

China has performed exceptionally

*Interview with economist and METP expert on
China's economic policies during times of crisis*

Q Could you describe how China has attempted to deal with the impact of the credit crisis that has swept across the globe in recent months?

A The onset of the credit crisis has brought about a frantic search for solutions. The problem assumed massive proportions in



the United States and induced waves of economic instability to other countries including China. The United States unleashed a massive set of policy instruments with the explicit aim of regaining economic balance. Those stretched all the way from monetary and fiscal policy to trade and capital market instruments. Other countries in Europe, notably Germany, pursued the same track. China followed suit. Interest rates were reduced, government spending increased and export promotion initiatives enhanced. The measures looked identical but the outcome differed.

Q What role did monetary policy play in China's approach to the crisis?

A China's central bank had cut interest rates several times since the onset of the crisis and the current PBC (base rate) is 5.31 %. China's low interest rate did not result in a massive borrowing rush, though. An explanation could possibly be found in the Chinese attitude towards debt and the fact that they are less likely to resort to debt to finance durable purchases. Total household debt stood at only 35% of disposable income in 2009. This is especially manifest in the property sector. Chinese property developers are less likely to borrow from banks to finance residential and commercial construction than their American counterparts. Culture seems to play a key role in the debt behaviour of consumers and businesses in China.

Q Fiscal policy instruments were also employed to combat the effects of the crisis in China. Were they effective?

A Both the United States and China resorted to government spending as a measure to combat the imminent threat posed by the credit crisis. The impact and achieved results contrasted sharply. The United States government effort was rescue-oriented. Financial intermediaries, financial

instruments and even finance-related executives malfunctioned.

The Chinese government approach was different. It was growth-oriented. A \$586 billion economic stimulus package, the largest in the country's history, was introduced in 2009. It included an easing of credit restrictions, an expansion of social welfare services and an enhanced infrastructure construction drive. Several measures in the new stimulus program also aimed at specific segments of the Chinese population, especially those in the countryside, which are facing economic strain. Affordable housing and health care featured here.

The Chinese economy responded to those measures and released data shows that 2009 GDP growth amounted to 8.7%-10.7% in the last quarter of the year. The boost in government expenditure while instrumental in inducing growth will bring budget deficit to 4% of GDP.

Q Did China's trade policy stimulate exports in this situation?

A China's trade policy measures were direct and clear in objectives. Exports had to maintain a "life saving" level in order to avoid a radical contraction of proceeds and an ominous rise in unemployment. The economic recovery programme contained, therefore, strong export promotion measures. Those included a stimulation of export of indigenous brands; a rise in export tax rebates, a degree of stability in RMB exchange rate and the introduction of experimental Yuan settlement measures. China's export volume grew by a near 15% in 2009 thanks to the measures

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Expert Prof. M.S.S. El Namaki on
of crisis.

and despite the global economic downturn. In contrast, United States exports fell by 15% and imports declined by 23% during same period. The external orientation of the Chinese economy drives economic policy even in times of crisis.

To summarize, three forces have contributed to China's exceptional performance: deeply rooted cultural forces that play a key role in debt behaviour of both consumer and businesses; the planning roots, both strategic and operational, of government functions in China seem to play a key role in government decision making; and finally, the external orientation of the Chinese economy continues to drive economic policy.

Q Your assessment of China's policies is quite positive. Will this positive development continue in the future?

A China has performed exceptionally well. However, for China's economic growth to continue, China has to deal with numerous constraints ranging from high savings,

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low consumption and seemingly undervalued exchange rate to excessive bank lending and oscillating property and equity markets. And all of that during what is likely to be an economic stimulus withdrawal phase. A premature stimulus withdrawal could undermine the ongoing recovery while a renewed stimulus could trigger inflationary forces and asset price escalation. Therefore, critical decisions are undoubtedly awaiting the decision makers down the road. ■

