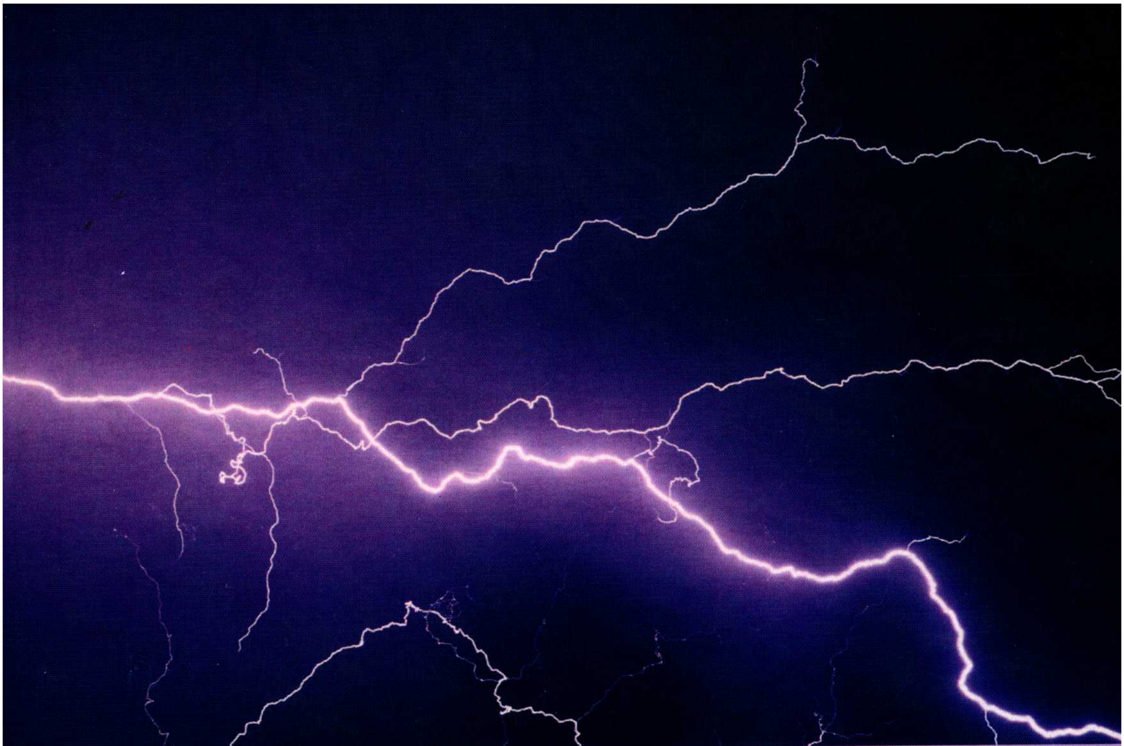

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EDITED BY JAE HO CHUNG

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Jae Ho Chung

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China's Crisis Management

The continuation of China's successful rise depends considerably on the capacity of the Chinese government to prevent and manage a wide range of potential and actual crises, which could, if mishandled, have serious adverse consequences for China. These potential crises are both domestic – where the example of the collapse of the Soviet Union is well understood and remembered in China – and, increasingly transnational, as a result of China's ever closer involvement in the global system. This book presents a comprehensive overview of crisis management in China, and examines China's mode of managing economic, political and military crises, as well as natural disasters, ethnic-minority issues, environmental and public health problems. In each area it considers the nature of potential crises and their possible effects, and the degree to which China is prepared to cope with crises.

Jae Ho Chung is Professor of International Relations and Director of the Institute for China Studies at Seoul National University, Korea. His most recent books include *China's Local Adminstration* (Routledge, 2010).

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Preface

Every state has the ultimate imperative: survival. Threats to their survival may come either from outside or from within. In an era of globalization where borders and nationalities are much less relevant than in the past, the domestic–external distinction is getting increasingly blurred. That is to say, the issue of national security is as much domestic as it is external, and epidemics/pandemics are as much foreign as they are indigenous.

China, in the midst of arduous reforms of transition and all-directional opening, is facing a wide array of new and complex threats. Its leadership has been highly concerned with the eruption of systemic crises and, therefore, has emphasized the crucial importance of stability. Considering the fact that Chinese history is replete with dynastic collapses and territorial disintegration, such concern is by no means ill-founded. The Tiananmen demonstrations, the *Falungong* incident, the EP-3 clash, the SARS crisis, falling real-estate prices, and the tumultuous revolts in Tibet and Xinjiang areas are only the notable examples of the problems that the Chinese government is facing every now and then on the mainland.

Despite the rising frequency and scale of these wide-ranging problems, China has thus far successfully brushed off the prospect of a system-wide crisis. What enables Beijing to maintain its power and efficacy to rule the continent with 1.3 billion people? In order to answer this crucial question, this volume presents comparative sectoral analyses of China's mode of managing (semi-)crises. More specifically, each of the seven chapters examines the history, organizations, learning effects, and norms of managing crises in economic, political, military, ethnic-minority, pandemic/epidemic, environmental, and natural disaster-related domains. I am grateful to all the contributors for their time, effort, and insight.

This book is based upon the papers presented at the international conference entitled "China's Crisis Management: Evolving Norms and Learning," held in Seoul during May 26–27, 2010. I, as the organizer and editor, would like to acknowledge the support and encouragement from the Institute for China Studies at Seoul National University. Thanks are also due to the National Research Council for Economics, Humanities and Social Sciences and its president, Dr Caeone Kim, for co-organizing the conference. Hon S. Chan, Young Nam Cho, and Keun Lee are also acknowledged for their role as meticulous discussants.

I owe a special thank-you to Yongnian Zheng, the series editor, and Peter Sowden, editor at Routledge, for their support and encouragement. Thanks also go to Myungjong Jun, chief assistant at the Institute for China Studies, for his effective administration of the conference as well as of the editing task for this book. Finally, I would like to express my sincere gratitude to Hye Kyung and Jean for their love and prayer.

Jae Ho Chung
January 2011

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1 China's anti-crisis macro-economic management

Effectiveness and limitation

Wei Zhang

Economic crisis generally refers to a phenomenon of a sharp downturn of national output. It may take some specific forms, or more likely a combination of various forms, such as stagnation, recession, or depression in terms of gross domestic product (GDP) growth, hyperinflation or deflation in terms of price level, high unemployment rate, huge government debts, persistent trade deficit, etc.

Anti-crisis management has become a significant part of macro-economic management of almost all governments in the modern world. No politician, even those who strongly advocate for libertarian economic philosophy, will adopt absolute laissez-faire policies in dealing with economic development, especially when a country faces an economic crisis. The rationale behind this phenomenon is pretty simple; economic crises can easily drive the existing political leaders out of office in democratic countries and destabilize political and social orders, or even cause regime changes in non-democratic countries.[1] The great efforts that most governments in the world have made to fight the global financial crisis since 2008 clearly demonstrate their consensus on the importance of the state's role in macro-economic management.

This chapter attempts to explore the features, mechanisms, effectiveness, and constraint of China's anti-crisis macro-economic management system. This research is mainly based on China's macro-economic management, which aims to offset the negative shocks of the current global financial crisis; at the same time, it also makes reference to China's experience of handling the Asian Financial Crisis in 1998 and other economic problems.

As is well known, the global economy went through a period of unprecedented financial instability in 2008–09, accompanied by the deepest economic recession and collapse in international trade in many decades. This crisis, which originated in advanced-country markets in 2007, has spread rapidly across the whole world, engulfing almost every part of the global economy including advanced economies, emerging markets, and low-income countries alike. Many regard it as "the worst economic slowdown since the Great Depression."[2] Two years later, the whole world is still on a slow and uncertain process of recovery.

After thirty years' active engagement in the economic globalization, China could not and did not escape the reach of the latest global economic storm; however, the Chinese economy has shown remarkable resilience in the face of

Table 1.1 Global GDP growth, 2008–10 (% change year-on-year)

	2008	*2009*	*2010*[a]
World output	3	−0.8	3.9
Advanced economies	0.5	−3.2	2.1
United States	0.4	−2.5	2.7
Euro area	0.6	−3.9	1
Germany	1.2	−4.8	1.5
France	0.3	−2.3	1.4
Italy	−1	−4.8	1
Spain	0.9	−3.6	−0.6
Japan	−1.2	−5.3	1.7
United Kingdom	0.5	−4.8	1.3
Canada	0.4	−2.6	2.6
Other advanced economies	1.7	−1.3	3.3
Newly industrialized Asian economies	1.7	−1.2	4.8
Emerging market and developing economies	6.1	2.1	6
Africa	5.2	1.9	4.3
Saharan Africa	5.6	1.6	4.3
Central and eastern Europe	3.1	−4.3	2
Commonwealth of Independent States	5.5	−7.5	3.8
Russia	5.6	−9	3.6
Excluding Russia	5.3	−3.9	4.3
Developing Asia	7.9	6.5	8.4
China	9.6	8.7	10
India	7.3	5.6	7.7
AS5	4.7	1.3	4.7
Middle East	5.3	2.2	4.5
Western Hemisphere	4.2	−2.3	3.7
Brazil	5.1	−0.4	4.7
Mexico	1.3	−6.8	4

Source: International Monetary Fund, *World Economic Outlook Update*, January 2010, p. 2.

Note
a 2010 data are projections.

the crisis. Compared to the world economy as a whole and other large economies in particular, China's economic performance has been impressive. While the world GDP dropped by 0.8 percent, with advanced economies dropping 3.2 percent, China managed to achieve economic growth of 8.7 percent in 2009 (see Table 1.1).[3] As to China's foreign trade, decline in the demand for China's products in the international market caused a big fall in China's trade. The total value of China's exports and imports in 2009 decreased by 16 and 11 percent, respectively, but the decrease margin of China's external trade was much smaller than other main trade powers in the world (see Tables 1.2 and 1.3).[4]

Moreover, China has taken the crisis as an opportunity to increase its economic weight and political influence in the world. During the period of the world economic recession, China's share in the global economy increased from 7.7 to 8.5 percent from 2008 to 2009; with regard to international trade, China has replaced

Table 1.2 Leading merchandise exporters, 2009 (US$bn and %)

	Value	*Share*	*Change*	*Rank*
China	1,202	9.6	−16	1
Germany	1,121	9	−22	2
United States	1,057	8.5	−18	3
Japan	581	4.7	−26	4
Netherlands	499	4	−22	5
France	475	3.8	−21	6
Italy	405	3.2	−25	7
Belgium	370	3	−22	8
Korea, Republic of	364	2.9	−14	9
United Kingdom	351	2.8	−24	10

Source: World Trade Organization, *World Trade 2009, Prospects for 2010*, p. 11.

Table 1.3 Leading merchandise importers, 2009 (US$bn and %)

	Value	*Share*	*Change*	*Rank*
United States	1,604	12.7	−26	1
China	1,006	8	−11	2
Germany	931	7.4	−21	3
France	551	4.4	−22	4
Japan	551	4.4	−28	5
United Kingdom	480	3.8	−24	6
Netherlands	446	3.5	−23	7
Italy	410	3.2	−26	8
Hong Kong	353	2.8	−10	9
Belgium	351	2.8	−25	10

Source: World Trade Organization, *World Trade 2009, Prospects for 2010*, p. 11.

Germany as the largest exporter and the second largest importer in the world. The shares of China's exports and imports in 2009 accounted for 9.6 and 8 percent of the world total.[5] China's foreign reserve continued to increase from 1528.2 billion US dollars at the end of 2007 to 2,399.3 billion US dollars at the end of 2009, up by 57 percent during the crisis period (see Table 1.4 and Figure 1.1). During the period from July 2008 to March 2010, China's official holding of US treasury securities increased from 518.7 billion to 895.2 billion US dollars, and now it is the No. 1 US treasury holder in the world.[6] In acknowledgement of China's growing economic and political influence, the World Bank and International Monetary Fund have raised China's voting rights.[7]

This is not the first time that China has survived the shocks of the international economic crises. Since it started market-oriented economic reform and embarked on economic globalization in 1978, China has successfully withstood dramatic negative impacts of two serious economic crises. In addition to the current global financial crisis, China survived the Asian Financial Crisis in

Table 1.4 Changes in China's foreign reserve during the global crisis

Month	*Billion US$*	*Month*	*Billion US$*
2007–12	1,528.20	2009–2	1,912.10
2008–1	1,589.80	2009–3	1,952.70
2008–2	1,647.10	2009–4	2,008.90
2008–3	1,682.20	2009–5	2,089.50
2008–4	1,756.70	2009–6	2,131.60
2008–5	1,797.00	2009–7	2,174.60
2008–6	1,808.80	2009–8	2,210.80
2008–7	1,845.20	2009–9	2,272.60
2008–8	1,884.20	2009–10	2,328.30
2008–9	1,905.60	2009–11	2,388.80
2008–10	1,879.70	2009–12	2,399.20
2008–11	1,884.70	2010–1	2,415.20
2008–12	1,946.00	2010–2	2,424.60
2009–1	1,913.50	2010–3	2,447.10

Source: State Administration of Foreign Exchange, People's Republic of China, at http://www.chinability.com/Reserves.htm.

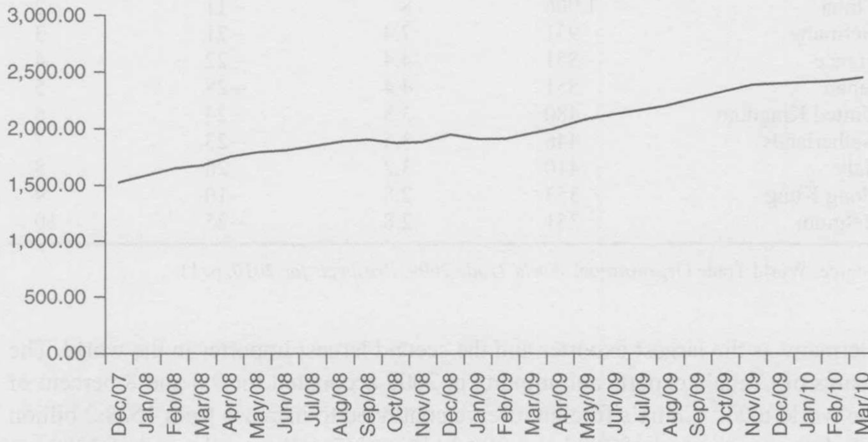

Figure 1.1 Changes in China's foreign reserve during the global crisis (bn US$).

1997–98. During that period, all newly industrialized Asian economies (both the four dragons and four tigers) and Japan suffered sudden and large financial problems, trade collapse, and economic decline. Although China's GDP experienced a short period of trade decline in 1998 and a slowdown of GDP growth from 9 percent in 1997 to 8 percent in 1998 (see Table 1.5 and Figure 1.2), it recovered from the impacts of the Asian Financial Crisis relatively quickly. And by any standards, the growth rate of 8 percent should be regarded as a very good economic performance, let alone that it happened during the period of a serious regional economic crisis.

Table 1.5 GDP Growth during the Asian Financial Crisis (%)

	1996	*1997*	*1998*	*1999*
China	10	9	8	7
Hong Kong	4	5	−5	3
Indonesia	8	5	−13	1
Korea, Rep.	7	5	−7	9
Malaysia	10	7	−7	6
Philippines	6	5	−1	3
Singapore	8	9	−1	6
Thailand	6	−1	−11	4
Japan	3	2	−1	0

Source: World Bank, *World Development Indicators 2005.*

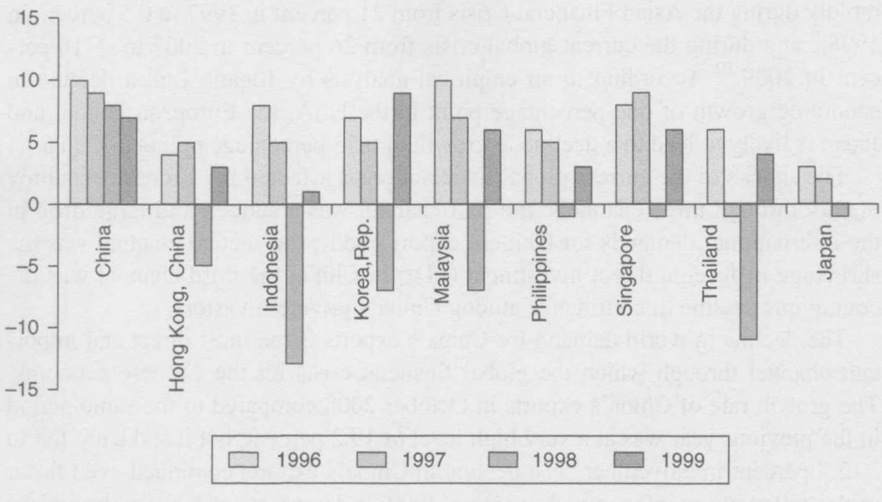

Figure 1.2 GDP growth during the Asian Financial Crisis.

Source: World Bank, *World Development Indicators 2005* (Washington, DC: World Bank Publications 2005).

An important explanation of China's outstanding economic performance during the regional and global economic crises is the government's macro-economic policies of offsetting negative impacts of external shocks. This very fact invites some interesting intellectual questions, such as, what kind of policies did the Chinese government adopt in dealing with the economic crises? What are the main mechanisms of China's anti-crisis policy implementation? If those policies work well in offsetting external shocks in the short term, do they have any negative impacts on the Chinese domestic economy in the long term? To answer those questions is a main incentive of this chapter.

The chapter is arranged as follows: after this introduction, I will take a brief look at the impacts of the current global financial crisis on the Chinese economy; analyze China's policy response to the external shocks and effectiveness of its