

# **Global Financial Crisis and China's Policy Response**

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# **Global Financial Crisis**

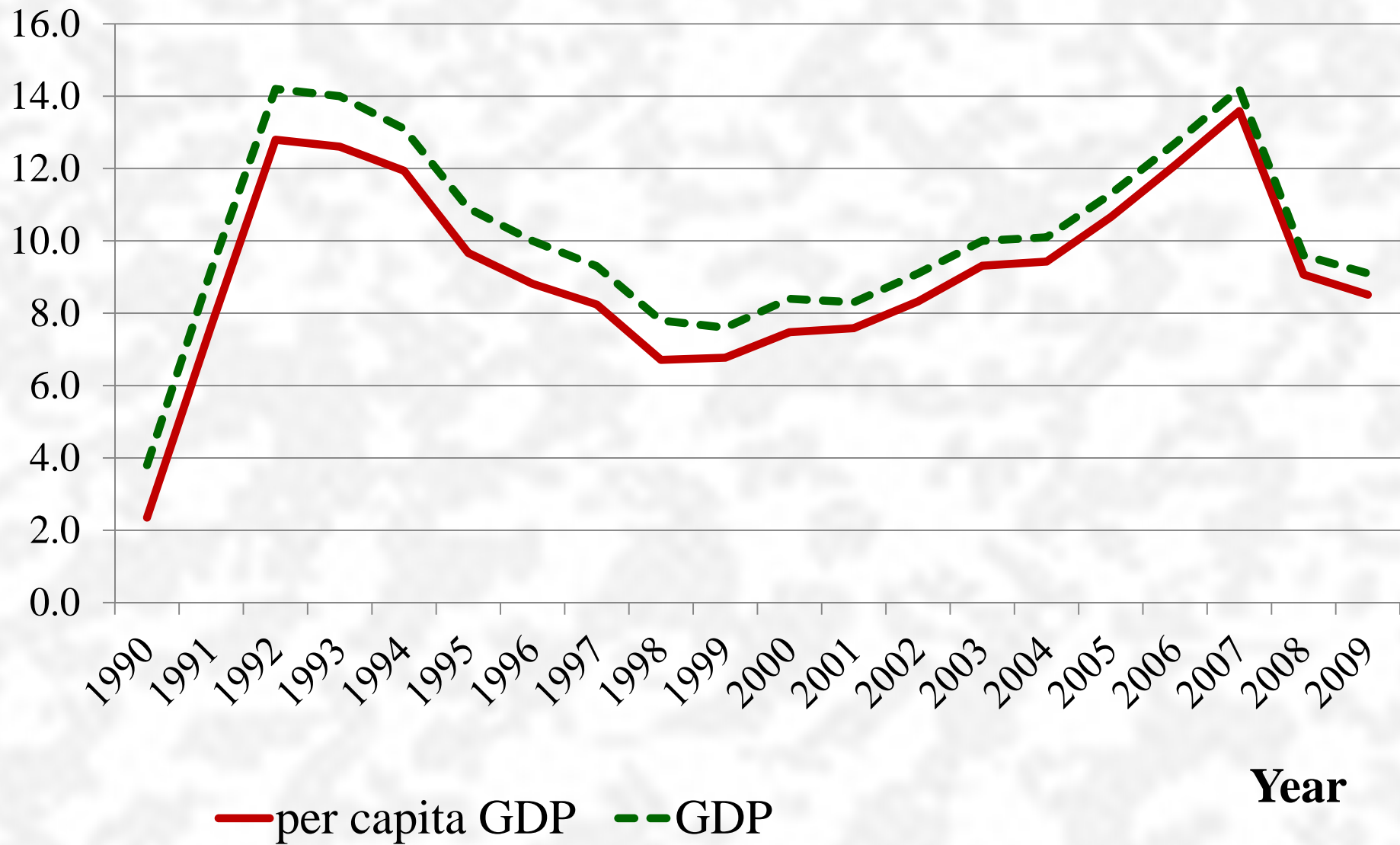
- the worst economic hard time since the Great Depression in the 1930s
  - ✓ in terms of the size of the impacts
  - ✓ in terms of the number of countries involved

## **The China Story:**

- only mildly affected, with a drop in its growth rates



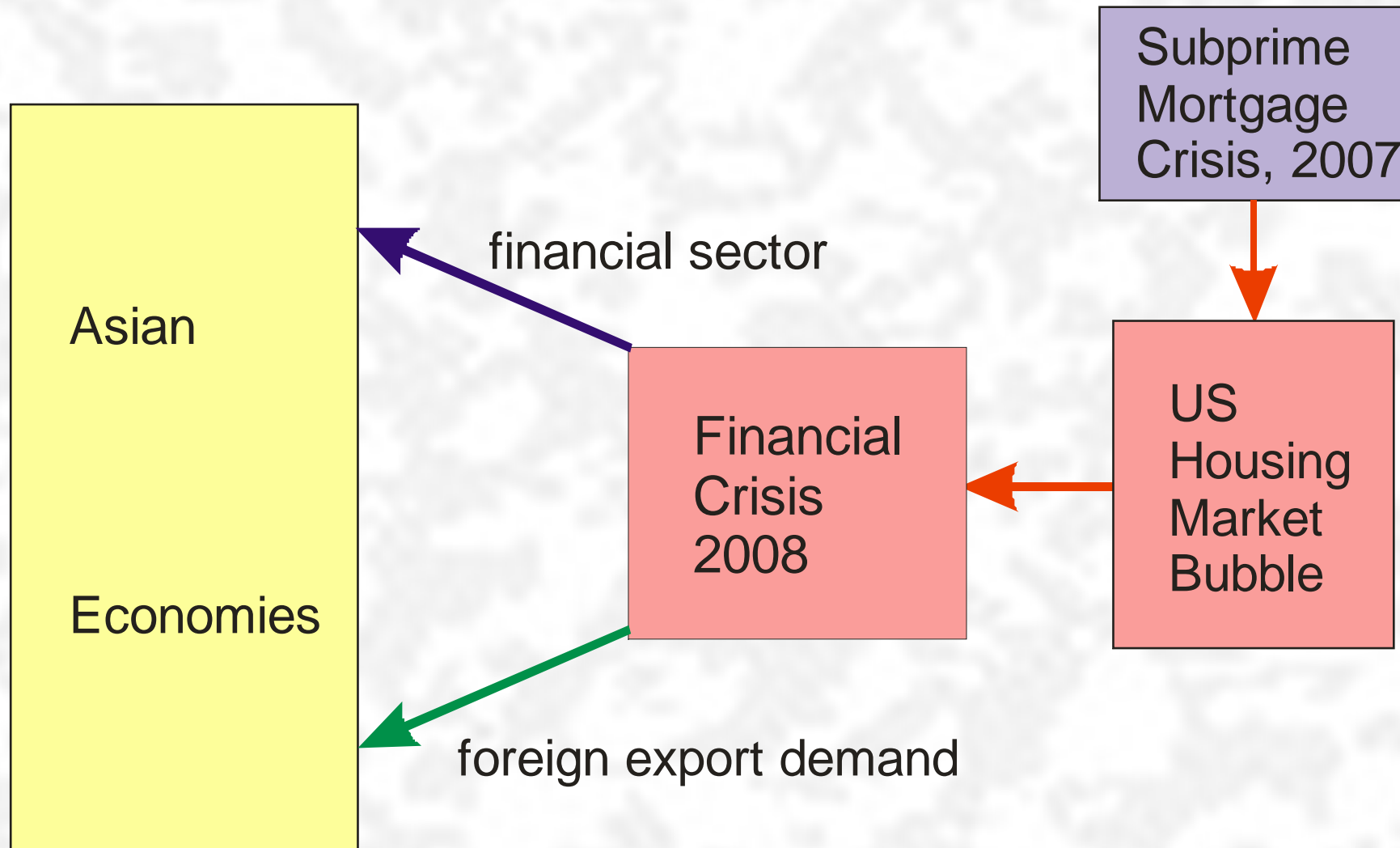
# Growth Rates of China



## **Objectives of this paper**

- to examine how the Chinese economy was affected;
- to analyze the policy responses of China
- to compare the effects of different policies

# Origin and Transmission

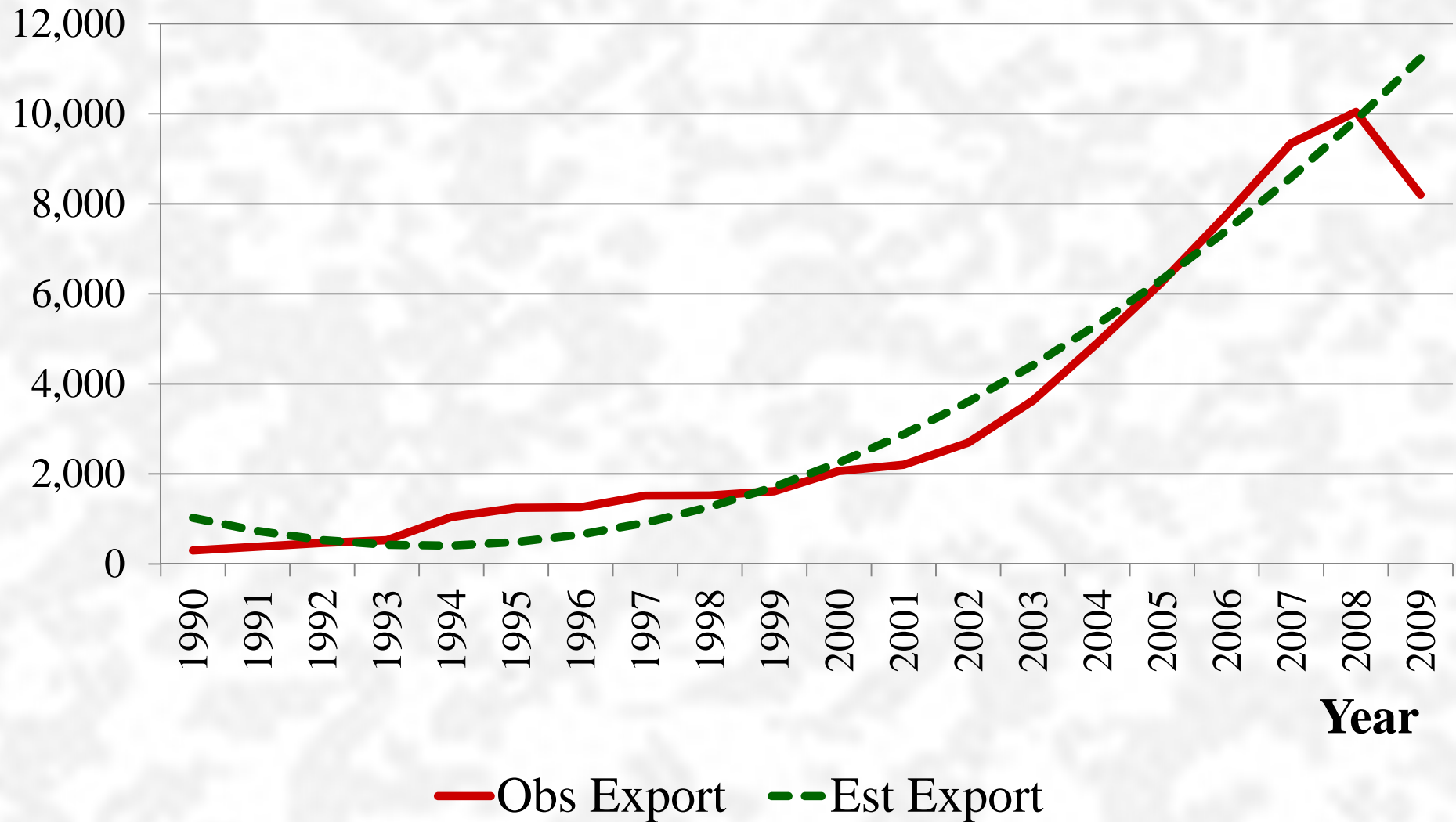


## **Main Channel of Transmission to Asia**

- financial sector in most Asian economies is quite stable, and some are not very open
- main channel is foreign trade, i.e., changes in foreign export demand

# Observed and Estimated Exports of China

Billion yuan





## **Drop in Export in 2009**

- as compared with the level in 2008:  
¥1,837 billion, or 18 percent
- as compared with the projected level in 2009:  
¥3,029 billion, or a 27 percent drop

# Macroeconomic Equilibrium

$$Y = C + I + G + E - M$$

$$C = C_0 + c(Y - T)$$

$$I = I_0$$

$$G = G_0$$

$$E = E_0$$

$$M = M_0 + m(Y - T)$$

# Multiplier

$$\alpha = \frac{1}{1 - c(1 - t) + m}.$$

## **Main Objective of Policy Response**

- to counter-act the negative impact of a drop in the foreign export demand
- Long-run and short-run effects should be considered.



## Policy 1: G

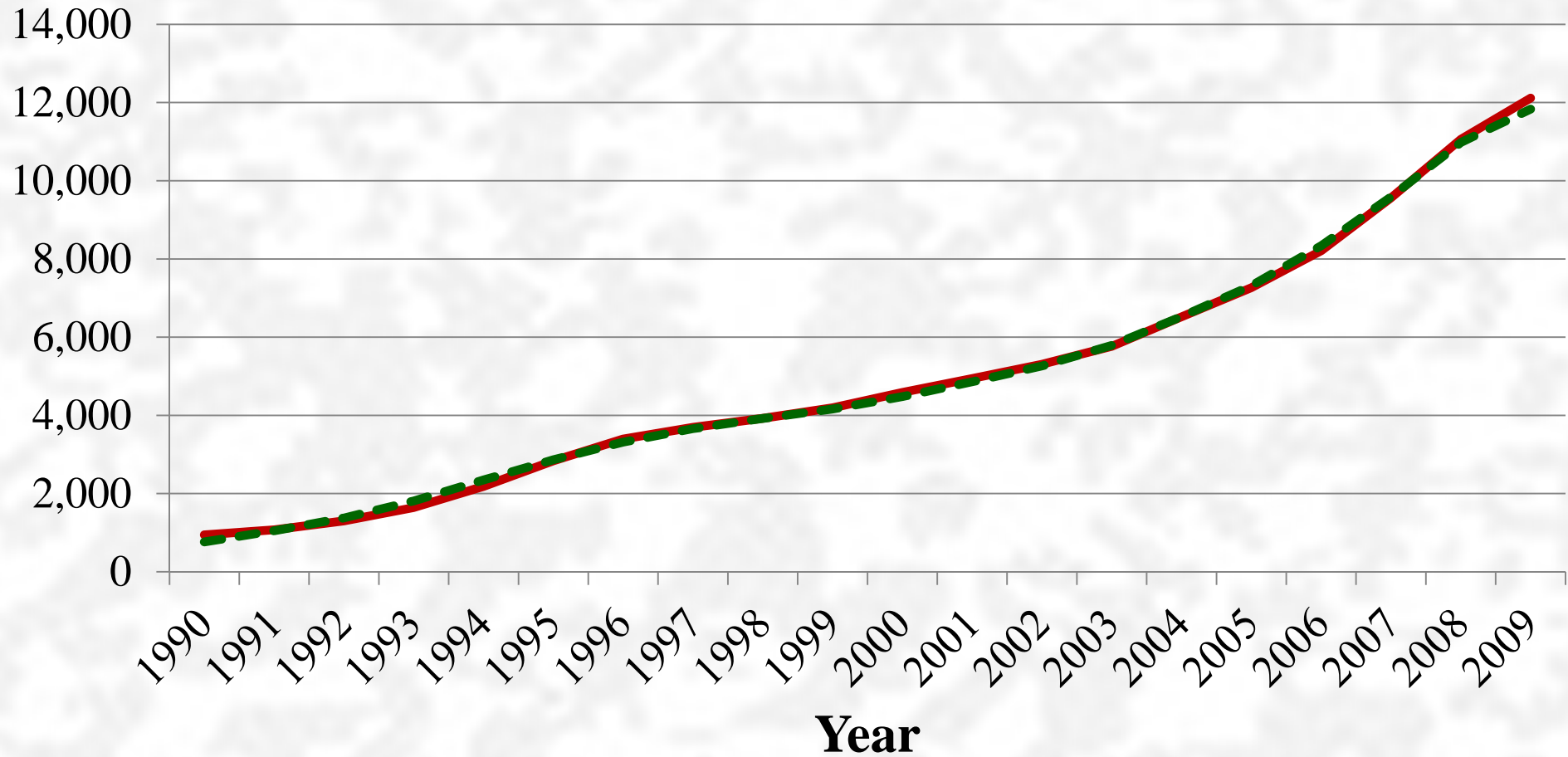
- to increase the government expenditure, or to lower the taxes, or both
- effect: not good, as the drop in  $E$  was quite substantial: 44 percent of the government expenditure if the 2008 export level is to be maintained (or 73 percent if the 2009 estimated export level is to be maintained).

## Policy 2: C

- to increase the household consumption expenditure, either the autonomous part or the marginal propensity to consume
- focusing on the change in autonomous part
- result, 2009: estimated consumption = ¥11,833 billion; observed consumption = ¥12,113 billion; rise by ¥281 billion, less than 10 % of the export gap

# Obs and Est Household Consumption of China

Billion yuan



— Obs HH Consumption

- - Est HH Consumption

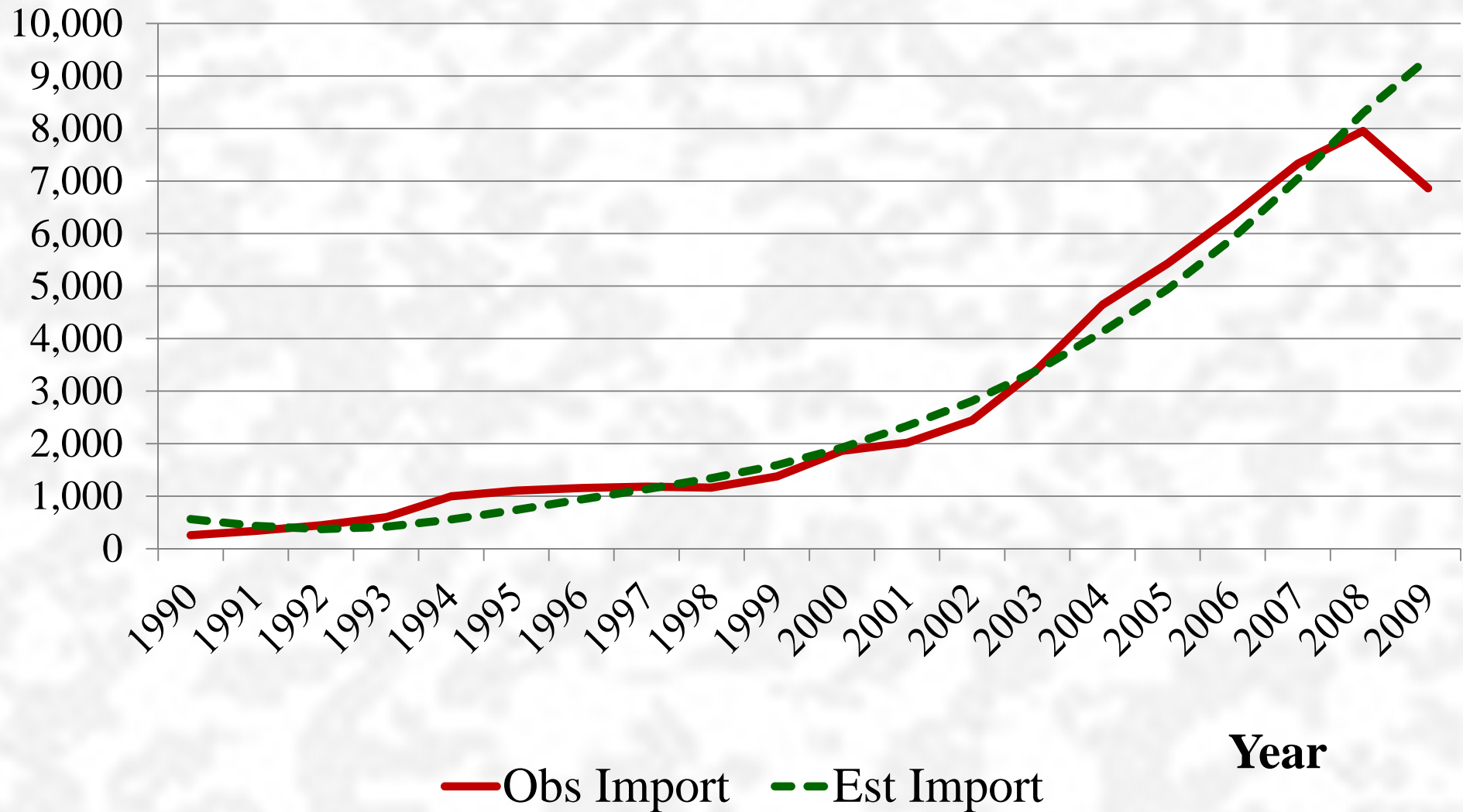
## Policy 3: M

- to decrease the import demand, either the autonomous part or the marginal propensity to import
- focusing on the change in autonomous part
- result, 2009: estimated import = ¥9,336.3 billion; observed import = ¥6,861.8 billion; a drop by ¥2,474.5 billion, or about 82% of the export gap



# Observed and Estimated Imports of China

Billion yuan



## Policy Comparison

- G: not effective to cover the big export gap
- C: change is not easy and not quickly
- M: more effective, more quickly; cost: hurt trade and lower the gains from trade

**The End**

Thank You Very Much.