

# Comments on “The Fiscal Stimulus Program and Problems of Macroeconomic Management in China” by Christine Wong

2012. 2.

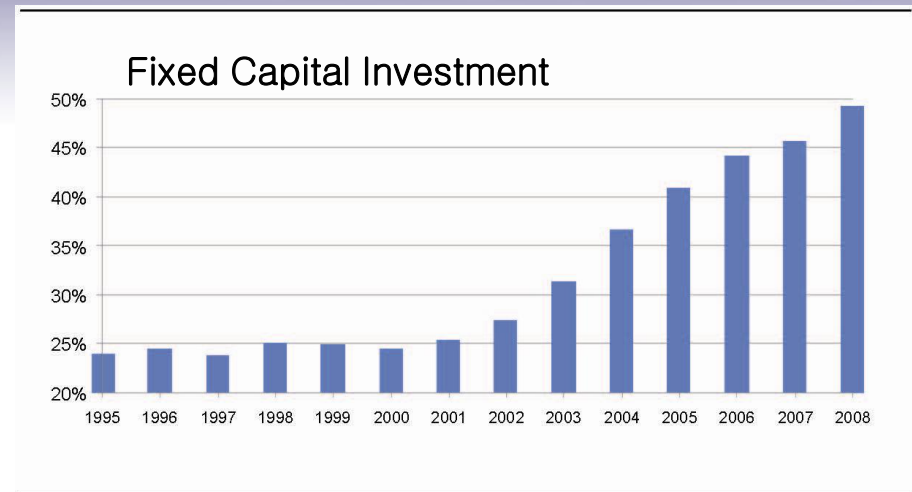
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# Two Engines of Growth

## □ Dependency on Export and Fixed Capital Investment

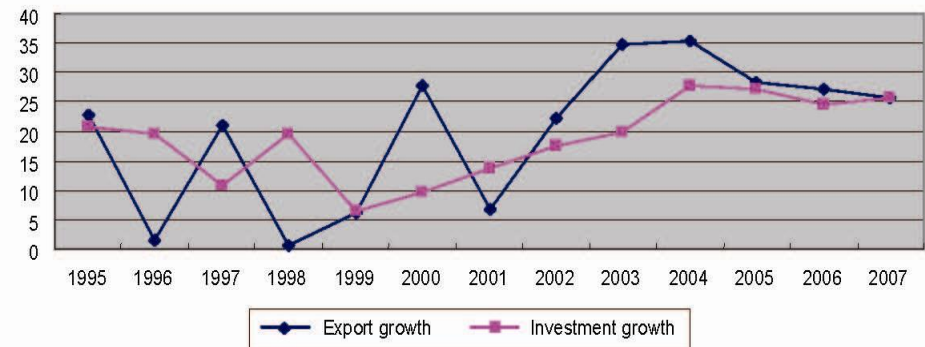
- In 2007, 43% of GDP spent on Investment.
- 20% of GDP growth explained by net exports (Heilmann & Schmidt, 2010)

## □ Overcapacity from growing investment partly explains excessive export dependency.



Data source: Zhongjing Net data bank (中经网数据库).

Figure 1 Growth rates of exports and investment (current prices)



Data source: Statistical Year Book, various issues, Statistics Bureau of PRC.

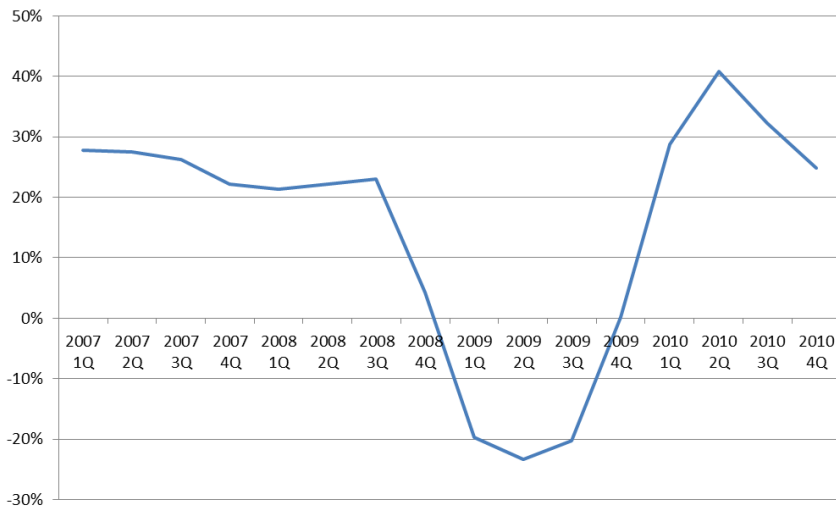
# What happened during the Crisis?

## □ Huge Drop

- In the first half of 2009, 21.8% decline in exports and 25.4% in imports.

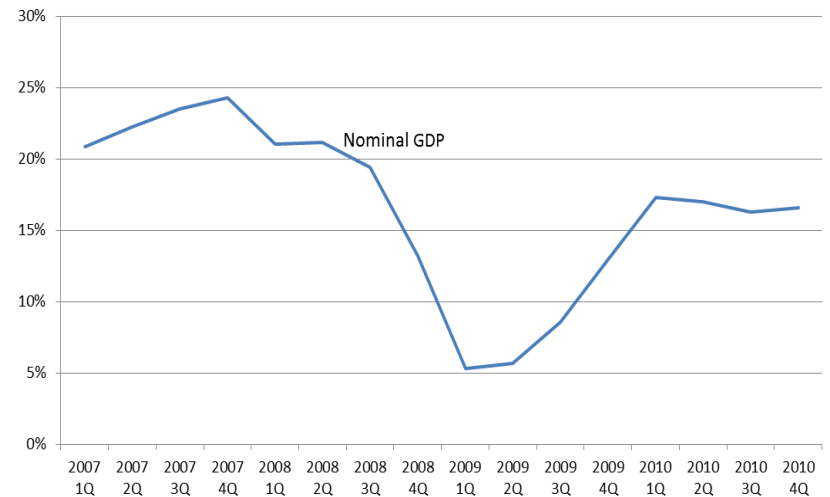
## □ Also to GDP.

Figure 1. Growth in exports (quarter-on-quarter)



source: General Administration of Customs of China.

Figure 3. GDP growth (quarter-on-quarter)



source: National Bureau of Statistics of China.

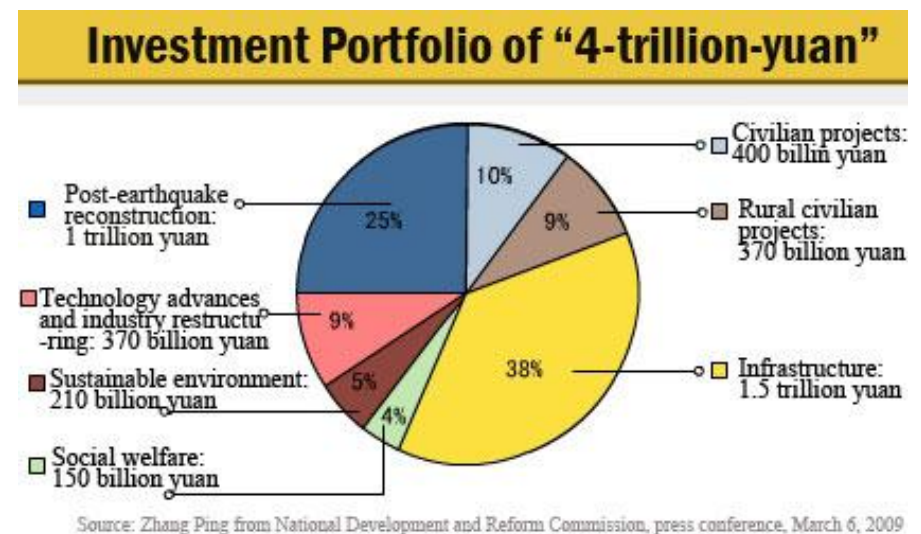
# Stimulus Package 1

## □ Quick & Large

- Announced in Nov. 2008
  - ◆ quick recovery: GDP growth rates – 8.7%(2009), 10.3%(2010)
- RMB 4 trillion(USD 586.68 billion) for 27 months
  - ◆ 12.5% of GDP in 2008

## □ Composition

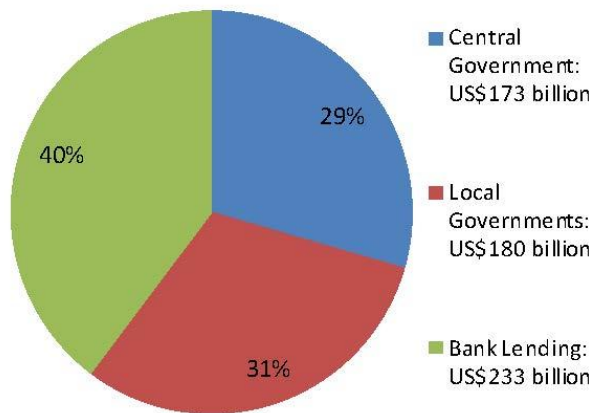
- Mainly investment
  - ◆ Infrastructure
  - ◆ Earthquake reconstruction
  - ◆ (Rural) Civilian projects
  - ◆ etc.



# Stimulus Package 2

## Financing the Stimulus

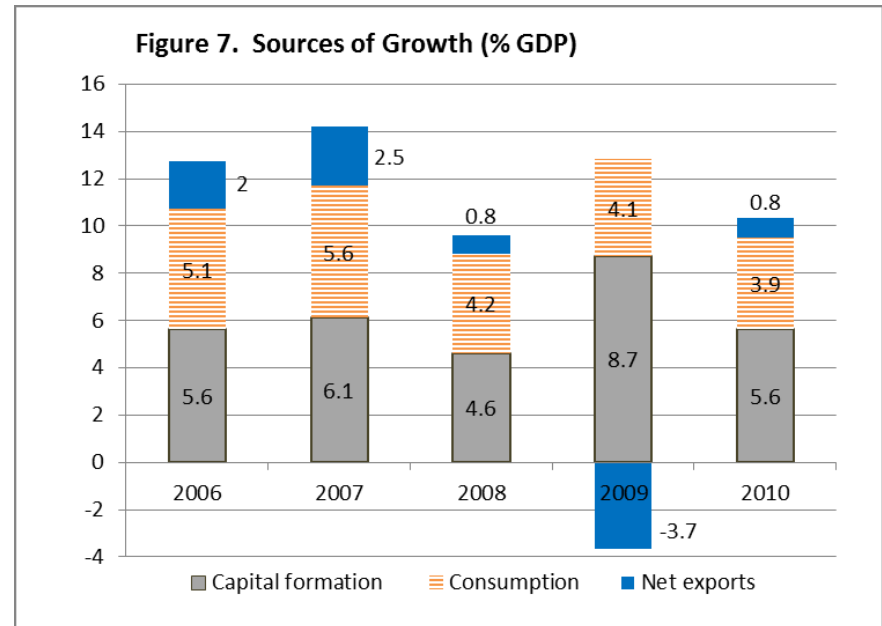
- Central Government
  - 'seed funding' requiring co-funding from LGs/private funding
- Bank credits
- Local Governments



Source: World Bank

## Successful Recovery but...

- Growth rate & Employment



- Over-investment -> inefficiency
- Interrupt rebalance plan, etc.

# Now Time to Exit...

## Side Effects of Stimulus

- **Ballooning Debts of LGs**
  - Competition for national investment funds – funding availability issue on LGs
  - Enthusiastic LGs + Easier Borrowing
- **Credit Explosion**
  - 15.3%('08) -> 34.3%('09)
    - ◆ Soaring Fiscal Deficit
    - ◆ Banks Pressured to Lend
  - Inflation worries...

## Exit Measures

- **Credit Tightening**
  - Local Governments with credit quota re-imposed
  - Banks with higher reserve ratio and higher interest rates
- **Tight Control over Credits to LICs**
  - LICs: main source of LGs' debt accumulation



# Some Thoughts 1

## □ Balanced Economy!

## □ Economic Balance

- 'exports & investment' driven growth may not be sustainable...
- How to use public resources to promote more balanced economy?

## □ Regional Disparity Issue

- Western vs. Eastern
  - ◆ Western regions: export oriented, high level of fixed asset investment,
  - ◆ Eastern regions:
- Redistribution of resources across different regions – not an easy problem.



# Some Thoughts 2

## □ Income Inequality

- Increasing Demand for Social Protection/Welfare
- Demographic Changes

## □ Fiscal Policy beyond a temporary stimulus role.

- Focus on promoting reforms in fundamentals
- Structural Changes in the Economy
  - ◆ Boost Domestic Consumption – Reducing Income Inequality
- Institutional Changes in the Resource Allocation,
  - ◆ between CG and LGs, and among LGs.
  - ◆ governance structure



Thanks.