ANALYSIS OF UNCERTAINTIES INVOLVED IN CHINA’S ECONOMIC RECOVERY IN 2010

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A. Exports Declined and the Economic Growth Rate Dropped Sharply

Affected by the international economy, financial crisis, and exchange rate policy, the Chinese economy started to decelerate in 2008 and continued its declining trend in the first half of 2009. The GDP growth rate in the first quarter of 2009 was only 6.1 percent, a new low since these figures were first included in statistics in 1992; GDP growth in the first half was 7.1 percent, a drop of 3.3 percentage points over the same period of the preceding year, and a drop of 6.3 percentage points over the peak value in 2007.

In terms of the “Three Supports” driving economic growth, the consumption growth rate declined from a high level, total exports dropped sharply, and only investment in fixed assets took on a trend of accelerated growth. Total urban investment in fixed assets over the January–August 2009 period increased by 33 percent, an increase of 5.6 percentage points over the same period of the preceding year, the highest growth recorded other than that in the period of economic overheating in 2004. Gross retail sales of consumer goods increased by 15.4 percent, a drop of 9.8 percentage points over the same period of the preceding year. Exports turned from year-on-year growth of 21.1 percent to a year-on-year decrease of 23.4 percent, a drop of 44.5 percentage points, becoming the major factor holding back economic growth (for details, see Figure 9.1).

B. The Economic Stimulus Policies Put Forward Have Curbed the Momentum of Economic Decline

To reduce the negative impact of the international economic and financial crisis on China’s economy and maintain orderly macroeconomic operations, China’s government rapidly boosted the stimulus
provided by fiscal policy and monetary policy by promulgating a range of consumer stimulus policies including a RMB 4 trillion investment plan, “home appliances for the countryside” and “new cars for clunkers” initiatives, as well as a series of export incentive policies such as tax refunds for exports, export enterprise tax rebates, export enterprise financing, and investment in fixed assets has accelerated, greatly easing the economic downturn brought about by the sharp decline in external demand. The trend of continual economic decline has been curbed, and GDP grew faster in the second quarter of 2009 than in the first quarter. The latest leading indices such as gross industrial production, PMI and power consumption for August 2009 all indicate that the macro economy has bottomed out.

II. Uncertainties Facing China’s Economic Recovery in 2010

When the economy bottoms out, the main issue facing the macro economy will be how to recover, and the strength and continuity of the recovery. Looking forward to macro-economic operations in 2010, we believe that the following issues require particular care: