

**High-level Regional Policy Dialogue on
"Asia-Pacific economies after the global financial crisis: Lessons learnt,
challenges for building resilience, and issues for global reform"**

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Country Experiences 2: Large Economies

Presentation

Chinese Economy After the Global Financial Crisis

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ASIA-PACIFIC ECONOMIES AFTER THE GLOBAL
FINANCIAL CRISIS:

Chinese Economy After the Global Financial Crises

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Outline

- 1. The Negative Impacts of the Global Financial Crisis and The Chinese Government's Policy Responses.
- 2. The Results of Stimulus Package by Chinese Government.
- 3. The Challenges China is Facing and Its Prospects.

1. The Negative Impacts of the Global Financial Crisis and The Chinese Government's Policy Responses.

– Negative Impacts:

- Losses of investment in foreign financial institutions and products.
 - Major commercial banks held two or three dozens of billions USD of sub-prime mortgage-backed securities. Most of them might be written off. Generally, the losses were limited.
- Growth of exports slow down, even was negative:
 - 47% down in the first half of 2009
 - Exports to U.S. down 16% during the same time
 - Imports and exports from the end of 2008 to the end of 2009 on the base of year to year were almost negative (see table 1)

Table 1: The Impacts of External Shock: Chinese Imports and Exports(Sept-2008 to Dec-2009)

	% year-on-year		% change on previous month	
	Imports	Exports	Imports	Exports
Sep-08	21.5	21.4	0.89	1.10
Oct-08	15.4	19	-13.11	-5.96
Nov-08	-18	-2.2	-19.50	-10.33
Dec-08	-21.3	-2.8	-3.52	-3.32
Jan-09	-43.1	-17.5	-28.82	-18.59
Feb-09	-24	-25.8	17.01	-28.31
Mar-09	-25	-17.2	19.58	39.08
Apr-09	-22.9	-22.8	9.85	1.88
May-09	-24.9	-26.5	-4.18	-3.50
Jun-09	-12.9	-21.3	15.66	7.62
Jul-09	-14.7	-23	8.63	10.41
Aug-09	-16.8	-23.4	-7.28	-1.63
Sep-09	-3.5	-15.3	16.95	11.76
Oct-09	-6.4	-13.9	-15.79	-4.44
Nov-09	26.7	-1.2	8.96	2.62
Dec-09	55.9	17.7	18.71	15.05

Source:

General Administration of Customs of People's Republic of China

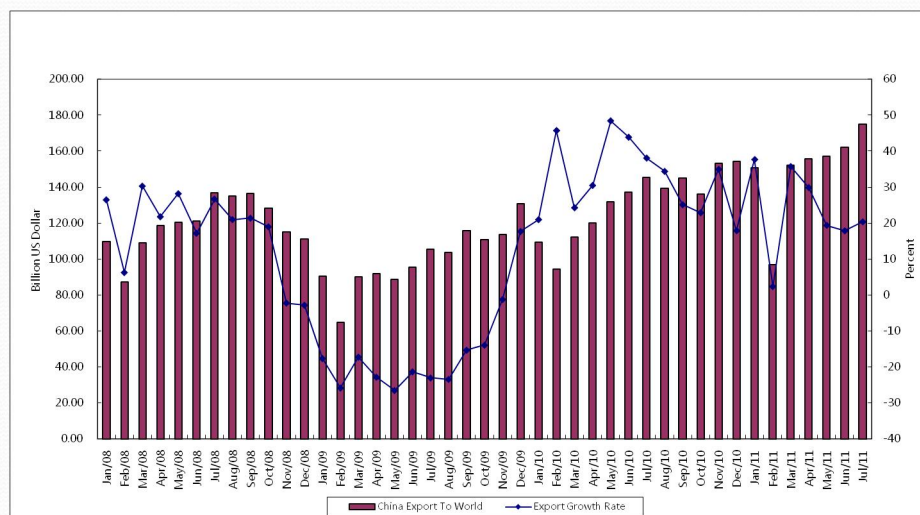
- Economic growth rate also slowed down:
 - GDP 12% growth rate in the first half of 2008 down to 6.8% in the 4th quarter of 2008, further to 6.1% in the first quarter of 2009.
- Unemployment Rate went up
 - Unemployment mostly happened in migrant worker while registered unemployment rate in cities changed little.
 - According to the statistics of Ministry of Human Resource and Social Security, around 20 million migrant workers in cities lost their jobs to go back home in the countryside during the winter of 2008 and spring of 2009.
 - The ratio of position provided/ position demanded in 2007 is 0.98 while the ratio declined to 0.85 in fourth quarter of 2008.

- The policies of Chinese government
 - General position:
 - “Active fiscal policy and properly easing monetary policy”
 - Fiscal stimulus package:
 - 4 trillion RMB in 2009 and 2010. The central government only provide 1.2 trillion RMB from its own coffers while the rest of it was relayed on banks on financing.
 - 10 measurements taken to expand domestic demand, particularly house hold demand.
 - The Monetary Policies:
 - Cut down basic interest rate consecutively six times from Sept.2008 to the end of same year.
 - Lower down reserve rate 400 bp.
 - Expand credit support to medium and small enterprises.

2. The Results of stimulus package by Chinese Government.

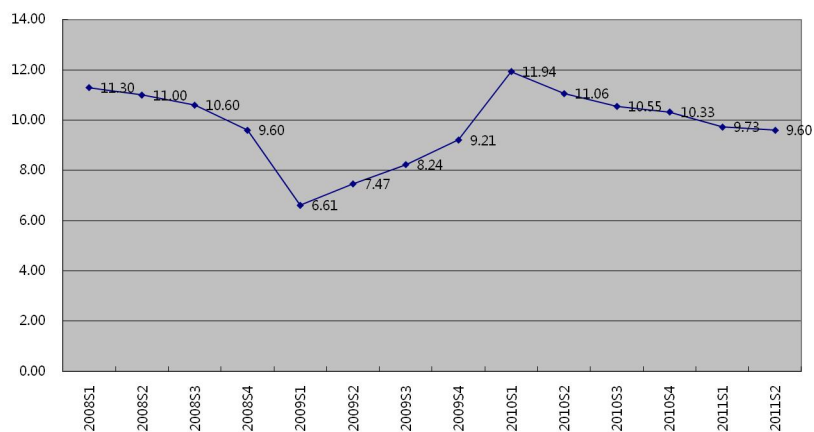
- The policy responses of Chinese Government were successful due to the quick actions taken by it and the size of stimulus package big enough.
- Foreign trade: the growth rate in 2010 and in the first 7 months of 2011 has been back to a normal growth pattern after a negative rate in 2009. (figure 1)

Figure 1. China's Export Recovery



- Economic growth rate: a V shaped recovery was obtained. (figure 2)

Figure 2. The Recovery of China's Economic Growth (Quarterly)

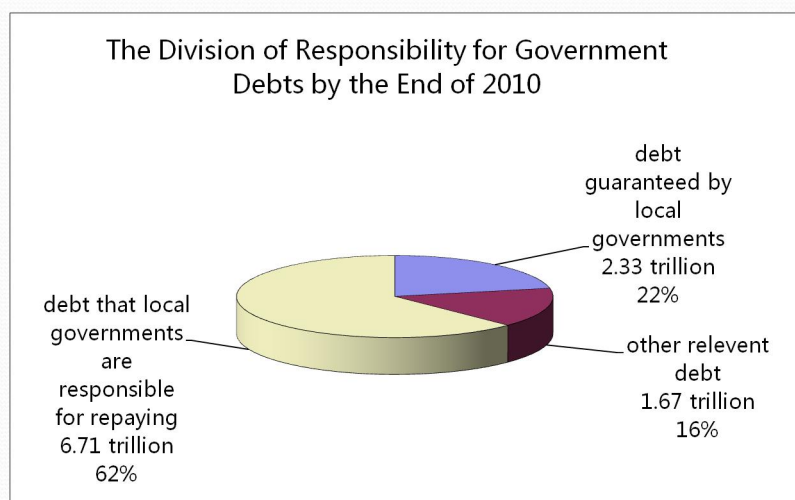


Source: National Bureau of Statistics of China <http://www.stats.gov.cn>

3. The Challenges China is Facing and Its Prospects.

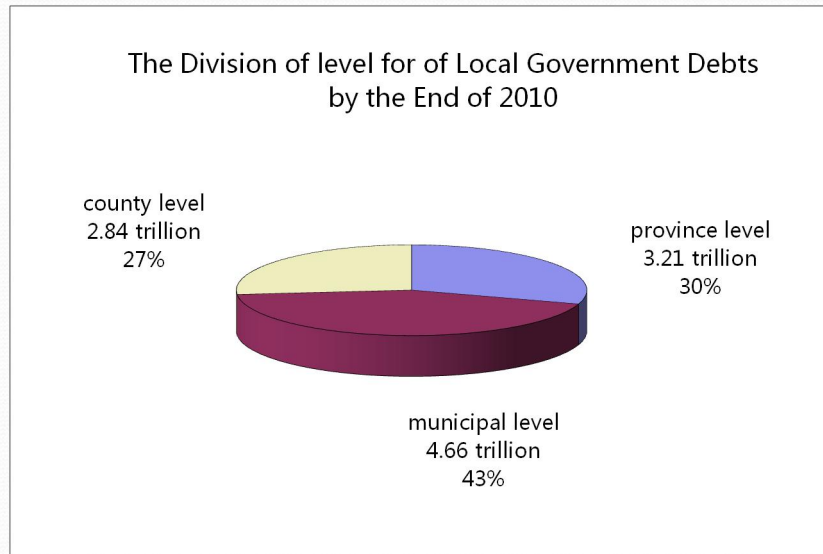
- Overcome the side effects of the stimulus package:
 - Reducing a piled up debt burden, particularly local ones
 - The number of sovereign debt varies with different measurement but the consensus is that it is within the area of safety (e.g. according to CIA World Factbook, public debt of %GDP in 2010 is 18.9)
 - By the end of 2010, the balance of local government debt is 10.7 trillion RMB. It's division by responsibility and government level, (see Figure 1 and Figure 2). ➡
 - The debt of local government is under control and payable. ➡

Figure 3.



Source: National Audit Office of the People's Republic of China
<http://www.audit.gov.cn/n1992130/n1992150/n1992500/2752208.html>

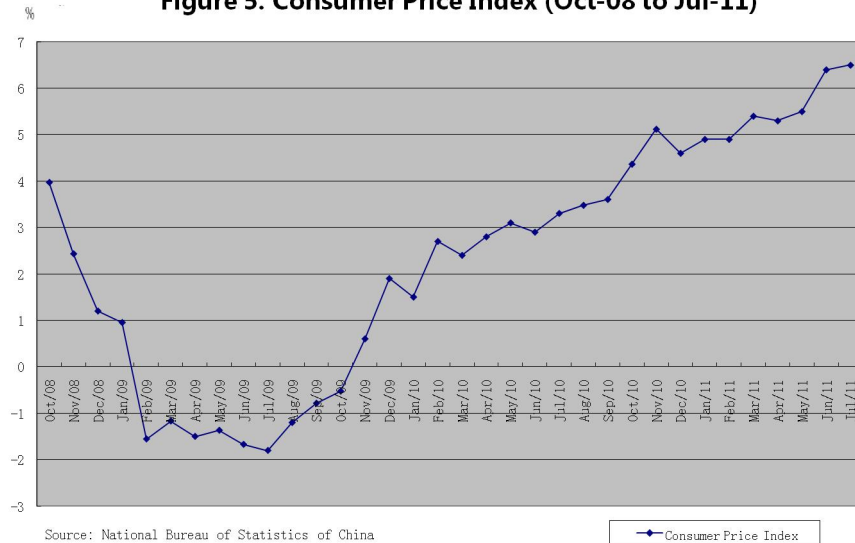
Figure 4.



– Curb a higher inflation rate

- In the most of time in 2009, China actually was in deflation.
- Along with economic recovery, inflation rate has kept rising. It reached 6.5% in July of 2011. (See Figure 5) ➡
- The reasons: labor cost rising; prices of large commodity up; supply of agricultural products reduced by natural disaster, liquidity flush.
- PBOC, the central bank of China has increased interest rate 3 times and raised reserve rate 11 times.

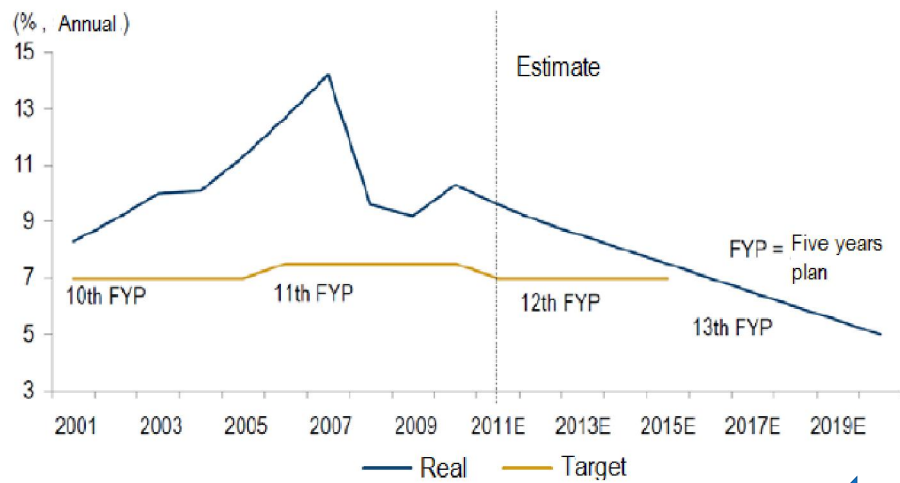
Figure 5. Consumer Price Index (Oct-08 to Jul-11)



— **Keep a steady economic growth rate**

- The target of GDP growth rate set at 7% in 12th FYP
- Historically, real GDP growth rate was almost higher than the target one. Due to over enthusiasm of local government and concern about unemployment and social stability (See Figure 6)
- GDP growth rate will flat to 6% in 5 years

Figure 6: China's Real GDP Growth: Real and official targets



- Continue an economic structural adjustment
 - “Middle income trap” or economic plateau is approaching.
 - A economic structural adjustment is necessary to avoid it.
 - Current pattern of economic growth is unsustainable, uncoordinatedly and unbalanced.
- Make the above three objectives coordinately.
- Position well in dealing with the current turmoil of world economy after downgrading of the U.S. sovereign credit rating.

