

# **China's Economy: An Update on Reforms in the midst of the Global Financial Crisis**



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# Views from the ground

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- # Participant observation
- # Visits with interviews to companies, villages, schools, families, etc.
- # Follow the debates within China via the web, publications and discussions with academics, party and government representatives
- # Published literature provide the framework

# Overall economy, on the surface:

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- # Growth seems to be picking up
- # Stimulus package seems acceptable to most
- # Commentators quite up-beat
- # Little obvious impact in terms of day to day life; little exposure to sub-prime debt
- # People generally feel their savings are a good buffer, and wonder about US families

Political-Economic/Central-Local/Geographic  
Interests



International  
Conditions & Policy



Domestic  
Conditions & Policy



Short-term  
Financial  
Crisis

# Domestic conditions & policy

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## # “Build a Harmonious Society”

- Decrease inequalities

- Regionally; between rural and urban residents; increasingly within urban areas

- Re-establish social safety nets

- Health, education, retirement

- Slow and reverse environmental damage

## # Stimulate domestic demand as the engine of growth

# International conditions & policy

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## # Reduce the trade surplus

- Reduce dependency on exports and to some extent, foreign investment
- Move towards a convertible and flexible currency, including revaluing as needed
- Encourage Chinese firms to invest abroad
- Acquisition of resources/markets/technology

## # Learning by doing; become global companies

# In Principle:

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- # Build a Harmonious society and readjust the external-internal imbalances
- # Should fit both short and long run goals
- # With Socialist Government leadership, should be relatively straightforward
- # *However, looks like the status quo is winning right now*

# Why? Speculations:

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- # Short-run fears dominating
- # Social interests continue to be weak
- # Difficult to change from producer to consumer orientation
- # Reformers may have become conservative

# Evidence?

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- # Response to Crisis: Short-term fears are prevalent
  - An obsession with 8% growth
  - Stimulus package: very large (4 trillion RMB, \$586 billion); more of the same—  
infrastructure, with a bit of health and consumption added
  - Rapid rise in money supply, bank credit
  - Re-focus on trade and attracting FDI
    - With some protectionist aspects

# Currency Issues

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## # Back off on revaluation

- Set up currency swaps in RMB bilaterally
- Propose using SDRs or other new international currency
- For now, continue to buy the dollar

## # Some sense that the current imbalance happened in a gradual, unplanned way

## # But that the US must repay its debts to China at a good value

# Social Sectors

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- # Discussion and experiments continue; need local government to implement
- # Health plan to cover everyone by 2020
  - 850 billion yuan in next 3 years is an estimate, with 332 billion from central government
- # Environment & education
- # Overall, central-local public finance is in disarray

# Competing interests

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- # Local-Central
- # Chinese experts are pushing for domestic demand with social welfare
- # National champion companies in strategic sectors
- # National Development & Reform Commission
- # Financial sector

# The Simulation Exercise

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- # Based on the actual Central budget
- # Develop plans for the 12<sup>th</sup> Five Year Plan
- # End result:
  - Social sectors and rural development received verbal support with few resources
  - Goals to help develop financial and service sectors
  - Trade, foreign investment and state companies did well
  - Emphasis was on growth over equity

# Signs of weakness

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- # Construction everywhere
- # Recent graduates cannot find employment
- # Falling exports; uncertain rise in domestic consumption
- # Uncertain quality of new loans
- # Waffling on long term goals

# Signs of strength

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- # Construction everywhere
- # Reports of recovering growth rates
- # Private sector continues to grow
- # Experts have not given up on domestic demand
  - Is a possible, critical turning point in China's growth path