

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

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# Lessons from Asian Financial Crisis:(1)

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- **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)**

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**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)

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- **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

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- **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)**

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- **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)**

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- **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)**

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- **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)**

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- **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)**

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- **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

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- New impossible triangle.

Macroeconomic stability

Exchange rate stability

Profitability of commercial banks.