

The Impacts of Global Financial Crisis to China and China's Reactions

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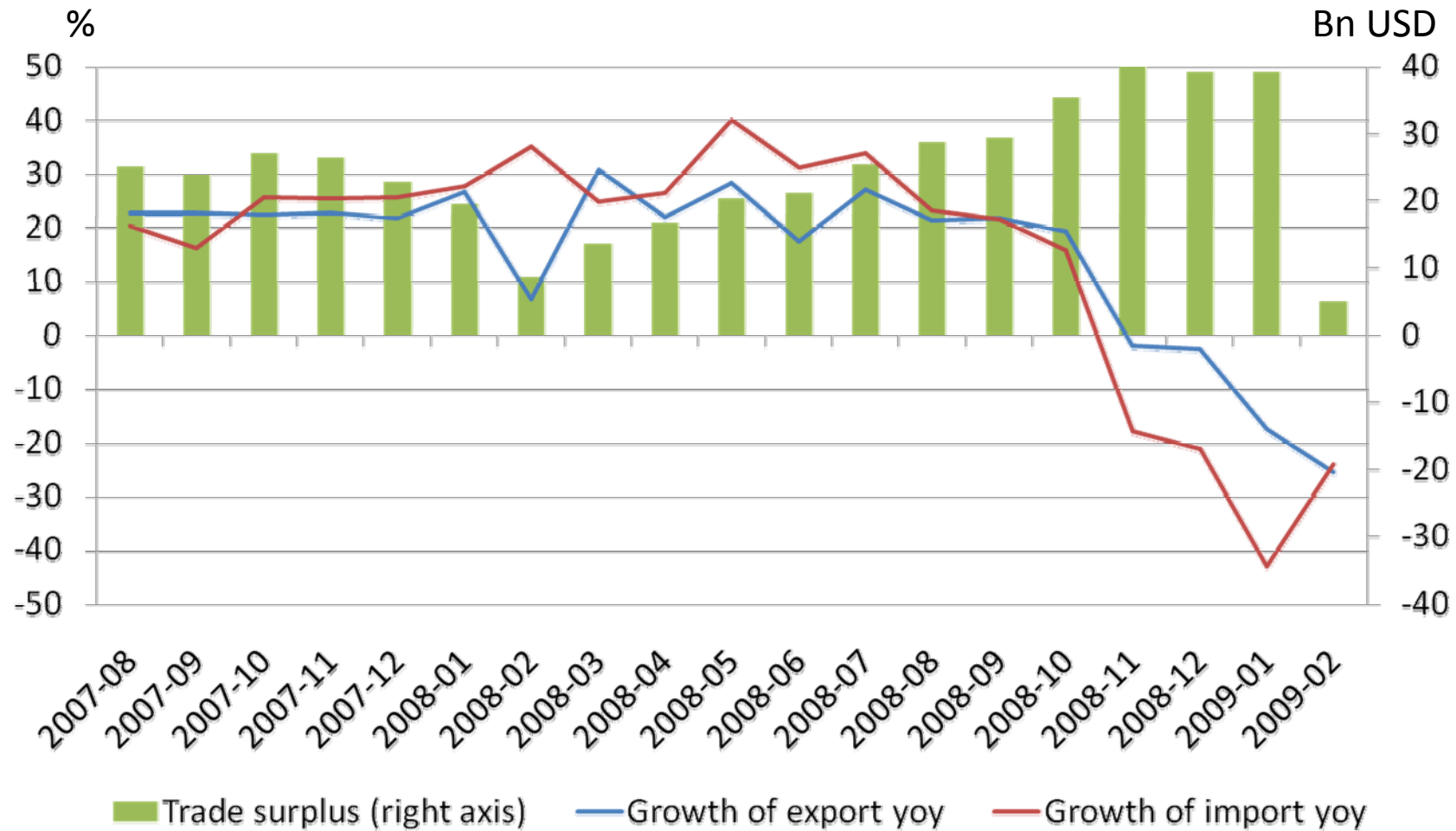
Outline

- The Impact of global financial Crisis to China;
- The Summary and Evaluation of Chinese Government's Reactions;
- China's Participation in East Asian Regional Financial Cooperation;

The Impact of global financial Crisis to China

- Export
 - Negative growth since November 2008 due to shrinking of external demand
- Foreign Exchange Reserve Management
 - USD denominated assets are facing great potential risks
- Structural Adjustment
 - Some critical adjustment measures may be postponed or cancelled, which are important for China's sustainable growth

Impact to China's Export



Impact to Chinese Forex Reserve

- As of June 30, 2008, China held
 - Long term treasury bonds: 521.9 billion USD;
 - Long term agency bonds: 527.1 billion USD;
 - Long term corporate bonds: 26.3 billion USD;
 - Equity: 99.5 billion USD;
 - Short term securities: 30.3 billion USD;
- As of January 31, 2009, China held 739.6 billion USD U.S. treasury securities;
- China's forex reserve are facing the risks of dollar depreciation and the shrinkage of US. Government bonds' market value.
 - U.S. fiscal deficit: 1.75 trillion USD in 2009;
 - U.S. government will issue at least 2 trillion USD treasury bonds in 2009;
 - Fed is pumping cash into market;

Impact to Structural Adjustment

- The increasing of flexibility of RMB exchange rate regime and RMB appreciation;
- The control on price bubbles on property market;
- Chinese government's reactions to crisis may exacerbate the structural imbalance:
 - Higher investment ratio and excess capacity;
 - Stronger SOEs relative to private enterprises;

Summary of Chinese Government's Reactions

- Monetary Policy:
 - Interest Rate
 - 1 year deposit rate: 4.14% to 2.25%;
 - 1 year loan rate: 7.47% to 5.31%;
 - Required Reserve Ratio: 17.5% to 13.5%;
 - Credit quota: Cancelled by October 2008;
 - Banking Credit: surge from November 2008;
 - January 2009: 1.62 trillion RMB;
- Fiscal Policy:
 - 4 trillion investment plan
 - 80% invested in infrastructures and properties;
- Exchange Rate Policy:
 - Increase the intervention to prevent appreciation against US dollar.

Evaluation of Chinese Government's Reactions

- Quite effective to stimulate short-term economic growth:
 - Infrastructure and property investment;
 - High credit input;
- Not enough to ensure sustainable growth:
 - Difficult to stimulate household consumption;
 - Underdevelopment of service sector;
 - Distortions of various prices, such as interest rate, exchange rate and energy prices;
 - Private enterprises became the major victims of crisis;

Policy Suggestions

- Stimulate household consumption
 - Increase the ratio of household income to national income;
 - Cut personal income tax;
 - Urge SOE to pay dividends to government, and government increase unilateral transfers to household;
 - Government increase the expenditure on providing social public goods, such as education, medical care and social safety net;
- Focus on development of service sector to absorb excess labors
 - Open key sectors to private capital;
 - Increase the flexibility of RMB exchange rate regime;
- Reduce price distortions
- Manage forex reserve more actively;
 - Require US government to provide explicit guarantee;
 - Speed up the diversification of forex reserve;

China's Participation in East Asian Regional Financial Cooperation

- Two ways
- Regionalization
 - The upgrade of Chiang Mai Initiative: bilateral to multilateral;
 - The expansion of reserve pooling;
 - The detachment from IMF loan conditionality;
 - Actually, the establishment of AMF;
- RMB Internationalization
 - Domestic currency swap: Korea, Hong Kong, Malaysia, White Russia;
 - Cross-border Trade settlement in RMB: Experiment in Hong Kong (Off-shore RMB settlement center, Off-shore RMB forward exchange rate market, etc.)
- Different Ministries are preferring to different ways
 - Ministry of Finance: Regionalization;
 - PBOC: RMB Internationalization;
- Is It possible to combine the two ways?
 - Parallel Promotion?

Panda Bonds

- Advantages:
 - Help foreign countries or institutions to get financing;
 - Push the development of domestic financial markets;
 - Reduce foreign exchange reserve accumulation;
 - Promote RMB internationalization;
- Barriers:
 - Lack of mature RMB forward exchange rate market;

Thanks