

CHINA'S RESPONSES TO THE ECONOMIC CRISIS

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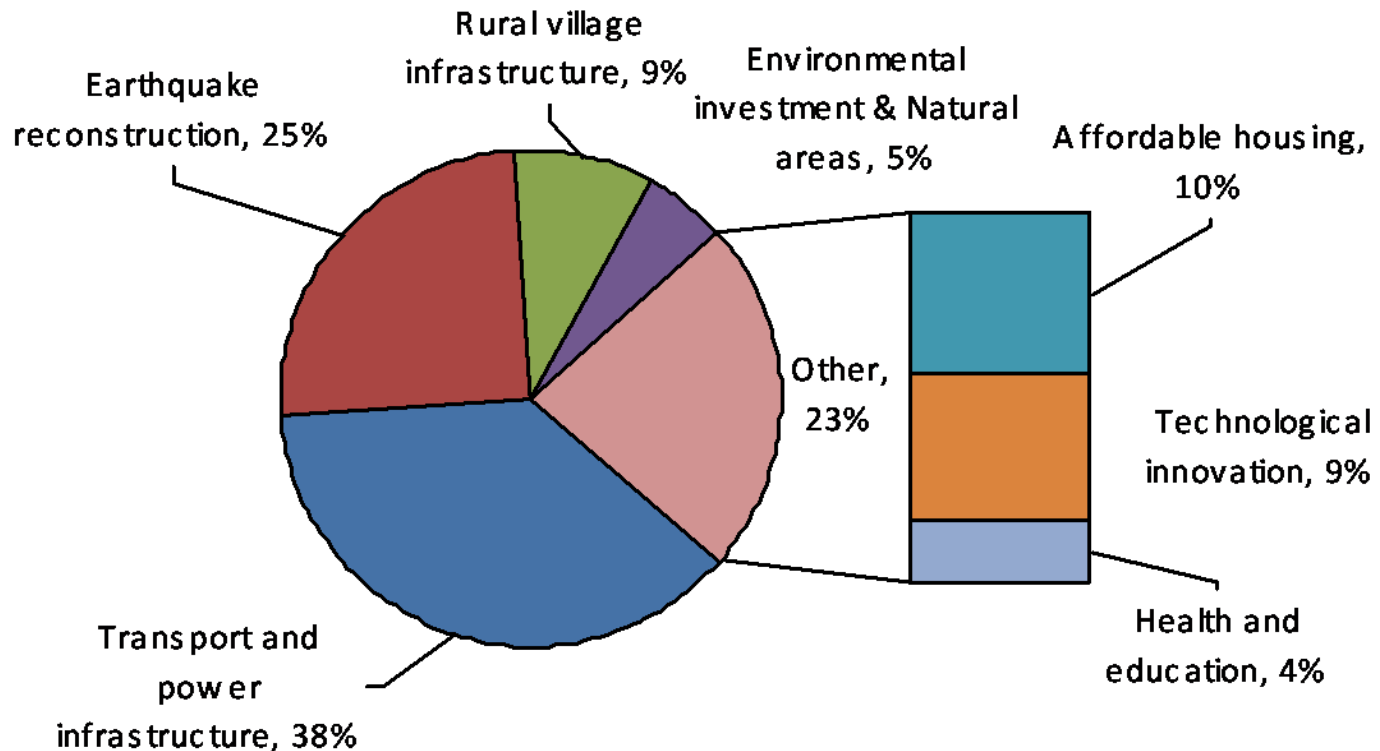
- **Central Government's Policy Initiatives**
- The Local Governments' Responses
- The Effectiveness of the Stimulus Measures

Combating Economic Crisis Tops Government's Agenda

- “unprecedented difficulties and challenges”
- Measures to cope with the sudden deteriorating economic conditions top the agenda of this year's National Committee of the Chinese People's Political Consultative Conference and the National People's Congress.
- Reiterated the target of 8% economic growth; unemployment rate below 4.6%

Central Government's Policy Initiatives

An eye-popping multi-dimensional and multi-phase Keynesian-type stimulus package of 4 trillion yuan by 2010



Central Government's Policy Initiatives (Cont'd)

4-trillion package

- paramount emphasis of this stimulus package on investment, especially those on infrastructure
- for sustainable development -- 14% of the total to strengthen environmental protection, conservation of natural resources and technological capacity.
- a number of social issues: providing affordable housing for low income households and increasing spending on healthcare and education; 10% and 4%

Central Government's Policy Initiatives (Cont'd)

– Two disbursements under the 4-trillion package

- in the fourth quarter of 2008, 100 billion yuan (USD15 billion), a high proportion designated for rural infrastructure
- another batch of investment totalling 130 billion yuan (USD 19 billion) announced on 3 February 2009; focus primarily on infrastructure investment.

Central Government's Policy Initiatives (Cont'd)

10 sectors for industry revitalisation plan

- steel, automobile, shipbuilding, petrochemical, non-ferrous metal, equipment manufacturing, textile, light industry, information technology, and logistics.

- various policies including tax incentives, subsidies, and bank loans
 - Textile: rate of tax rebates from 14% to 15% for exporting firms; preferential loans, exempting the import tax on inputs

 - Logistics: to allocate 100 billion yuan (by central and local governments) within two years to promote the application of innovative products

 - Petrochemical: 500 billion yuan to be spent in 2009-10 on upgrading of refineries and improving the quality of fuel to reduce emissions

Central Government's Policy Initiatives (Cont'd)

Another spending plan of 850 billion yuan (USD 123 billion)

- to improve health care and provide universal health care coverage in 2009-2011
- to provide basic medical coverage to both urban and rural residents, improve the quality of medical services, and make medical services more accessible and affordable for the ordinary people

Central Government's Policy Initiatives (Cont'd)

Scheme of rural household purchasing subsidy for home appliance

- each rural household eligible to claim at their local township government finance agencies a subsidy of 13% for purchase of up to two items of three products from designated brands
- started in Shandong, Henan and Sichuan in 2007
- extended to all rural residents on 1 February 2009, and four more products added (motorcycles, personal computers, water heaters, and air conditioners)
- The 13% subsidy jointly funded by the central and provincial governments, with an 80-20 split

Central Government's Policy Initiatives (Cont'd)

Measures to tackle job losses

- a circular issued in February 2009
- to encourage the placement of university graduates by providing subsidies, social insurance and student loans settlement
- A graduate trainee program for one million unemployed college graduates to be launched within three years
- economic incentives for private companies to recruit more graduates and workers as well as disincentives for enterprises' job-cut

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The Local Governments' Responses

Numerous investment projects

Shannxi	Project of Safe Drinking Water in Rural Areas, by 2012	800 (million yuan)
Jiangsu	Transport and infrastructure, 2009	81,000
Guangxi	Fix assets formation, 2009	600, 000
Anhui	Real estate development and investment, 2009	150, 000-180,000
Ningxia	Fix assets formation, 2009	107,200
Jiangxi	Agricultural products, 2009	130
Tianjin	Agriculture, 2009	10,000
Hunan	Projects for people's livelihood	35,000
Guangdong	Transport infrastructure, 2009	97,600
	Energy security, 2009	75,300
	Modern manufacturing, 2009	28,900
	Modern agriculture and irrigation, 2009	20,400
	High-tech industry, 2009	16,600

The Local Governments' Responses (Cont'd)

Measures to shore up consumption: issuing tourism vouchers and shopping coupons

Zhenjiang of Jiangsu	Tourism coupons to residents in the city and neighbouring cities	80 (mil yuan)
Nanjing of Jiangsu	Tourism coupons to local residents	20
Ningbo of Zhejiang	Tourism coupons to local residents	8
Hangzhou of Zhejiang	Tourism coupons	10
	Shopping coupons for low-income families	100
Chengdu of Sichuan	Shopping coupons to low-income residents	37
Guangdong	Tourism coupons for people age 55 and above	20
	200,000 travel coupons to rural residents	at least 13% discount on airfares and hotels
Zhongshan & Zhaoqing of Guangdong	400,000 coupons to residents of Guangzhou	

The Local Governments' Responses (Cont'd)

Measures to promote exports and employment

- Guangdong: eight favourable tax policies to reduce local exporters' tax burden of up to 3 billion yuan; 1.9 billion earmarked to support the industrial upgrade of the manufacturing sector
- Guangdong: 6 billion between 2009 and 2012 to help establish several industrial parks in less-developed regions to accommodate enterprises relocating from the Pearl River Delta region and to provide employment to 379,000 migrant workers.
- Guangzhou considerably reduced unemployment insurance premium from January 2009
- Changchun of Jilin: to reduce sales tax and provide government financial assistance in terms of bank loans to university graduates to start their own businesses.

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The Effectiveness of the Stimulus Measures

- overriding emphasis, by both the central and local leaders, on the large expenditure on infrastructure
- some of the investment projects been earmarked earlier and thus not additional spending; some planned over the next five years now brought forward
- Stimulus plan is starting to work
 - ✓ 6.1% growth in Q1 2009;
 - ✓ In March industrial production expanded 8.3% ; urban fixed asset investment increase 30%;
 - ✓ Shanghai Composite Index climbed 39% this year to an eight-month high

The Effectiveness of the Stimulus Measures (Cont'd)

- Investment-oriented stimulus may aggravate the economy's skewness towards investment; inconsistent with China's long term objective of pursuing a more balanced development model.
- Policies directed at spurring consumption through income-tax cuts could not offset the current downdraft quickly as is desired
- a more direct injection of funding into the social safety net; or the effectiveness of various consumption promoting plans would be limited.

The Effectiveness of the Stimulus Measures (Cont'd)

- Quality of growth: efficiency; excess capacity in some sectors; risk of massive resource misallocation;
- banking system: low returns and a possible piling up of new non-performing loans
new loans jumped more than 6 times to 1.89 trillion in March from a year earlier
- To correct the structural imbalance of China's economic development, a more fundamental economic reorientation might be necessary in the long term.

Thank You