

Crisis handling strategies of the Chinese government in the light of the world
economic challenges

(Positions, roles and dilemmas of the Chinese SME's)

(Abstract)

Despite the collapse of the American mortgage market and the beginning of the international financial crisis the global economic recession reached China unexpectedly. However certain signs were visible since the first part of 2008, such as the diminishing Chinese export growth. At first the Chinese government thought that the export market difficulties are caused by the restrictive trade policy actions of the USA and particular EU countries. According to the first official Chinese opinion: the tapering export possibilities are just the results of these limits, which are developed to lower the Chinese export surplus. These new regulations are based on the idea, that the Chinese export growth is supported by a conscious undervaluation of the Chinese national currency.

Firstly the Chinese money and stock market was hit by the financial crisis. However the very beginning of the crisis had a surprisingly positive effect to China. Namely during the early stage of the American events the 'hot money' investors tried to transfer their capital to the Asian markets (especially to China), which are seemed to be secure enough. But, unfortunately, these processes blowed up the stock bubble even bigger than it had been previously. In consequence of the overvalued stocks the Chinese markets made a much serious fall in December than the American and the European stock exchanges. The Chinese leaders were also worried about the US dollar depreciation because more than the half of the Chinese reserve (USD 2000 billion) was invested in American treasury bills and securities at that time. This was the reason why China was ready to help for the resigning Bush administration to strengthen the value of the US dollar. So, China kept buying the American treasury bills. After a while it turned out to be evident that the deteriorating Chinese export outlook is not caused by the restrictive actions of some foreign governments but the drastic decline of the world economy. Realising the global turndown the Chinese government made its first bigger stimulus package in November 2008 to shake up the Chinese economy and help the domestic consumption. 4000 billion yuan (USD 600 billion) frame was opened to cover such upcoming actions and its completions during 2009 and 2010 that can prevent the

probable social stresses after the major economic slowdown. The plan of the national economy and the social development for 2009 has been created in the view of the crisis and its effects. The Communist Party approved this plan on the 11th Congress, which was held from the 5th of March till 13th of March 2008 during the second session. This paper describes how the Chinese government handle the crisis and what their strategy is. The aim of this study is to present the Chinese strategy out of the crisis. The author has a strong limitation such as the long term effects of the Chinese crisis treating is not visible in short term (until the April 2009). Therefore this paper is a preliminary study. Due to the limitations the final evaluation could be done just after the end of the global crisis. Among the conditions of the changing world economy there are many controversial and extreme prophecies. In long term we will be able to get the answer whether China will be an even stronger power after the crisis or it will sink in a political chaos and falls apart becoming the biggest loser of the crisis.

The paper contains six chapters. The first part describes the condition that China had at the time when the crisis hit. The second chapter presents the effect of the financial crisis to the execution of the plan of 2008. The third and fourth contain the Chinese steps toward the crisis managing and their international reception. The fifth part explains the positive signs of the first actions against the crisis. And finally the sixth chapter tries to draw a picture about the possible continuation of the slump.