In 2009, China’s economy ended its sharp decline following the international financial crisis, guided by a policy of expanding domestic demand, and took on a trend of stabilised recovery by quarter; annual GDP is predicted to grow by approximately 8.5 percent. In 2010, the world economy will recover slowly and China’s external demand will hopefully recover. The Chinese economy will however be faced with a range of issues such as the declining effectiveness of economic stimulus policies, overcapacity in certain sectors, lack of capacity for independent growth, and an increasing risk of bad assets in the banking sector. It is predicted that China will register economic growth of approximately 8.5 percent, an increase in CPI of approximately 2.5 percent, and continued improvement in its employment and international balance of payments in 2010. Maintaining stable economic growth should continue to be the priority target for macro economic control in 2010, a proactive fiscal policy and moderately loose monetary policy should be maintained, and efforts should be made to “maintain economic growth, adjust the economic structure, promote reform and improve the people’s well-being”.

I. China’s Economy Takes on a Stabilised Recovery Trend in 2009

Following the outbreak of the international financial crisis, the Chinese government promulgated a series of policy measures including a RMB 4 trillion investment stimulus plan, a revitalisation plan for ten key industries, increasing scientific and technological input, improving popular well-being, and stabilising exports. This plan package has curbed the sharp decline of the economy, stabilised investor and consumer confidence and promoted the stable recovery of the economy.
A. Policy Stimulus Has Created Soaring Domestic Demand

Investment and consumption became the major impetus behind China’s economic growth in 2009. In the first half of the year, capital contributed 6.2 percentage points to economic growth, while end-user consumption contributed 3.8 percentage points, meaning that domestic demand boosted economic growth by ten percentage points. The acceleration of domestic demand was slightly higher than the average growth rate of the Chinese economy of 9.8 percent over the thirty years since the implementation of the country’s reform and opening up policies.

Investment grew rapidly. Total urban investment in fixed assets reached RMB 11.2985 trillion during January–August, marking year-on-year growth of 33 percent or a rise of 5.6 percentage points. Infrastructure investment led by the government became the major force behind the current significant increase in investment. During January–August, state-owned and state-held investment registered nominal growth of 39.9 percent, or 6.9 percentage points higher than the average; in terms of actually utilised funds, capital investment within the national budget increased by 82.7 percent, or 43.6 percentage points higher than the average. Furthermore, investment in infrastructure and popular well-being sectors such as agriculture, railway, medical care, and environmental protection received a boost from the optimised investment structure.

Consumption improved in a stable manner. Over the January–August period, gross retail sales of consumer goods increased by 15.1 percent, with real growth registering 17.0 percent, 3.2 percentage points higher than the same period for the preceding year. The housing and car markets were very active: over January–August, national commercial housing sales recovered, growing by 42.9 percent from the negative growth figure posted at the beginning of the year; a total of 8.331 million cars were sold, an increase of 29.2 percent, with an extreme growth spurt of 81.7 percent occurring in August. Consumption of household appliances, building materials and furniture reached considerable levels. The “home appliances for the countryside” policy got into high gear, and household appliances eligible for subsidies increased to 12 types in 9 different classifications. The ceiling prices for certain products were also increased. The result was a sharp increase in the penetration of household appliances in rural areas. In the first half of 2009, a total of 9.61 million household appliances were sold as part of this campaign, generating sales revenue of RMB 16.2 billion.