

A LOOK AT CHINA IN THE CURRENT CRISIS

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In the current financial crisis new bad news about the United States and Europe abounds. But where does China stand in this crisis?

An overview of the economic situation in China is provided by the Ifo World Economic Survey. The assessment of the situation and the expectations clearly show that China is also seriously affected by the crisis. Figure 1 shows that the economic climate decreased continuously since Q1 2008. From Q3 2007 to Q1 2009 the climate index dropped by 54.2 percentage points to a value of 59.7. This is the lowest level since the survey results in 1990. Better results, with a value of 95.0, were recorded in Q2 2009.

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Are these results in line with economic variables of the Chinese economy? For many years economic development in China has known only one direction. Between 2001 and 2007, nearly every quarter China reported rising growth rates. By Q3 2007 China reached a growth rate of 13.4 percent. Since then a steady decline has occurred as shown in Table 1 and Figure 2. The latest quarter figures historically low growth rates of 6.1 percent. But how worrying is this development? Compared to the other three BRIC countries (Brazil, Russia and India), China has the highest growth rates for the past and coming years

Figure 1

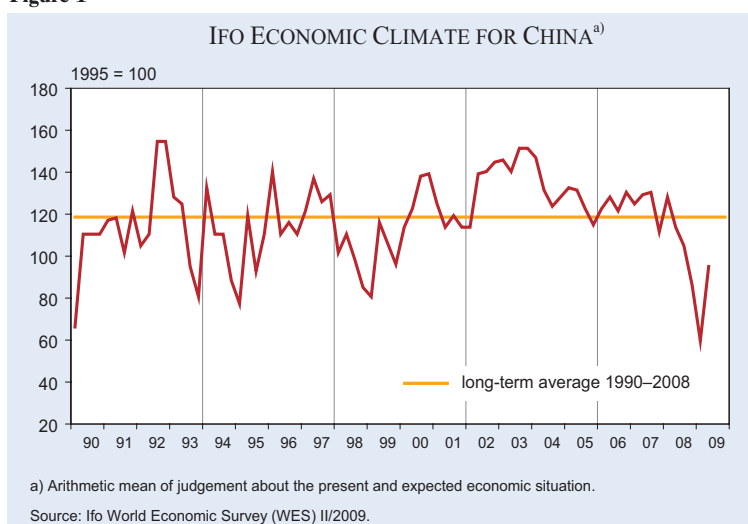


Table 1

China at a Glance

Real GDP growth (%)	2005	2006	2007	I 2008	II 2008	III 2008	IV 2008	I 2009
	10.4	11.6	13.0	10.6	10.4	9.9	9.0	6.1
WES Climate Index 1995=100	III 07	IV 07	I 08	II 08	III 08	IV 08	I 09	II 09
	130.4	111.6	128.2	113.8	105.0	86.2	59.7	95.0
Consumer Price Index (%)	2005	2006	2007	2008	Jan 09	Feb 09	Mar 09	Apr 09
	1.8	1.5	4.8	5.9	1.0	-1.6	-1.2	-1.5
Current account (% of GDP)	2001	2002	2003	2004	2005	2006	2007	2008
	0.3	0.6	0.7	0.9	2.0	2.7	3.6	3.8
Main interest rate (%)	Jul 98	Dec 98	Jun 99	Feb 02	Mar 04	Jan 08	Nov 08	Feb 09
	5.22	4.59	3.24	2.7	3.33	4.14	3.06	2.79
Unemployment (%)	2005	2006	2007	I 2008	II 2008	III 2008	IV 2008	I 2009
	4.2	4.1	4.0	4.0	4.0	4.0	4.2	4.3

Sources: OECD; IMF; National Bureau of Statistics; Ministry of Human Resources and Social Security; Ifo World Economic Survey (WES) II/2009; Reuters EcoWin.

Figure 2



Figure 3

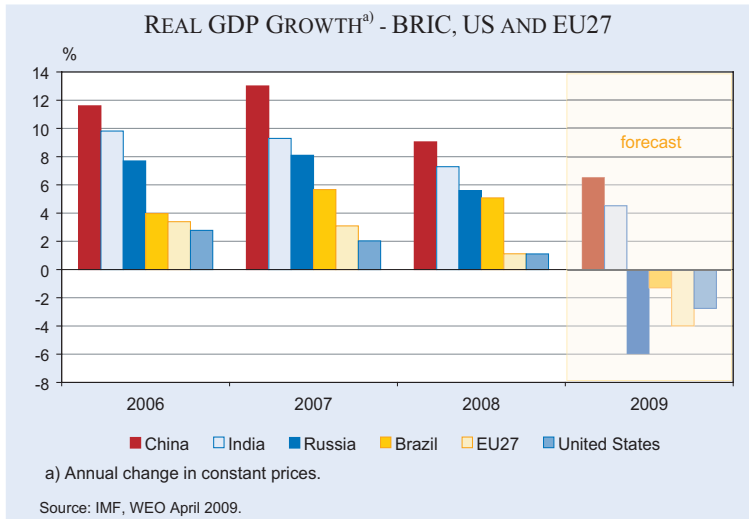


Figure 4



(see Figure 3). While China grew by 9.0 percent in 2008 and Brazil recorded the lowest BRIC country with only 5.1 percent. The gap with the developed economies is large: the EU27 and the United States achieved only 1.1 percent in 2008.

While the Chinese consumer prices rose sharply after 2006, in 2008 they nosedived. In February 2008 the highest inflation measured at 8.7 percent. Up to April 2009, there was a price decline of 1.5 percent. February 2009 was the first time since 2002 and 2003 that there was negative price development (Figure 4).

The current financial crisis was triggered by prices on the US real estate market. In China there was no excessive overshooting of its housing price index (Figure 5). However the bursting of the US real estate bubble also had a downstream impact on Chinese house prices. From 2008 onwards the house price index decline by about 10.9 percentage points.

To stabilize the demand side, a country's exports are very important. As a result of the crisis, however, foreign demand of Chinese goods collapsed (Figure 6). Exports dropped by 22.6 percent in April 2009 compared to the same month of the previous year. Imports decreased by 23.0 percent in the same period. Since the beginning of 2009, exports and imports have rebounded. Of note is that the cyclicity of Chinese imports and exports has become more pronounced.

The Chinese stock indices have been sending out positive signals since the end of 2008, although

Figure 5



precisely at the moment that Chinese exports tanked. The stock markets are apparently an initial sign of hope, but in order to secure sustainable growth, investment in research and development is important, too. In this respect, China has clearly caught up (Figure 7). While in 1995 China invested 10 billion current PPP US dollars in research and development, almost 90 billion current PPP US dollars were invested in 2006. Since this volume is only a 1.4 percent share of Chinese GDP, this appears to be a development with potential.

Figure 6



Figure 7

