

How Much Does the International Financial Crisis Affect China's GDP and Employment?

Topic: Crisis and disaster analyses

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The financial crisis triggered by the US sub-prime crisis swept across the globe in 2008. China's financial system has entered the process of economic globalization and cannot keep away from the financial crisis.

China's GDP only increased 6.8% year-on-year in the fourth quarter of 2008, 5.7 percentage points lower than the same period of the previous year. Unemployment rate in cities and towns, in the same quarter, increased to 4.2% from 4% compared with the previous quarter, while it has been decreasing since 2003. Though the main reason of downturn and increased unemployment is international crisis, there are many other factors to accelerate the economic deterioration, such as the declining circle of China's economy.

The international financial crisis deteriorated gradually in the first three quarters of 2009, which theoretically influenced China more seriously. But China's economic trend is good because of the macro-control measures flexibility taken by government. China's GDP increased 7.7% compared with the same period of the previous year. Although it decreased 2.2 percentage points, China's GDP increased gradually in each quarter.

In order to distinguish the influence caused by international financial crisis economic circle and macro-control policy, this paper starts from analyzing the influence of financial crisis on China's export and investment, by using Input-Output model of the non-competitive imports type capturing China's processing exports to calculate how much the international financial crisis affects China's GDP and employment. This model divides intermediate input into domestically intermediate inputs matrix and imported intermediate inputs matrix. Taking into account China's processing trade dominating trade pattern characteristics, we further divide domestic production activities into general production for domestic use (D), processing exports (P) and non-processing exports and others (N).

The result indicates that the impact of financial crisis on China's economy is more and more serious during the fourth quarter of 2008 and the third quarter of 2009. The GDP loss, which indicates the actual impact of financial crisis, of the fourth quarter of 2008 is 3737 billion RMB and that of the third quarter of 2009 is 6491 billion RMB, accounted for 8.3% of the GDP of the third quarter of 2009. But China's actual GDP growth rate of the third quarter of 2009 just decreased 0.1 percentage points compared with the same period of the previous year. The impact of financial crisis was not reflected adequately. The number of unemployed people was 12.51 million in the fourth quarter of 2008 and 21.72 million in the third quarter of 2009. However, the situation of employment in China is stable and there is no large-scale unemployment. The situation of GDP and employment indicates that the stimulation measures taken by the Chinese government are effective and stand against global financial crisis effectively.