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China after Sub Prime Crisis: Opportunities In The New Economic Landscape By Chi Lo (Palgrave Macmillan: UK), 2010, pp.197, £65.

A lot has been written on sub-prime crisis and its impact on the superpower status of the US. This book titled 'China after Sub Prime crisis' by Chi Lo attempts to analyse the challenges and opportunities for China after the crisis. Before focusing on China specific issues, author in the first chapter talks about the nature of sub-prime crisis and its differential implications for advanced and Asian economies. The author believes that complex financial innovations, low interest rate policy in the US in first half of 2000s and low financial literacy of the US household were key factors behind sub-prime debacle. According to the author, the sub-prime crisis was not a normal crisis because of its deep-rooted micro foundations. In particular, incentive distortions and information problem caused damage to the heart of economic system (i.e. banks), particularly in advanced economies.

In chapter 2 of the book, author expresses concerns that policy makers continue to ignore the structural distortions in the financial system on the pretext of the need to stabilise the global crisis. Bail-outs by the Government breed moral hazard problem and obstruct the needed microeconomic consolidation in the system by keeping economy's excess capacity alive. Given the excess capacity in China, the author emphasises that it needs to learn from the crisis. The chapter also highlights that in absence of any genuine clean-up, banking system's lending ability will remain crippled. These issues have important implications for China which is trying to liberalise the financial sector with already excess capacity. Author is of view that China's excess capacity problem may get aggravated by the uneven face of deleveraging in advanced countries and high domestic spending in China.

In chapter 3, author emphasises that more regulations do not make financial bubbles inevitable. Instead, better regulations focusing on facilitating financial innovations to gain consumers' trust are needed. Author believes that over regulation in advanced countries may send wrong signals to Asian regulators like China that innovations are always bad. Asian countries should ensure that any move from traditional banking practices to more innovative

techniques is accompanied by enhanced risk management. Another lesson that author sees relevant for China is regarding the inherent tendency of overspending in its economic policy. Further, the author elaborates that sometimes counter-cyclical spending might be desirable on social grounds but stimulus measures that aimed at boosting consumption in US in pre and post crisis period would not be sustainable.

In Chapter 4, the author examines the role of Asian economies in sub-prime crisis. China appears to have played dual role as the largest saver and largest factory in the world. According to the author, economies - whether with weak or strong fundamentals - suffered from sub-prime crisis and were in fact 'innocent bystanders'. Crisis adversely impacted Asian economies mainly through the export channel. China, however, was a 'guilty bystander' representative of Asian countries which fostered global imbalances. This chapter concludes that Asian consumption must rise sharply to narrow domestic saving- investment gap in surplus Asian economies.

Following from the discussion in previous discussion, the chapter 5 of the book makes an assessment of China's status as emerging global super power. Author believes that China is not yet ready to become global super power as there are certain regional checks and balances constraining its emergence as global economic super power. One of the factors that can create hindrances for China's ascendance as global superpower is trade and capital protectionism among advanced economies. Further, the book highlights that China may continue to grow in terms of growth and trade but its readiness to build a world class financial system with correct incentives is lagging behind. China's financial markets are still inefficient and tiny as compared with many other advanced economies. Further, author casts doubt on the dynamism of China's growth process and is of view that export led growth may not sustain after crisis. To address this issue, author suggests that China needs to reinvent its economy. Other constraints are (i) lack of thought leadership to underpin its emergence as super power in the medium term, (ii) government directed bank lending and (iii) reaction of advanced economies. Overall this chapter concludes that China still has a long way to go to become a global super power.

In Chapter 7, author explores factors that have led to China's outward investment and argues for more capital account liberalisation to address

domestic economic imbalances problems and avoid domestic asset bubble risks. It is argued that the sub-prime crisis may have provided unique opportunities for both China and the US to rebalance their external accounts. While the US may have to review its export policy towards China which provides huge scope for its high-tech industry, China should encourage capital and investment outflow to mitigate the bubble risk. In Chapter 8, the author argues that although China's efforts towards domestic restructuring started well before the occurrence of sub-prime crisis, the process needs further reacceleration after the crisis. Author is of view that China's domestic consumption so far has been suppressed by the skewed supply-side expansion growth model. However, with massive household savings, an under-leveraged consumer sector, improving social welfare and a critical consumption mass being formed, it is expected that China's growth will become more sustainable and less dependent on external demand. Nevertheless, there are certain risks behind China's economic expansion and structural change opportunities in the post crisis period which are highlighted in chapter 9. One of the possible risks is worsening disequilibrium between aggregate saving and investments on global scale in post-crisis period. Given the Government's development policy in China, domestic consumption may not grow as fast as required.

In Chapter 10, the author highlights the possibility of China shifting from US dollar into other currencies as assets for its foreign reserves. However, such strategy would be subject to many other developments. In last chapter, author concludes that Asian countries cannot think of becoming global growth leaders without undertaking necessary structural reforms.

The book is quite comprehensive about its coverage regarding implications of sub-prime crisis for the emergence of China as global super-power. It covers a wide ranging issue from growth dynamics to financial sector rigidities that are important for any economy to grow and make a niche in global arena. However, an important aspect that could have been covered in detail pertains to use of China's huge foreign exchange reserves in the coming years. Until a country becomes a global super power and a reserve currency country, its forex reserves reflect on its growing economic might in global financial landscape. Author could have discussed whether China's large foreign exchange reserves will facilitate its pursuance towards more financially open economy and eventually becoming a global super power.

In Chapter 4, the author describes that India was affected during crisis due to its weak fundamentals; this perhaps is not entirely true. India's financial system was relatively insulated from global shocks due to various macro prudential safeguards already in place before the crisis. It would have been better if author could elaborate on this. The third aspect that appears missing is author's take on China's efforts towards internationalisation of renminbi through various bilateral currency swap arrangements. Nevertheless, book is a good piece of reading to have a future perspective on China.

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