

Structural Changes after the Global Financial Crisis :

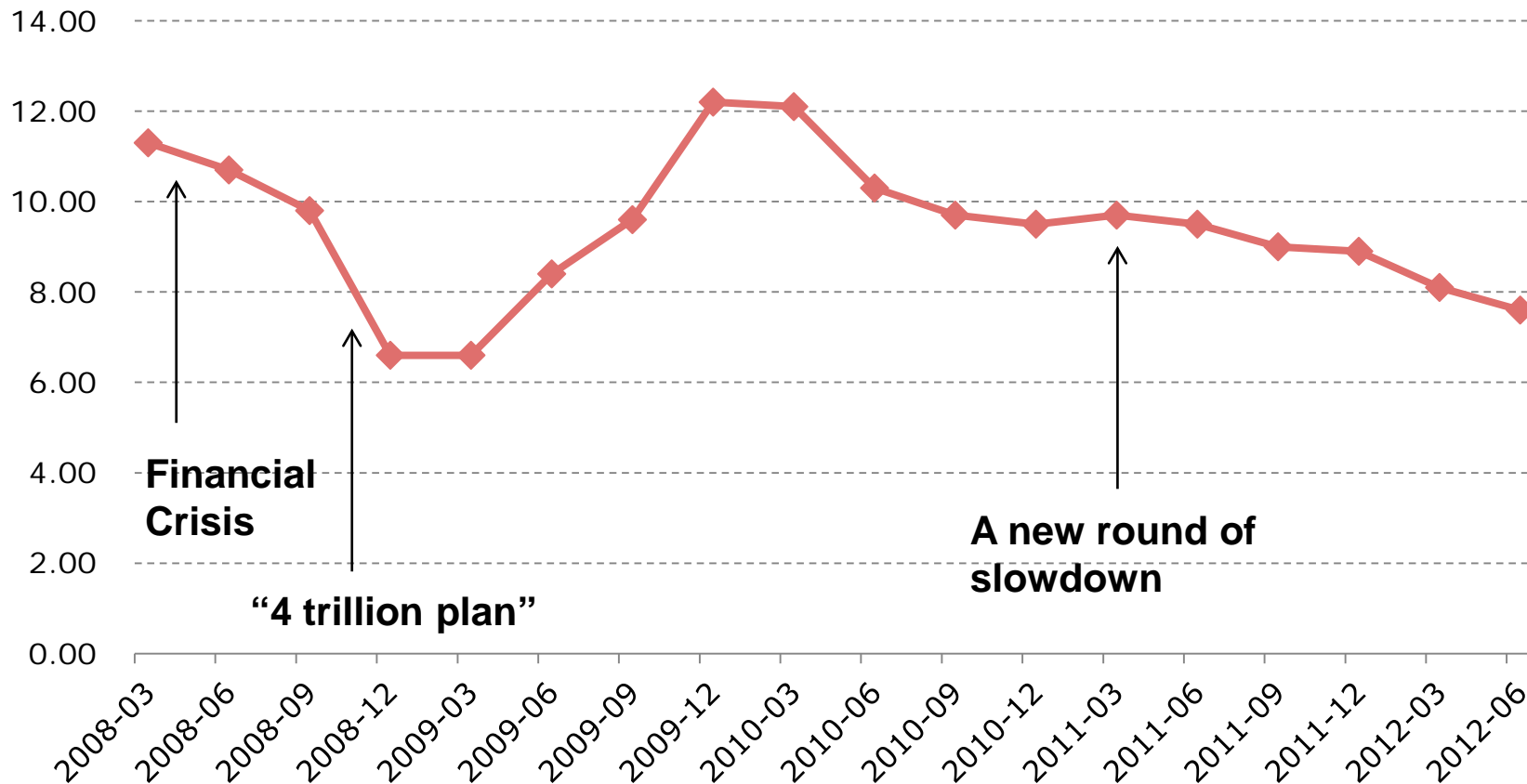
China's Perspective

Fan He
IWEP, CASS

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A snapshot of Chinese economy after 2008

Figure 1 China's Economic Growth from 2008 to present (Quarterly, YoY, %)



Not expansionary fiscal policy, but extremely monetary policy

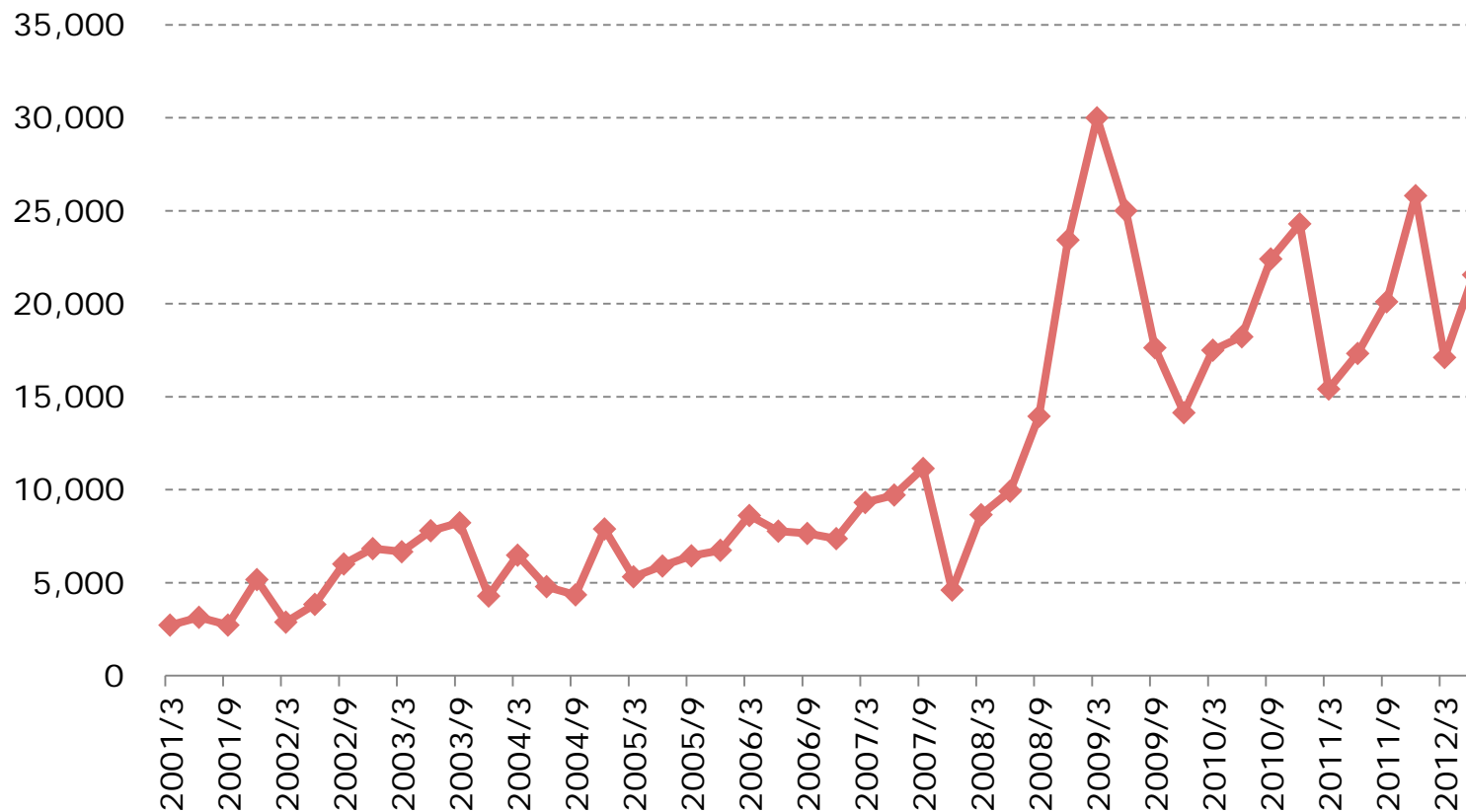


Figure 2 Credit expansion in RMB, SA , 100 million yuan

Stimulus-led recovery

- Strong recovery boosted by stimulus package.
- Housing bubble, then overall inflation
- Imbalances of Chinese economy further deteriorated.
- The share of investment in GDP increased by 8 percentage from 2008 and 2011.
- SOEs are the main beneficiaries of the 4 trillion Yuan stimulus policy.

Hard landing or soft landing?

- China is faced with a new round of slow down after 2011, with growth rate's graduate declining to below 8% YoY growth in 2012Q2

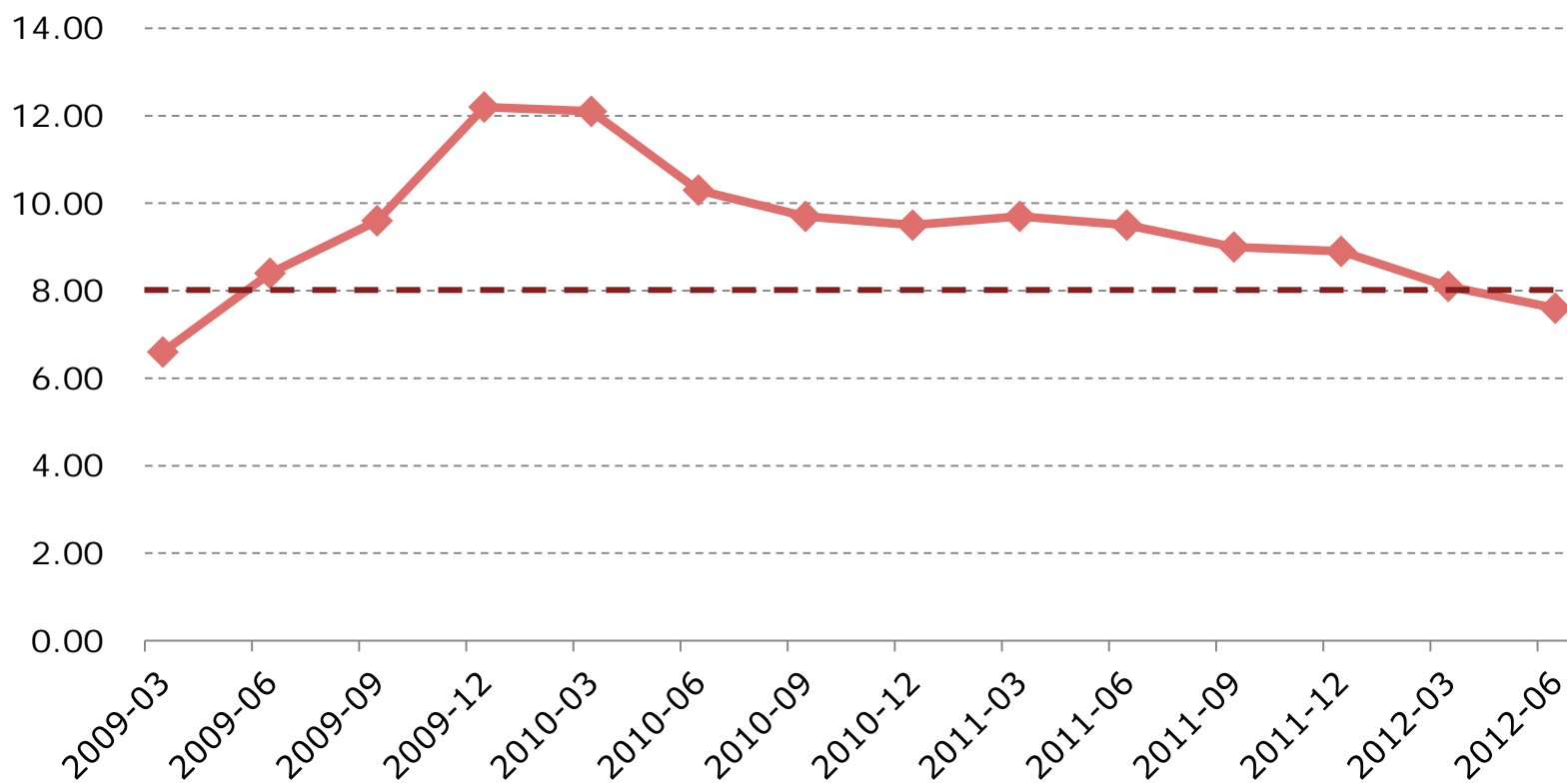


Figure 5 Growth rate after 2009, YoY, %

Policy tightening and slowdown

- **How does slowdown happen?**
- Macro-Policy is the main reason
- In 2012H1, policy tightening explains 52% of the decrease in investment , most significant are investment in real estate sector (27%) and infrastructure sector (25%).
- Policy tightening:
 - (1) end of the stimulus policy
 - (2) to suppress the housing price
 - (3) to control the inflationary pressure after the stimulus (CPI reached 6.5% in July, 2011, and is above 4% in 2011)

The fifth generation

- Legitimacy of the first and second generation.
- Legitimacy of the third and fourth generation.
- What's new for the fifth generation?

From industrialization to urbanization

- Challenges for the manufacturing sector
 - Increasing labor cost
 - RMB appreciation
 - Increasing commodity prices
 - Higher standard of environmental protection
 - overcapacity
- Urbanization is the new growth engine
 - Productivity, specialization and economics of scale
 - Job opportunities for unskilled labors
 - Innovation
 - Domestic demand

A bumpy road

- Potential risks related to structural change
 - Probably lower potential growth rate
 - Shrinking government revenue
 - Likely higher NPLs
- Unfinished reforms
 - Factor price reform
 - SOE reform
 - Central-local relationship
 - Building social safety network

It's the politics, stupid

- Diminishing marginal benefit of economic reform.
- High marginal benefit of political reform.
- Employment is more important than GDP growth.
- More concern for income distribution.
- Political reform?

Thank you

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