average growth of the whole country.

As a developing country, China should maintain a certain development speed in order to attain various development objectives. However, the development must be sound and rapid, coordinated and sustainable. While energetically boosting economic growth, China paid closer attention to the development quality and the change of development mode. It adjusted income and distribution structure, industrial structure, urban and rural structure and regional structure, and strived to create new economic growth sources and foster new competitive advantages.

Expansion of Domestic Demand

In order to eliminate the adverse impact of the sharp decrease in foreign demand caused by the international financial crisis, China's central government regarded expansion of domestic demand as a fundamental way to ensure economic growth, strived to solve the problem of scant market demand, and worked out a RMB 4 trillion plan on expansion of domestic demand and investment. By the end

of November 2009, RMB 862.6 billion had been in place, fulfilling 95% of the budget. Of which, central government infrastructure investment was RMB 362.3 billion, fulfilling 98.6% of the budget; car procurement tax specific investment was RMB 86 billion, fulfilling 100% of the budget; central government post-disaster reconstruction investment was RMB 120.4 billion, fulfilling 92.6% of the budget; other public investments of the central government were RMB 151.5 billion, fulfilling 95% of the budget; central government fund investment was RMB 142.4 billion, fulfilling 86.3% of the budget. In view of the fact that the central government increased expenditure in affordable and low-rent housing programs, energy saving and reduction of greenhouse gas and independent innovation in science and technology in the middle of 2009, it is estimated that the total public investments of the central government may exceed RMB 908 billion in the whole year. Meanwhile, related departments have promulgated various tax preference policies, financial subsidy policies and credit preference policies, so as to motivate the consumption passion of urban and rural residents and promote domestic household consumption.

Implementation of the policy on expansion of domestic demand effectively drove economic growth, and played an important role in China's economic stabilization and recovery in 2009. According to the estimate of the National

Bureau of Statistics, consumption and investment contributed 4 and 7.3 percentage points, respectively, to China's GDP growth in the first three quarters. However, foreign trade decreased by 24.9%, 22.1% and 16.5%, respectively, in the three quarters, indicating that domestic consumption contributed greatly to drive economic growth.

1. Investment was stimulated. China's social fixed asset investment reached RMB 22,484.6 billion in 2009, a year-on-year increase of 30.1%, 4.6 percentage points higher than the growth a year earlier. In terms of regions, urban investment reached RMB 19,413.9 billion, up 30.5%, of which, real estate

development investment was RMB 3,623.2 billion, up 16.1%, rural investment was RMB 3,070.7 billion, up 27.5%. Among urban investment, investment in the primary industry, secondary industry and tertiary industry stood at RMB 337.3 billion, RMB 8,227.7 billion and RMB 10,848.9 billion, up 49.9%, 26.8% and 33%, respectively.

2. Consumption environment was further improved, thus reinforcing consumer confidence. Total retail sales of consumer goods amounted to RMB 12,534.3 billion, up 15.5%, or 16.9% if excluding price factor. In terms of industries, total sales of wholesale and retailing reached RMB 10,541.3 billion, up

Consumer Confidence Index from November 2008 to October 2009

