

Ten Years after Asian Financial Crisis: China's New Situations and New Challenges.

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Lessons from Asian Financial Crisis:(1)

- **Open door, especially in the financial sector, must be based on domestic financial reform and financial development.**
- **capital item deregulation in a developing country must be prudential.**
- **Before open the door, domestic financial sector must be healthy and be able to bear risk.**

Lessons from Asian Financial Crisis:(2)

Exchange rate coordination is very important to avoid external shock.

The depreciation of Japanese Yen before Asian financial crisis

The non-depreciation of RMB during Asian financial crisis.

Lessons from Asian Financial Crisis:(3)

- **Asset bubble is a time bomb of financial crisis.**
- **Asset bubble distorted financial structure and made financial chaos.**
- **Asset bubble would not only trigger financial crisis, but also spread the loss of crisis.**

China's Reforms after Crisis

- **State-owned enterprises withdrew from competitive sector.**
- **Commercial banks peeled off their non-performing loans and reinforced core capital. China banking regulatory commission was founded in 2003.**
- **China completed share merge reform (i.e. merge tradable and non-tradable shares of listed companies).**
- **The exchange rate of RMB has not pegged to US dollar any more since July**

New External Situation:(1)

- **Global imbalance becomes more and more serious.**

The deficits of current account in US and the surpluses of current accounts in Asian countries, especially in China, are increasing rapidly.

New External Situation:(2)

- **International production network becomes more and more major production mode.**

The advance of transportation, communication and information technologies, especially the development of internet reduced trade costs and saved transaction time.

China got a large number of trade surplus in the international production networks, because China import raw material and parts to assemble and export final products.

New Domestic Situation:(1)

- **Foreign exchange reserves are accumulating rapidly.**

The scale of China's foreign exchange reserves has been the largest in the world. It is increasing more than US\$200 billions per year.

Cause excess liquidity and make trouble for monetary policy.

New Domestic Situation:(2)

- **The prices of assets are rising fast.**

The SSE (Shanghai Stock Exchange) Composite Index rose to 4000 from 1000 during two years.

The Selling Price Indices of Houses and the Transaction Price Indices of Land are rising about 9% per year, but the Renting Price Indices of Houses are rising only about 2% per year.

New Domestic Situation:(3)

- **The exchange rate of RMB has a limited flexibility, strong expectation of appreciation.**
- **Commercial banks have stronger motivations to maximize profits.**
- **The capital and financial account regulation is weaker.**
- **Financial sectors open more to the world.**

New Challenge

- New impossible triangle.

Macroeconomic stability

Exchange rate stability

Profitability of commercial banks.