

## WIDER Public Lecture

# Is speculation about crisis in the Chinese economy well-founded?

Robert Dekle

Wednesday 7 May 2008, 15:00-17:00 hours

Marina Congress Center, Nautica, Helsinki, Katajanokanlaituri 6

Many business and popular authors in non-China Asia, including Japan, view today's Chinese economy as ripe for economic crisis, as in East Asia in the 1990s. These authors point out that there is a massive non-performing loan problem in China, estimated to be about 50% of Chinese GDP. Major banks in China are publicly owned, and loans are made on the basis of Communist Party membership and other non-economic considerations. These loans are made to industrial firms as well as real estate developers. The collapse of real estate prices and unprofitable borrowing by industrial firms will severely damage bank balance sheets, and as domestic and international depositors withdraw their deposits, lead to a banking sector panic and a general currency crisis.

In fact, Professor Alwyn Young of the London School of Economics has buttressed this view by arguing that the Chinese economy today is also characterized by an over-accumulation problem, as in the East Asian economies of the 1990s. Professor Young finds that of the 8.8% per annum growth in nonagricultural output between 1978 and 1999, total factor productivity (TFP) growth accounts for only 1.4%. The rest is accounted for by an accumulation of factors of production. If Professor Young is correct, then the Chinese economy is ripe for crisis. Growth by factor accumulation cannot continue for long, and the returns to these factors must decline (because of diminishing returns).

In this lecture, I suggest that the Chinese economic situation today is fundamentally different from the East Asian economic situation in the mid-1990s, which led to the crisis. While China is subject to over-borrowing and over-investment problems by publicly-owned enterprises; today, the fastest growing Chinese sector is the private sector. The Chinese private sector is mainly driven by rapid TFP growth, rather than rapid physical capital accumulation. As the private sector becomes the dominant sector in the Chinese economy, over-investment problems—which are mainly a publicly-owned enterprise phenomenon—should subside and disappear.

**Admission is free.**

**Please note that room space is limited to the first 70 people who register.**

**Please register in advance:**

**Tel: (09)-615-9911**

**E-mail: [public-lecture@wider.unu.edu](mailto:public-lecture@wider.unu.edu)**

**Robert Dekle** is Professor of Economics at the University of Southern California in Los Angeles. He is a specialist in open economy macroeconomics, and international finance; in particular, as these fields pertain to the East Asian Economies. He has published papers on Japan, Korea, Thailand, and most recently, China. Professor Dekle also has significant policy experience, having worked at the International Monetary Fund, the Federal Reserve Board, and the Federal Reserve Bank of New York.

**World Institute for Development Economics Research of the United Nations University (UNU-WIDER)** undertakes multidisciplinary research and policy analysis on structural changes affecting the living conditions of the world's poorest people; provides a forum for professional interaction and the advocacy of policies leading to robust, equitable and environmentally sustainable growth; and promotes capacity strengthening and training for scholars and government officials in the field of economic and social policy making. WIDER is the first research and training centre of the United Nations University (UNU), established in Helsinki, Finland in 1984. [www.wider.unu.edu](http://www.wider.unu.edu)



**UNITED NATIONS  
UNIVERSITY**

**UNU-WIDER**

World Institute for Development  
Economics Research