

# Responding to the global storm: Resilience and China's ascendancy

Alex English  
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Riding out the Global Storm

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## INTRODUCTION

China's role is important

- Economic significance to global economy, including Australia
- Domestic social, political and environmental implications of response
- Geo-political ramifications for region and beyond

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## Questions

- What has been the impact of the global economic crisis on China?
- How has China responded to the crisis?
- How will China emerge from the crisis, both domestically and internationally?
- Can China once again turn a challenge into an opportunity?

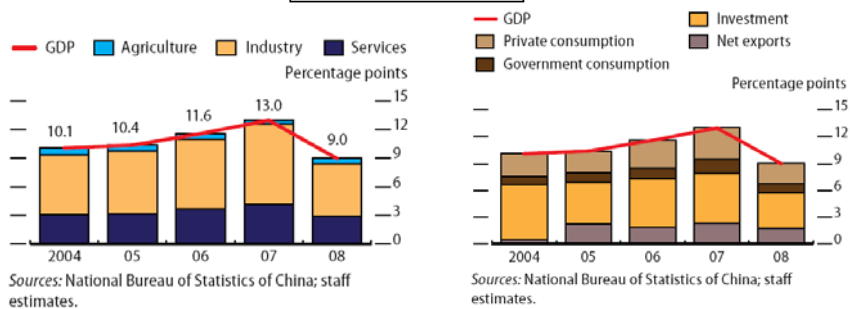
## Argument

- In the short-term, China will retain its capital intensive, industry-led growth strategy
- China's stimulus and 11<sup>th</sup> FYP set the foundations for the rebalancing of its economy
- A deeper, longer global recession will result in the rebalancing of China's economy
- The 'Global Storm' has accelerated the ascendancy of China

## Patterns of growth

- Ideology of economic growth
- Capital intensive, industry-led growth
- Decadal cycles of reform & growth

### Supply & Demand



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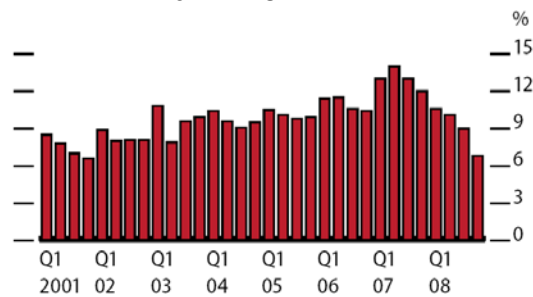
## The arrival of the 'Global Storm'

- 2007 economic overheating
- Impact

- Banking
  - Trade
  - Investment
  - Production & activity
- Complications

- Fiscal & monetary relations
- Convoluted statistics

### Quarterly GDP growth (YOY)



Source: CEIC Data Company Ltd., downloaded 15 March 2009.

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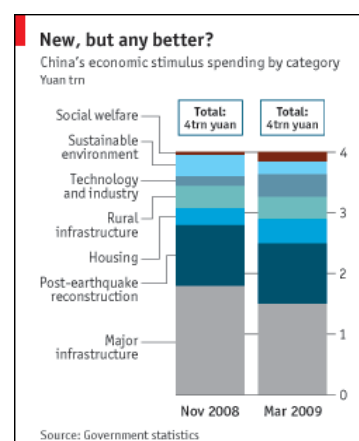
## The stimulus plan

Four strategic goals (¥4.4 trillion over 2 years)

- Rebalancing the economy: develop a long-term growth strategy increasingly led by domestic consumption rather than exports.
  - Efficiency: modernise and restructure industry to achieve higher productivity and efficiency.
  - Social balancing: strengthen and expand social welfare and employment
  - Stability: maintain the broad goals of the economic reforms
- 
- Repackaged 2006-2010 11<sup>th</sup> Five Year Plan (FYP)

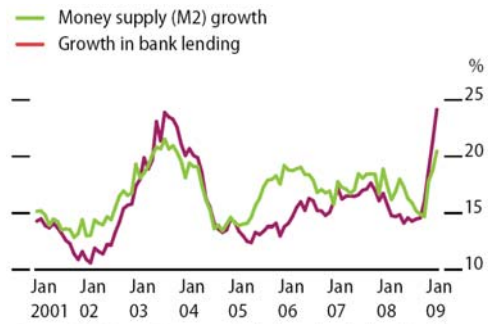
## Details

- Protecting 8% GDP growth
  - Monetary loosening
  - Social protection
  - Fiscal measures
  - Rural development
  - Infrastructure
  - Industrial consolidation
- 
- Assessment



## Assessment

- 'Rebalancing' the economy & harmonious development?
- Lending
- Confidence
- Employment



Source: CEIC Data Company Ltd., downloaded 15 March 2009.



## Geo-political implications

Post-Bretton Woods (Washington consensus) order

- An international financial treaty outlining the 'rules of the game';
- Tighter financial regulations;
- Enhanced cash on hand held by the IMF;
- Enhanced monitoring and accountability;
- Greater representation and funds from emerging economies, such as BRIC;
- A new global currency.

## A new global & regional order

- Replace US\$ with IMF Special Drawing Rights
- Yuan ascendancy
  - Trading relations
  - Investment
- Reforming the IMF



Zhou Xiaochuan  
Governor, Bank of China

Photo: Xinhua

## Conclusions

“We face unprecedented difficulties and challenges”

- Premier Wen Jiabao, March 2009

- Heavy investment in infrastructure & SOE industry
- Growth is the key
- Mid-term gradual rebalancing likely
  - further delays unsustainable
- Domestic considerations remain priority
- Yet, significant regional & global implications

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## Implications for Australia

- Demand for resources
- 'Intimate' relations
- Investment debate
- Case of education



Photo: Andrew Meares, The Age

