

Australian  
Leadership  
Awards  
- Fellowships

# Executive Roundtable and Professional Placements

2 – 10 October 2008 • Melbourne, Canberra and Sydney

## Session 1, Part 1

### Current Assessment:

Impacts of Current Global Economic Instability in China

### **Mr Yang Jin Lin**

Deputy Director-General, AFDC, Beijing

Current global Economic situation is worrisome. According to IMF, this year and next year, the global economic growth would be 4.1% and 3.9%, respectively. Due to the global financial trouble, oil price turbulence and grain price hike, almost all countries are affected. It is widely recognized that US sub-prime financial crisis is starting point, then US dollar depreciation against major currencies, high oil prices even though much lower at the time, high grain and natural resources prices all contributed to global inflationary pressure and global growth sluggish, caused many countries to lower growth rate expectation.

Although China successfully launched Olympics and got many gold medals, it is no exception to be affected by this round of global economic downturn. It faced tremendous challenges to maintain its high economic growth rate while keep inflation under control. There is little policy options for the government to choose at this time.

### **US Sub-prime Financial Crisis**

Sub-prime financial crisis initiated in late 2006 by US housing market going down and foreclosure accelerated in some parts of the US. It triggered a global financial crisis from 2007 till now. The crisis has adversely affected US economy and other economies as well, resulting downward pressure on economic growth. Fewer and more expensive loans tend to result in decreased business investment and consumer spending.

The risks to the broader economy created by the financial market crisis and housing market downturn were primary factors causing decisions of Federal Reserve to cut interest rates and the economic stimulus package passed by Congress and signed by President on February 13, 2008. Both actions are designed to stimulate economic growth and inspire confidence in the financial markets. However, in recent months, the market continues to deteriorate, the US government took further actions to correct the market by saving financial institutions, particularly, the actions on taking over two big real estate mortgage institutions Fannie Mae and Freddie Mac. For the short term, it stabilized the market and recovers the confidence to

some extent. But in long term, it created uncertainty. We have to look and see the result of such bold unprecedented interventions in the market

### **Impact on China's Economy**

Last year, China achieved 11.4% economic growth rate with relatively low inflation pressure. However, due to the negative impact of global economic situation put China's economy under tremendous pressure. Weak dollar and speculation created high oil prices and some natural resources prices hikes had negative impact on China's economy. Since the early of 2008, China feels the inflationary pressures and in the first half of 2008, its CPI reached 7.9%, GDP growth rate down to 10.4%, 1.8% lower than the same time of the previous year.

Due to weak demand from US market and Renminbi appreciation against dollar about 21% since 2005, half year export is down, 5.7% lower than the growth rate of the same period of last year. It is expected that the export would be much worse in the second half of the year. Some experts predict that export contributing to GDP growth portion would be zero for the year of 2008.

Foreign reserve portfolio management also faces huge challenges. On one side, China is one of the biggest holders of the US Treasury bond and Fannie and Freddie bond, it had few choice to make to invest its portfolio other than those bonds. On the other hand, it could not take any actions on it at this time.

### **China's Economy and its Policy Management**

For the past decade, investment and export are two major elements to support China's economy growth. Due to the weak demand of other economies, particularly, US market, China needs readjust its policy to promote domestic consumption as the main pillar to push economic growth.

Monetary and fiscal policy would focus on the objectives on maintaining a relative high growth while keep inflation under control. However, such twin objective at many times has trade-off. Flexibility, timely and targeted policy is crucial to implement the monetary and fiscal policy. For monetary policy, the tight feature may be highlighted in order to curb inflation, but it would be differentiated in the sectors and regions, such as Medium and small enterprises is offered lending support while less support is given to less energy and resource efficiency consumers. Fiscal policy should be a relatively active; it will allocate more resource to the rural development, social security and poor farmers.

In summary, China needs cautiously adjust its macro economic policy while maintain its dynamics of economic growth. Only in this way, can it support its huge employment population and social stability. Rural and agriculture development are key pillars for China's economic growth. Regional divergence has to be corrected by fiscal transfers and right regional development strategy. Right now, China is reviewing its thirty years of history of system reform and open-up to the world. It may draw experiences and lessons to achieve a higher goal in the near future and to do more contribution to make a better world.