

# **Analysis on the Main Difficulties Facing China's Macro Economy during the Financial Crisis and the Solutions**

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**Keywords:** China's macro-economy, Major difficulties, Solutions.

**Abstract:** The impact of the financial crisis has severely constrained and affected global economy. China is a great power with faster economic growth. The financial crisis has also disrupted China's macro-economy. In order to maintain the vitality of China's economy under the influence of financial crisis, it is necessary to face up to the difficult issues in economic development during the financial crisis and have a more in-depth and scientific understanding of China's future economic development. In this paper, we will analyze and compare China's macro-economy under the influence of the financial crisis, so that reasonable policy adjustments on its economy could be made and the long-term development of China's economy and society can be achieved.

## **1. Introduction**

The subprime crisis caused by Wall Street has severely affected the global economy. As a WTO member, China's economy has gradually integrated into the global economic system. Therefore, the impact of the financial crisis on China cannot be underestimated. The impact of a single policy proposed by a single country on economic development is generally clear. However, if the effects of more than one economy are combined or the policies of several countries are gradually combined, the impact on economic growth cannot be clearly estimated. Therefore, in the light of mutual economic promotion, we must consider the impact of financial crisis on China, and it is necessary to make a comprehensive analysis of the formulation and development of China's economic policy at the national level.

## **2. The Main Difficulties**

### **2.1 The enlarged trade surplus is the most severe problem that China's macro economy faces in the financial crisis**

Since the outbreak of the financial crisis, economic organizations in countries all over the world have conducted detailed studies and discussions on the causes of the financial crisis, hoping to find a breakthrough in economic development during the crisis. Among all the problems, the imbalance in trade between East Asia and some of the world's major industrial powers is one of the major problems. Earlier, after a series of exchange rate reforms in China, the exchange rate of RMB against U.S. dollar has been somewhat raised. [1] However, under the influence of the global financial crisis, the exchange rate of China's RMB has not changed much. In recent years, a decline has even taken place. Therefore, we need to pay full attention to the size of appreciation space of RMB and the pressure of RMB appreciation in China under the financial crisis. Changes in trade surpluses and the exchange rate problems in the RMB have caused the change of the value of foreign exchange reserves. This has already affected the development of China's economic interests and is a serious problem affecting the economy. Although these increase the import and export trade and the GDP of China, it causes the pressure of serious imbalance to the development of both trade and non-trade sectors. Therefore, considering the national conditions in China, there is a certain gap between the non-tradable and tradable goods sector in terms of labor intensity, and the labor intensity of non-tradable goods have been shown to be higher than that of the tradable goods sector. Therefore, this has a significant impact on the employment of China. And from the perspective of the development of the world economy, the

development of a country is closely linked with the construction of its tertiary industry. The development of the tertiary industry has led to the further improvement of the living standards and quality of people's life, and over the long term, the quality of people's life will be affected.

## **2.2 The economic crisis poses a certain threat to the steady development of the economy**

After the outbreak of the financial crisis, the governments of all countries tried their best to study the corresponding fiscal plans, hoping to achieve the long-term development of the national market, so as to promote domestic consumption and investment in enterprises. Only in this way, will economic slump be greatly eased. The Chinese government is even more responsive and adopts certain policies to reduce the severeness of the financial crisis. However, some improper handling will inevitably occur during this process, which will seriously affect the stability of China's economy. [2] The state gradually relaxed its monetary policy and the proportion of credit in China was also increased to a certain extent. Although credit activities have encouraged certain economic development under the influence of the financial crisis, it also reduced the non-performing loan ratio of commercial banks in China to a certain extent.

## **2.3 Restriction of credit flow on economic development**

Credit is mainly used for real estate, financial industry, investment or other projects, among which investment plays a leading role in China's economic development. With the gradual progress of the economic investment cycle, whether the domestic economic needs are met or not will not be determined. If domestic demand cannot be reconciled with the recovery of funds, the growth of the economy will be seriously affected. The credit funds going into real estate and the raising of house prices will leave a serious impact on the macro-control of China's real estate. Therefore, if it cannot be adjusted in time, the credit quality of China will drop greatly. When credit flows into the field of financial assets, investment will lead to the gradual increase of assets price, which will put a certain security risk on the future economic development. Scientific and reasonable credit, currency growth and the balance and stability of prices will bring certain impact on economy growth. This is a major difficulty for the development of China's macro economy under the influence of financial crisis. [3]

## **2.4 Fiscal stimulus policies bring both economic growth and hidden dangers**

In order to cope with the problems caused by the financial crisis, the government sectors adopt various policies to stimulate economic development so as to solve and handle various problems. Because of the dominant role of the government, state-owned economy has gradually entered private-owned enterprises, which has brought a certain negative impact on China's economy. First of all, the government-owned economic subsidies of state-owned enterprises have seriously affected the competitiveness of private enterprises themselves. This has a huge impact on the competitive balance of the market and the contradictions in actual economic structure have been increasingly intensified. In addition, after the financial crisis was triggered, Chinese government cannot stimulate the demand by giving subsidies. In a short term, subsidies will promote economic development, but they will not be conducive to the continuous economic development. Most of the funds entering the state-owned enterprises have entered the real estate market. Although the prices of assets have been raised to a certain extent, they are likely to form an economic bubble and increase the risks in the economic market. Finally, the involvement of national governments has severely affected employment in China. Those who are mobilized by state funds are state-owned enterprises. The increase in the number of monopolistic state-owned enterprises makes most of the benefits of economic growth monopolized by capitalist members, affecting people's benefits in economic development and reducing the fairness of national income. If the state cannot bring about the economic interests of the general public through macroeconomic regulation and control, it will lead to more serious social problems.

## **2.5 The problem of precaution in China's economic development**

In order to help the country's economy recover from the financial crisis, it is often necessary for the government to invest capital. However, large-scale capital investment is a contingency measure for the government's macroeconomic regulation and control. Its main purpose is to avoid the financial

crisis affecting China's GDP and bring it lower than the current level. Once the economy has stabilized, consideration should be given to the economic capacity of the government. Government investment is temporary and can not last long. Therefore, we need to consider the progress of social investment and management of enterprises and civil society after economic stabilization, and avoid a bigger economic crisis caused by the lack of follow-up funds after the government's investment is over. First of all, we must guard against the problems brought about by the excess capacity of China. Putting government funds into these industries will result in a slow recovery in the sector's economy. Precaution against the employment of citizens should also be noticed. In China, it is difficult to find a job and the salary is low. The key is to solve the employment problem of college students and peasant-workers. Therefore, we can help small and medium-sized enterprises to achieve an increase in employment rate, making sure that private enterprises can enjoy the same treatment as state-owned enterprises and avoiding negative growth in consumption. It is very difficult to rely on consumption alone for economic development. Therefore, we may consider expanding consumption. At the same time, we also need to avoid problems such as enterprises finding it difficult to turn a profit and difficulty in bank's credit activities. Under the influence of the financial crisis, we need to make progress step by step. We should make scientific adjustments based on the current economic development carefully.

### **3. Macroeconomic Regulation and Control Policy**

The financial crisis has had a serious impact on the global economy. However, it has brought constraints to the development of the country as well as certain opportunities. This has brought a challenge to China's economic development. If the risks brought about by the financial crisis are handled properly, the external risks and internal pressures of China will be effectively controlled. After the outbreak of the financial crisis, the central bank of China lowered the deposit and loan interest rates while effectively controlled its loan scale. Therefore, we need to maintain a healthy development policy under the influence of financial crisis and minimize the impact of the financial crisis on China.[4]

#### **3.1 Increasing investment to stimulate domestic demand**

The financial crisis has brought to China the problem of overcapacity. Most of China's domestic production is to provide the needs of the international market. The occurrence of the financial crisis has greatly reduced the needs of the international market, leading to a drastic decline in the development of the China's economy. Therefore, in order to better deal with this issue, some measures must be taken to expand domestic demand, so that the goods originally intended for export will be transferred to China and the excess goods will be digested.

According to the current development of China, the agricultural infrastructure is still relatively laggard. Therefore, the pace of development is slower than many developed countries. Therefore, we need to increase the funding so that the local infrastructure in China can be effectively improved. In addition, the development of China's western region also requires substantial capital investment. These are huge markets for domestic demand in China. For example, in the process of development, we can promote the project of bringing household appliances into the village after the construction of a new countryside. This will not only effectively solve the problem of overcapacity in China, but also further promote the development of the rural areas. Besides, facilities and components in the automotive industry can be refreshed and replaced by the constant renewal of consumer products. The government's environmental protection department can make use of surplus products to help the environmental and social development of China.

#### **3.2 Improve the self-confidence of business operators**

It will be difficult to increase the need for domestic goods in a short time. Therefore, we also need to further expand domestic demand and rely on the country's export volume to further increase the number of export products. Therefore, the government needs to take certain measures to facilitate exports according to the current situation of the financial crisis. At the same time, interest rates on

loans should be reduced, so that the overall structure of foreign trade can be effectively adjusted. In addition to increasing government support for enterprises, it is also necessary to increase the confidence of business operators, so that, under the support of the government, enterprises can make the management and operation of enterprises a success.

### **3.3 Improve China's social security system**

The difference between the Chinese system and that of the Western countries makes the consumption concept of the Chinese people different from that of westerners, and social security system is fundamental. The social security system in China is not perfect compared to many developed countries. Therefore, the Chinese people tend to save money from time to time. This concept has certain impact on the internal consumption of China, thereby inhibiting the progress of the national market economy. [5] Therefore, we need to constantly improve China's social security system so that people do not have any worries about their retirement. Only in this way can domestic consumption be boosted so that people's living standards can be effectively enhanced. At the same time, the difficulties facing the market in dealing with domestic sales during the financial crisis will also be solved.

### **3.4 Monetary policy and the state's fiscal policy are in harmony with each other**

At present, after a comprehensive analysis of the domestic economic development, we can find that the rate of economic growth in China is still in a downward trend represented by the drop in production, even shutting down. Employment in China is increasingly difficult. The inflation is changing into deflation. Many developed countries have even proposed a rate cut policy. Therefore, we need to appropriately relax monetary policy according to the actual situation of currency circulation. At the same time, in order to change the economic form of China, we should not only expand the government's fiscal expenditure, but also further reduce the tax revenue so as to ease the tax revenue pressure on people and raise people's overall economic income.

## **4. Conclusion**

To sum up, starting with the enlarged trade surpluses, the steady development of economy, the flow of credit, the economic growth under the fiscal stimulus and the prevention difficulties of China's economy, this article explores the macroeconomic implications brought by the financial crisis, and put forward some countermeasures, including increasing investment so as to stimulate domestic demand, enhancing the self-confidence of business operators, improving China's social security system and ensuring the coordinated development of monetary policy and national fiscal policy. The national economy is affected by many factors, including not only the impact of the inherent economic system, but also external impact. Therefore, as the global economic crisis comes, China, as a developing power, will inevitably be affected by the financial crisis. However, we need to consider the conditions of national development and take certain economic policies to alleviate the tremendous damage caused by the financial crisis.

## **Acknowledgement**

This research was financially supported by Teaching Quality Construction Project--the Teaching Team of Microeconomics of Xi'an FanYi University.

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