

# Introduction

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Since late 2008, the financial crisis-turned-economic crisis has spread widely across the globe. Like many countries in both the developed and developing world, China has been affected extensively. To a large extent, this is due to China's growing integration with and rising dependence on the rest of the world. Consequently, the global economic crisis, currently still unfolding, is expected to have profound and lasting implications for China in both its internal conditions and its changing role in the wider world.

Initially, the evidence of a serious economic downturn was not clear due to the measures implemented by the Chinese government to rein in an overheating economy and to improve environment ahead of the Olympic Games in August 2008. By the fourth quarter of 2008 though, it became evident that the Chinese economy had suffered a sharp decline as a result of the sudden disappearance of export demand from the United States and the European Union.

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Year-on-year gross domestic production (GDP) growth slowed to only 6.6% in the last quarter of 2008, from 11.5% in the last quarter of 2007. For the whole year of 2008, the economy registered a 9% growth, ending China's five years of double-digit growth since 2003.

While the figures themselves may look quite decent, especially when compared to the performance of other major economies which have registered negative growth, the quick deceleration caused grave political and social concerns in Beijing. For a large developing country like China, which is undergoing rapid economic and social transformation, sustaining a healthy growth is crucial to generating employment and maintaining social stability. Often, the government considers an annual GDP growth of 8% as the minimal level to generate sufficient job opportunities to absorb the number of new entrants to the labour market as well as those moving from the rural to the non-agricultural sector.

Recognising that the economy is facing unprecedented difficulties and a deterioration in growth prospects, the Chinese government responded quickly in November 2008 with a series of strong and decisive measures. These include policy initiatives to prop up domestic demand in both consumption and investment as well as measures to assist export firms. While numerous policy initiatives have been announced and discussed at the national and local levels, such as the loosening of monetary policy, subsidising rural consumption of various home appliances, and increasing tax rebates for exports successively, the government's ambitious stimulus package of four trillion RMB has attracted the most attention, domestically and internationally.

Many important questions may be asked regarding the Chinese government's various efforts to reinvigorate the economy. One set of questions concerns the immediate or short-run implications of these efforts. As domestic demand has played the dominant role in advancing China's economic growth over the past decades, there are good reasons to believe that the aggressive stimulus package which placed great emphasis on massive investment, as well as other policy measures, will be able to prevent the economy from sliding further down and that the target of 8% economic growth for 2009 is achievable.

Indeed, we have already see signs of economic recovery as shown by recent economic figures. In the second quarter of 2009, GDP grew by 7.9% on a yearly basis, not far off from the 8% target for the whole year and a significant improvement over the 6.1% in the first quarter of 2009.

The more essential and difficult question, however, is whether this economic recovery or growth is sustainable in the medium to long term. The current global economic crisis has served to expose the various weaknesses in the world economy, including the expanding global imbalances among economies. Similarly, the grave impact suffered by the Chinese economy during the current crisis has made it more evident that the country needs to reflect on its growth experience and contemplate its way forward to achieve lasting development.

Over the last three decades, the Chinese economy's average annual real growth of close to 10% had been remarkable. Such attainment has been built upon two main pillars, economic liberalisation and integration with the world economy. Domestically, marketisation and decentralisation have jointly re-energised and intensified competition among firms and among localities. Equipped with a young and relatively well-educated labour force and a high saving rate, China has invested heavily and thus industrialised rapidly. Indeed, domestic investment and the resulting industrialisation are the main engines of China's growth.

Externally, China has benefited from various favourable economic conditions. China's economic opening since the late 1970s coincided with the industrial restructuring in much of East Asia when export-oriented manufacturing sectors in these economies are forced to relocate in search of lower production cost and more favorable policy environment. China has become one of the most favoured designations for direct investment. China's accession to the World Trade Organisation in late 2001 propelled a new wave of inward foreign direct investment to China as it is formally included in the global trading system.

Not only did China rapidly expand its trade to become intensely integrated with the world economy, it has also developed into a centre of a regional production network in Asia. Essentially, China imports

various inputs, including raw materials as well as parts and components, from neighbouring economies. After further processing and assembling, China shipped the finished products to the world markets, mainly the United States and the European Union. Thus, what might have appeared to be “made in China” is quite likely a product “made in Asia”.

This has a number of implications for China’s external economic relations. First, China’s trade expansion, or more accurately export expansion, depends crucially on the growth of the consumer markets in the West such as the US and the EU. As this current economic crisis has shown, such consumer expansion is not sustainable. Further, the large and increasing trade deficits these economies have with China may also lead to protectionist policies. Second, as the centre of the regional production network, changes in China’s export markets would lead to even greater fluctuations in its trade with neighbouring economies, where many have large trade surplus with China. To alleviate such perils, Asian countries may step up efforts to establish a formal regional trade bloc by pushing forward negotiations for various free trade agreements.

Indeed, China’s neighbouring economies, including Korea, Taiwan, Hong Kong, Macao, and members of ASEAN, are without exception affected by the global economic crisis as well as by China’s declining trade with them. Each has taken measures to stimulate its economy while strengthening its trade relations with China and among themselves. These include efforts by the Ma administration of Taiwan to normalise and strengthen economic ties with the Mainland and to initiate talks on a possible trade pact across the Taiwan Strait.

Domestically, China’s rising dependence on trade for growth has also led to several consequences. First, the economy is more vulnerable to external shocks than many have believed. Although domestic investment and consumption has contributed more than four-fifths of China’s total GDP in recent years, trade and foreign investment are hugely important for the economy, for example, to generate employment and improve productivity through technology transfer and intense competition. Moreover, the problem of trade decline has hit most severely the regions that have been the most dynamic and

prosperous, including the Pearl River Delta and the Yangtze River Delta regions. The regions, already struggling with rising costs, have to accelerate their efforts to re-structure and re-innovate their economies. Furthermore, among different groups of people, migrant workers from inland areas working in the export sector in coastal regions have been the first and the most seriously affected. This has caused grave concerns on human grievances as well as societal stability and social cohesion.

Running in tandem is a new round of ideology debates on development and progress highlighted by the criticism of the *Washington Consensus* and Neoliberalism, both emphasising private entrepreneurship and market. Inside China, this is represented by the ascending voices of the *New Left* who advocate strongly the role of the government in redressing the problems of injustice, inequality, pollution and other negative effects of liberalisation and globalisation advocated by the West. Such ideological debates may push government policy making to shift from the growth-above-all-else mantra towards one that combines market with social concerns such as social security, equity, and strong environment protection.

There is little doubt that after 30 years of reform and opening to the world, China has achieved remarkable economic progress. At the same time, however, the country is facing growing challenges including huge and rising trade imbalances, over-dependence on investment and inadequate consumption, rising income inequality, insufficient job creation, and environmental degradation. Such problems are further exasperated by the current global financial and economic crisis.

In this edited volume, we present 13 chapters that examine various aspects of the problems engendered by the current global economic crisis on China and some of its neighbours. The first three chapters examine broadly China's economic conditions since 2008 as well as government's policy response to counter the negative impact of the global economic crisis. In Chap. 1, John Wong provides an overview of China's economic performance and the country's economic outlook for 2009. He reckons that the sharp slowdown in China's growth in late 2008 was due to both domestic policies to prevent overheating and the sudden negative external shocks.

He believes that the government's stimulus package will be able to pull the economy out of the downturn while China's growth pattern of a heavy reliance on domestic investment and foreign trade will remain unchanged. Such confidence in the resilience of China's economy is also reflected in Chap. 2. Yang Mu and Lim Tin Seng believe that domestic demand remain the main source of China's growth. Consequently, China's strong fiscal position and its accommodative monetary policy will ensure its growth in 2009 and that the country is in a pole position to recover. However, the authors also express caution that a strong and lasting resurgence has to wait till the world economic condition improves. Chapter 3 by Sarah Y. Tong focusses on the Chinese governments' policy measures in response to the crisis, both at the central as well as various local levels. While the policy initiatives cover a broad range of areas, including spending on investment, stimulating domestic consumption, accelerating social safety net, and revitalising industries, the paramount emphasis remains with investment. While the policies are believed to be pragmatic to restore economic momentum, Tong warns that they may slow China's pursuance of a more balanced development in the longer term.

The next two chapters take a regional approach to examining the impact and implications of the economic crisis. Chapter 4 by Huang Yanjie and Chen Shaofeng looks at the Pearl River Delta region in southern China, which has served as the forefront of China's economic reform over the past three decades and is China's most export-oriented region. Consequently, the region is most severely affected by the sudden dry-out of export demand and the subsequent economic and social difficulties, including mass plant closures and lay-offs of migrant workers. The local leadership, determined to invigorate the economy, initiated various policy measures to accelerate industrial upgrading. While it might still be early to evaluate the outcome, such exercise will offer important lessons for China's economic development in the long term. Chapter 5 by Yu Hong compares Yangtze River Delta region with the Pearl River Delta region in their economic performance during the current economic crisis. These two regions accounted for more than a third of China's total GDP and are two of China's most dynamic regions. While both

are highly export-oriented, there exist distinct differences between the two such as their industrial structure and export composition. Yu examines the differences and the relative strengths and weaknesses of the two regions to show how they might learn from each other.

Chapters 6–8 examine the three neighbouring economies of Taiwan, Hong Kong, and Macao, respectively. Chapter 6 by Zhao Hong discusses the grave impact of the global economic crisis on Taiwan and the government's efforts to stabilise the economy. Such efforts focus on two aspects, one to stimulate domestic economic activities in investment and consumption and the other to strengthen economic ties with mainland China. In the long-term, as Zhao argues, Taiwan's economic vigour depends on its ability to restructure the economy to one that is domestic demand driven and more tightly integrated with economies in East and Southeast Asia. In Chap. 7, Zhang Yang highlights the downward spiral of Hong Kong's economy during the crisis, due to slackening exports, weaker domestic demand, and withering investment. While the Hong Kong government responded swiftly by putting forward measures to stabilise the financial market, support enterprise, and create employment; Zhang maintains that Hong Kong's economy is expected to shrink modestly by around 6% in 2009. This is attributable to its close economic relations with a growing hinterland of the mainland. Chapter 8, by Zhang Yang and Fung Kwan, discusses the economy of Macao, which has suffered gravely during the current economic crisis due in part to its over-dependency on the gambling industry. While the Macao government has long been convinced that the long-term prosperity of the territory's economy lies in its diversification, Zhang and Kwan believe the current crisis and the break in the gambling and tourism-led boom may serve as an additional force to facilitate economic diversification, where a more diversified tourism with leisure and business conventions is likely to be the focal point.

Chapters 9 and 10 examine two of China's important trade relations, one with ASEAN and the other with South Korea. In Chap. 9, Sarah Y. Tong and Chong Siew Keng explain how a sharp slowdown in China's trade expansion has led to an even greater decline in its trade with many of its neighbors including ASEAN, due to a highly

inter-dependent regional production network in the region. Tong and Chong believe that, with the looming danger of trade protectionism across the world, economies in Asia need to reaffirm their commitment to free trade and economic integration in both intra-regional and extra-regional perspectives. The region needs also to develop its own consumer market to ensure long-term growth and prosperity. In Chap. 10, Zhou Shengqi examines Sino-South Korean bilateral trade relation, which has developed strongly since the early 1990s but has encountered growing challenges in recent years, especially during the current economic crisis. While the two economies continue to demonstrate complementarity in many trade goods, there is increasing competition between “made-in-China” and “made-in-Korea” products both at home and overseas markets. Zhou assumes that a bilateral Free Trade Agreement will bring benefits to both countries by expanding the market and facilitating industrial restructuring.

The remaining three chapters, Chaps. 11–13, look at the impact of the crisis on ideological, social as well as foreign relations aspects. In Chap. 11, Bo Zhiyue and Chen Gang examine the current ideological debate spurred by the current economic crisis and the ascendance of China’s New Left, who criticise Anglo-Saxon Neoliberalism and advocate “state capacity”. The aspiration of the New Left is to use state power to redress the problems of injustice, inequality, pollution and other negative effects of privatisation, marketisation and globalisation. Bo and Chen argue that the New Left may already have affected Chinese government policy making as seen in the shift towards social security, equity, and environment protection.

Chapter 12, by Zhao Litao and Huang Yanjie, discusses the implications of the current economic crisis on China’s social stability. In particular, Zhao and Huang examine two groups of people — retrenched migrant workers and newly graduated college students — who are having difficulties in finding a desirable job. Overall, the authors believe they will not post serious challenges to social stability. While the number of retrenched migrant workers is huge, Zhao and Huang argue that the retrenched are too disorganized and segregated to launch large-scale protests in urban areas. They also believe that

college students, with the resources to organise protests, are likely to lower their expectations than resort to collective action. The possibility of social unrest may further be reduced as the government is acting to pre-empt a potential crisis by increasing employment and addressing the grievances of disgruntled social groups.

Chapter 13, by Zheng Yongnian and Lye Liang Fook, examines China's external response in the global economic crisis. Since late 2008, China has been inadvertently thrust into the political limelight as the world's largest holder of foreign reserves. While China has been perceived as a "saviour" and expected to act more assertively to stabilise the international financial system, China's response has been cautious and calibrated, according to Zheng and Lye. As the Chinese government stated, its primary preoccupation is getting its own house in order. Zheng and Lye believe that China is ready and willing to work with other countries and international institutions to restore world growth to be regarded as a responsible and constructive player. They also argue that China should not take a leadership role in bringing the world out of its economic doldrums as it is not in its interest to do so.