



中国社会科学院 世界经济与政治研究所  
Institute of World Economics and Politics (IWEP)  
Chinese Academy of Social Sciences (CASS)

# China's contribution to the world economy: short-term concerns and long-term challenges

GAO Haihong  
IWEP, CASS

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## 1. Uncertainty

- Scenario analysis
- Which is worse, the US or Eurozone
- Market opinion



## 2. Soft landing (target laid out by the government for 2012)

- Growth: 7.5% (with a buffer)
- CPI: 4%
- Unemployment: <4.6%
- Export + Import: 10%
- Fine-tuning policy: monetary easing + fiscal reform

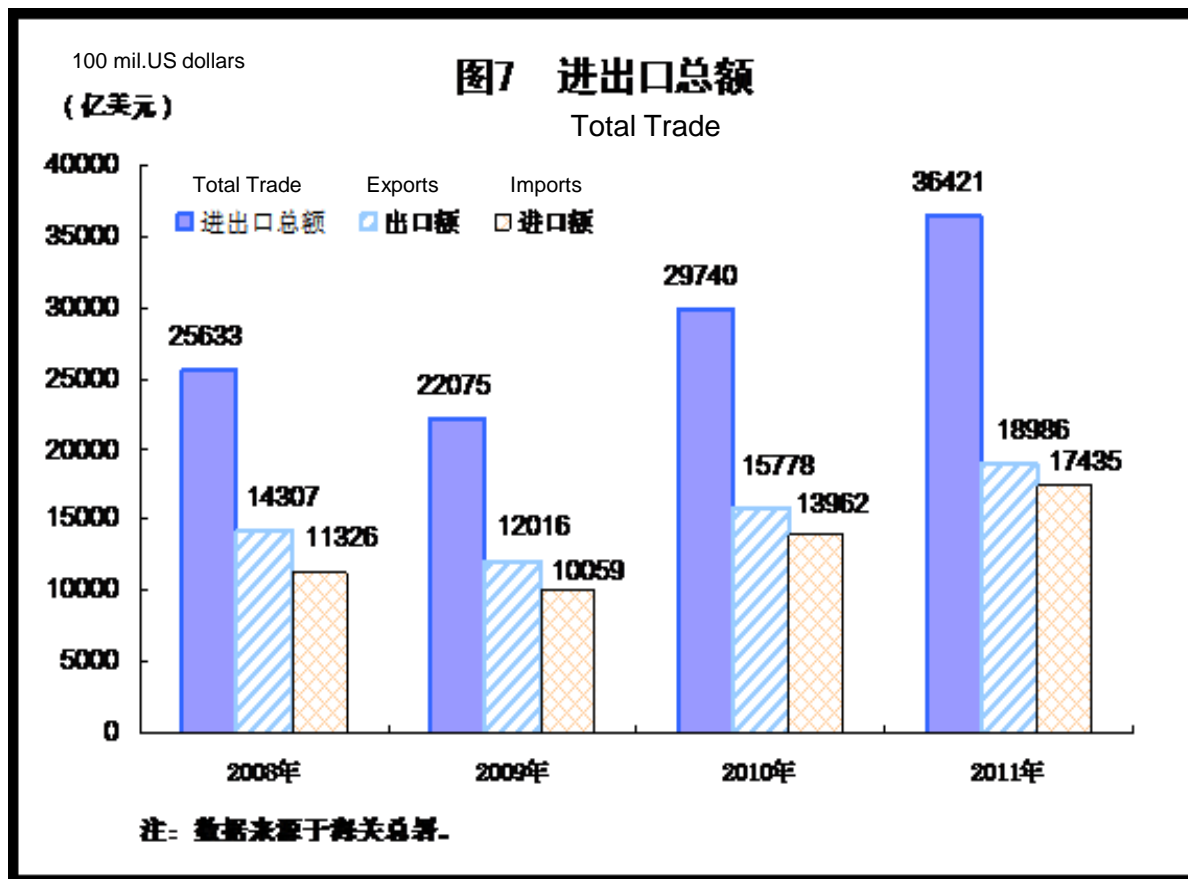


- **Worrisome**

- Trade: minus contribution to GDP; Rocky road with the US; Shrinking with Eurozone →
- CPI: is 4% optimistic? imported inflation; rising labor cost
- Monetary easing has downsides: property bubble; new NPLs
- Fiscal reform is more welcome: min. wages, tax cut



Total trade  
Attributed to import  
Surplus narrowed





## 3. Financial stability

- Capital control in place but with loopholes
- RMB internationalization adds complexity
- Global liquidity concerned (cyclical, spillover, psyc)
- FX reserve management difficulty



## 1. Structure reform

- Growth pattern shift

Consumption and investment driven

Contribution to GDP: C (54.2%); I (51.6%) Ex (minus)

- Reform enters deep water

Inequalities between regions and people

Social security, pension, health insurance, education

Fiscal reform/wealth redistribution/middle class

State-owned/private sector? A tough call!



## 2. Strategy of the RMB internationalization

- Step-by-step approach (bailout, trade, HK, region) [->](#)
- Risks attached to ambitious and careless opening
- Sequencing: three dishes to serve
  - @ capital account opening
  - @ exchange rate flexibility
  - @ domestic reform - sector, market, liberalization





# use of RMB

<b>Private use</b>	<b>Public use</b>
Trade settlement (no limit)	Currency Swaps between central banks
Bank loans (in Hong Kong)	Swaps under Chiang Mai Initiative
Bond (in Hong Kong)	Reserve for central banks
Equity (QFII, RQFII)	Anchor for currency baskets
Direct investment (ODI)	
Money market (few banks)	

Small steps: 6.6% trade settlement; 0.9% transaction in global FX market



## 3. Role in IFIs

- Search for collective voice of EMEs at various cooperative platforms, such as G20, IMF, WB and other institutions.
- Contribute to the global financial safety net
  - bilateral: 18 BWs since 2008, 2 BWs extended
  - Regional: contributor for CMIM
  - global: IMF funding programs