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Inflation Fears Rise in China as Economic Explosion Continues

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China's exploding economy is showing no signs of cooling, despite the government's efforts to slow it down. Chinese officials say economic output rose at the unexpected rate of 9.5 percent during the last quarter of 2004, raising new fears of inflation.

Record exports, skyrocketing retail sales and a hefty increase in grain harvests helped push China's economic output for all of 2004 to what analysts say was an eight-year high, at 9.5 percent.

Officials say gross domestic product for 2004 reached $1.6 trillion.

That gain came despite the government's efforts to slow the economy. Hoping to bring the rate of expansion down to eight percent, officials last year raised interest rates and curbed investment in over-active sectors such as real estate, steel production, and car manufacturing.

National Bureau of Statistics Commissioner Li Deshui said Tuesday the government will not relax those measures. He said they already had helped cool some sections and indicated he expected the measures to be felt more this year. "Unstable and unhealthy factors in the economic performance were put under control," he sazid. "The national economy kept good momentum of stable and rapid development."

Consumer prices increased 2.4 percent in the last quarter, the lowest rise in 10 months. Mr. Li says the government expects inflation to remain low.

However, some analysts doubt the government will be able to slow growth enough to avoid serious inflation this year. Andy Xie, the chief Asia economist for the investment bank Morgan Stanley, predicts growth will continue to be strong in 2005.

"I think this year it's [growth] likely to be still quite elevated, said Mr. Xie. "The reason is because a lot of local governments are still pushing to complete a lot of investment projects."

Many economists fear that excessive growth not only could lead to high inflation, but also could result in shortages of energy and construction supplies and could lead to the building too much factory capacity. The result could be an economic bubble that could collapse abruptly, destabilizing the country's fragile banks.

Mr. Xie says one way the government could quickly halt growth is by raising interest rates substantially. The People's Bank of China, the central bank, did raise rates for the first time in 10 years last October, but Mr. Xie says the increase was not enough to curb consumption. Retail sales in China during 2004 continued to climb sharply as unemployment dropped and incomes rose.

The government on Tuesday said incomes in the cities grew by nearly eight percent, while rural incomes rose by almost seven percent.