

profit point, opening up new business continuously with financial innovation such as the motivation of mortgage and the related financial products. The creation of a large number of financial derivative products just makes bubble boom of the market, but actually doesn't reduce or eliminate risk. It just transfers the risk to purchasers of the mortgage-backed securities.

For senior executives of investment banks, pursuing profits is their only motive. Where are the profits from? What influence will strange financial instruments bring about after all? They turn a deaf ear to those issues.

Alan Greenspan admitted when answered a question posed by the chairman of the supervisory board of U.S. House of Representatives that "I made a mistake in presuming that the self-interest of organizations, specifically banks and others, was such that they were best capable of protecting their own shareholders."

. Issues to be further studied

Financial crisis has brought a great shock to the global financial market and the real economy, simultaneously it also lets us once again be aware of the risk of U.S. financial sector standards. It is necessary to rethink the relationships between the following: 1. relationship between the government and market; 2. relationship between direct financing and indirect financing; 3. relationship between separate operation and mixed operation.

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Comparison of The Impacts for the Global Financial Crisis : China And Russia

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Abstract:The global financial crisis has a serious impact on the emerging market economies such as China and Russia, so that some new problems appear in these economies. In this paper, we will explain the extent of the impact of the financial crisis on these two economies with using the data of economic openness, economic dependence, capital market

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openness and the size of the virtual economy. Furthermore, this article makes a comparative analysis of the impact of the financial crisis on China and Russia and the reasons about that. In general, China suffers more than Russia from this financial crisis. Except China's own economic structure factors, one of the main reasons is that China's dependence on American economy much heavier than Russia's dependence on American economy.

Key words: global financial crisis China Russia Impact comparison

Introduction

Since the second half of 2008, the international financial crisis broke out substantively. In this crisis, China and Russia, as the world's two largest emerging economies, could not be exception while other economies were suffering from the international financial crisis. Studies suggest that, as a result of differences in mode of development and economic transition, the level and extent of China and Russia affected by this crisis are not the same. Therefore, this paper will make analysis and comparison of the impacts suffered from this crisis on these two economies and the reasons of that.

I. The Main Aspects Suffered From the Global Financial

Crisis of China and Russia

China and Russia are the countries whose economic growth has been the fastest of the emerging economies in recent years. Otherwise, since the outbreak of the financial crisis in 2008, some outstanding issues began to emerge in these two countries.

(1) Large decline in economic growth.

Looking at the economic growth rate, the annual GDP growth rate of China in 2008 is estimated to 9.5%¹, which is lower than 11.8% in 2007 for more than two percent points. The annual GDP growth rate of Russia in 2008 is estimated to 6%², which is lower than 8.1% in 2007. Based on the World Bank's forecast, the annual GDP growth rate of China and Russia in 2009 will deteriorate ulteriorly, respectively 7.5% and 3%.³

(2) Obvious slowdown in export growth.

Looking at the export, the annual export growth rate dropped five percent points in 2008 while the export rate of Russia has skipped in the first half of 2008. But in the end of the year, as a result of the price of the resource products declined, especially oil, the export

1 The forecasted data from the "social blue book" released by Chinese Academy of Social Sciences in December 2008.

2 Russia News, http://rusnews.cn/eguoxinwen/eluosi_caijing/20081229/42380363.html.

3 The estimated data from the "China Economic Quarterly", released by World Bank on November 25, 2008.

of Russia's resource products decreased sharply.

(3) Severe plunge in stock market and foreign exchange market.

At the end of the third quarter of 2008, compared to the same period last year, Chinese stock value had shrunk by more than 67% and the Russian stock market had shrunk substantially too. By the end of November in 2008, the Russian stock market value had shrunk to 400.37 billion dollars, decreased rate reached 70%. China's foreign exchange reserve, has reached 300 billion dollars, is so large that US as an anchor of RMB factually. The size of Russia's gold and foreign exchange reserves is the world's third largest, it would fall to 438.2 billion dollars on December 26, 2008 for the first time, which is 160 billion dollars fewer than the record in August 2008.

(4) Distinct weakening in foreign and domestic demand.

Looking at the export and investment which are the two engines for economic growth, export demand and fixed assets investment, which contributed more than 60% to China's GDP growth in 2007, have fallen sharply since August 2008. The reason of that is the recession in international market demand.¹ By the end of 2008 year, facing international price of oil fell sharply to about 40 dollars from 158 dollars and an acute downturn in international demand for resource product, Russian foreign exchange revenue dropped drastically.

II. The Analysis of Influential Factors of China and Russia

Suffered from Financial Crisis

We believe that, if only compare between China and Russia, what suffered from this financial crisis in China is in a broader level and a more deteriorated extent.

(1) China's external economic dependence is much higher than Russia's external economic dependence

Economic Openness (EO) reflects that an economy's external economic dependence or the influence of external demand on domestic economy.² The design procedure which measures the EO follows that: weights are given respectively to 3 one class (TO, IO, FO) according to their importance, then we make use of weighted average method to calculate EO.³ According to this design procedure, the EO of China is 52.69% and the EO of Russia is 31.35%. Looking at MTO only, this indicator of China is 65.36% in 2007 while

¹ Yongding Yu: a statement on December 29, 2008, <http://www.cenet.org.cn>.

² The indicators which measure the Economic Openness of a country mainly include Trade Openness, Investment Openness and Financial Openness. Trade Openness includes Merchandise Trade Openness (MTO) and Service Trade Openness, the indicator reflects Trade Openness is the degree of dependence upon foreign trade: $MTO = (EX + IM) / GDP$. Analogous to this approach, we can analysis other indicators.

³ In terms of research about how to give weight to those indicators, Li Chong adopted subjective evaluation, 40% to TO, 30% to IO and FO respectively. We will follow this approach.

that of Russia is 42.71% in the same period. Since the reform and opening up, export has been the main force of economic growth of China. By the end of 2007, the total import-export value of China had reached to 2173.8 billion dollars, which represents 67% of GDP, and export took up more than 40%. Meanwhile, the total import-export value of Russia was 578.2 billion dollars, which represented 51% of Russian GDP, and the corresponding ratio of Japan is respectively about 20% and 10%. Therefore, China's degree of dependence upon foreign trade is much higher than other major economies such as America, Japan, German and Russia.¹ In terms of IO and FO, the degree of integration into the world economy of China is much greater than that of Russia.

(2) China's dependence on U.S. economy much higher than Russia's dependence on U.S. economy.

It expresses Chinese economic dependence on US economy that China exports more to America. As a result of that, Chinese government buys lots of Federal bonds. Since China joined in WTO, total trade volume between China and the America accounted for more than 10% of Chinese total trade, Sino-US bilateral trade volume had reached 302 billion dollars in 2007, American investment in China had accumulated to 60 billion dollars, the annual sales revenue of 170 thousands American companies which run in China was more than 100 billion dollars in 2007. Now, China and America has been the largest trade partner each other² and Chinese export trade depends heavily on American domestic demand. According to the research of Yansheng Zhang(2008), during 2001 to 2007, the related coefficient between the rate of Chinese export growth to America and the rate of American economic growth is 0.82.³ Related research suggested that ,on condition that RMB rises by 3% and other conditions still the same, Chinese export volume growth would only be 13.1% in 2008, which is 10 percent points lower than that in 2007, if American GDP growth rate drops by two percent points in 2008. Base on the research conclusion of People's bank of China, the volume of Chinese export to America would drop by 6% when American economic growth drops by 1%. From January to October in 2008, the value of Chinese export to America had reached to 212.76 billion dollars, which represented 17.7% of Chinese total export value.

From perspective of the assets and investment held by mutual, American treasury bonds and agency bonds hold by China total 1.06 trillion and American treasury holdings by China has reached to more than 600 billion dollars which has made China take the place of Japan as the best creditor. Chinese central bank holdings of American treasure bonds ,represents 13.3% of negotiable American treasure bond, accounts for 35.4% of total foreign central bank holdings of American treasure bonds. American treasure bonds is the

1 Yongding Yu: a statement on December 29,2008, <http://www.cenet.org.cn>.

2 XinHua International review: "continue with the past and open up the future: push China-US constructive to a higher level", XinHua Net, Jan.1 ,2009.

3 Yansheng Zhang, "the impacts on world economy and Chinese economy since the subprime mortgage crisis broke up", macroeconomic study, No.3, 2008.

main investment of Chinese foreign exchange reserves, the value of investment in American treasure bonds has taken up more than 55% of the total value of Chinese foreign exchange reserves. According to recent report, in 2008 year, the lost of Chinese foreign purchases and mergers & acquisitions to American companies has exceeded 200 billion dollars.¹ Dollar assets accounts for 65%² of Chinese exchange foreign reserves. As American economy goes into recession, not only does the American treasure bond hold as Chinese foreign exchange reserves face losses, but also is Chinese foreign exchange reserves which is 2 trillion dollars called “tragic 2 trillions” and that has been “hanging by a thread and has no recourse” .³ If China does not purchase American Treasure bonds anymore or continues to invest in American Treasure bonds, dollar assets hold by Chinese central bank would shrink more sharply. If China assists American financial market in stability returns as soon as possible through purchasing American Treasure bonds, as a whole, it would contribute to minimize the losses which Chinese foreign exchange reserves suffered from the subprime mortgage crisis. Otherwise , in the long run, there would be lager ratio of Chinese foreign exchange reserves to be “bound ” by American economy. China does face an awkward dilemma on this issue.

However, Russian economic places less dependence on American economic comparing with China. Russian export value to America only account for 3% of the total volume of Russian export and the value of Russia’s trade with the United States is about 4% of the total value of Russia’s external trade. By the end of July in 2007, Russian holdings of American treasure bonds are 148 billion dollars. According to the director of the institute of Russian Modern Development Studies⁴, “in spring 2008, the Russian president has realized that the factual recession had already started. It would be unusual and spread to Russia from the West. The Russian government has taken measures early, such as the redemption of assets, to support the strategic sector and increase the liquidity of the financial system and so on, which is much earlier than the West. ” ⁵ Russia continued to sell the US mortgage-related assets which have reached to more than 40 billion dollars. Currently estimated, Russian holdings of US bonds are about 100 billion dollars which represent 22.72% of the Russian foreign exchange reserves. Therefore, the degree of Russian foreign exchange reserves shrinkage is lower than that of China. In general, Russia has less dependence than China on America in economic growth, trade export, capital, resource and so on, which as a result of multiple causes such as international politics, export market, foreign exchange reserves and so on. As a whole, in contrast to Russia,

1 China Securities Journal, Dec 18, 2008.

2 Estimated by RCIF of Chinese Academy of Social Sciences.

3 Yongding Yu: a statement on December 29,2008, <http://www.cenet.org.cn>.

4 The institute of Russian Modern Development Studies is in the charge of the Russian president-Dmitri Medvedev.

5 Mikhail Rostovski, “Who can work themselves out of the economic crisis more quickly with at a minimum cost: Russia or the West?”, Russian Moskovskiy Komsomolets, December 18,2008, source: Xinhua Moscow, December 18,2008.

Chinese economic has much heavier dependence on America. How ever, as former minister of American Treasure Department-Summers to say, the relationship between China and America is “anisomerous” dependency.

Chart-1 Comparison of Sino-US trade and Russia-US Trade

year	Ratio of Sino-US trade value to Chinese total external trade value	Ratio of Chinese export to the US to Chinese total export	Ratio of Russia-US trade value to Russia total external trade value	Ratio of Russian export to the US to Russian total export
2008	12.80%	17.60%	3.90%	3.10%
2007	13.90%	19.10%	3.50%	2.50%
2006	14.90%	21.00%	3.55%	3.10%
2005	14.90%	21.40%	3.32%	2.70%
2004	14.70%	12.10%		
2003	14.80%	21.10%		
2002	15.70%	21.50%		

Source: Chinese commerce ministry's website.

(3) China's capital market is larger in scale than Russia's capital market

The scale of Chinese capital market is larger and larger since 2002. A significant mark is that Chinese foreign exchange reserves were accumulated to 2 trillion dollars in 2007 from two thousands of dollars in 2002, which is called 5 years of “capital bubbles rising”. The capital market expanding quickly means that the pace of China integrating into international capital market is increased rapidly. From the standpoint of the amount of capital and the scale of investment which China invest in international financial market,

From China in various forms to enter the international capital markets and investment scale of the number of China and the international financial markets, the degree of close contact is far higher than the Russian, the tightness between China and the international financial market is more close-knit than Russia contacts with that.

First, as the China continues to open up financial market, the scale of Chinese international payments is increasing continuously. In 2007, Chinese international payments amounted to 4.8 trillion dollars, a growth of 33.5% year on year, and the ratio of international payments to Chinese current GDP is 159.35%¹. The corresponding data of Russia is 93.32% as the international payments are 1.4 trillion dollars in 2007.

Second, foreign capital participation in Chinese is higher and higher. By the end of 2007, foreign long-term institutional investors’ holdings of investment quota account for

¹ The author counts it by himself according to related data published by Chinese State Statistics Bureau.

33.7% of QFII, increasing by 5.31% over last year. Overseas banks' total assets in China was 171.463 billion dollars which is a growth of 47% over 2006 and represented 2.4% of Chinese financial institutes' total assets.¹ In China, there were 26 foreign legal person banks, 125 subsidiary banks and affiliates and 160 branches. Furthermore, foreign shareholders can own up to a total of 25 percent of a Chinese bank while the limitation of foreign shareholders' shareholding ratio of Russian bank is only 12%. There are about 150 foreign-owned banks and share-holding banks in Russia as the foreign-owned bank and share-holding bank are permitted while subsidiary bank owned by foreign is illegal in Russia. As a Russian government official to say, if subsidiary bank owned by foreign bank is permitted, an American bank or a few of American banks may afford to purchase all of the prize assets in Russia, what else left to Russia?

Third, Chinese financial institutes participate international financial market in various forms and rise in participation as the foreign capital continue to invest in Chinese financial market. At the end of 2007, there were 9 foreign financial institutes hold by 5 Chinese banks, 60 branched set up by 7 Chinese banks and 267.4 billion dollars of total oversea assets hold by Chinese banking. By the first half of 2008, the total oversea assets owned by Russian banking were 116.018 billion dollars, which were less than half of that owned by Chinese banking. **Four, the scale of bond market, share market, gold market and forward market in China is much larger than that in Russia.** By the end of November in 2008, the value of Chinese share market was 12.25 trillion RMB while the value of Russian share market was 400.34 billion dollars ²(equal to 2.73 trillion RMB), which was only 1/5 of the value of Chinese share market.

(4) Chinese asset-price bubbles are larger than Russian asset-price bubbles

Base on this financial crisis, a country's economy, especially the real economy, would suffer more from crisis as its scale of virtual economy is lager. In recent years, Chinese financing made use of substantive derivatives financial field trending on the heels of international financial innovation, which led to Chinese share market and securities market appearing to be putted up and have no basis of growth of entity economy. In 2007, the value of Chinese share market has reached to 32.7 trillion RMB which exceeded the current GDP as about 20 trillion RMB. In 2008, as a result of global financial crisis and the reform of domestic economic policies, Chinese share market fell at large amplitude which also be called "wringing". The value of Russian share market shrunk all the same. The over-estimated price of oil had pushed the stock price of Russian oil and gas companies to peak, so Russian share market experienced from "puffiness" to "shrinkage" as a result of oil price bubbles broke. However, the bubbles of Russian capital market are less than Chinese capital market. According to Putin's statement, the "threat" which financial crisis operated on the Russian banking system has been digested and the liquidity of the banking system

1 Data from "2007 report of international financial market" published by People's bank of China.
2 Data source: Russian RTS web. <http://www.rts.ru/en/archive/dataprevperiod.html?n=1&p=M>.

has been solved basically. Russia has to support the banking system to prevent the loss of deposits owned by Russian citizens. Now, such threats have been eliminated and banking system has been provided with the necessary funds, the establishment of health financial institutions system has been done.

Since 2008, the deepening of financial crisis deteriorated the economy of these two countries. By the end of the third quarter of 2008, the GDP of China and Russia was 2.88 trillion dollars and 1.38 trillion dollars respectively, the ratio of the net value of stock market to GDP was 78.57% and 76.09% respectively. There are lots of residents involved in the sale of stocks and funds in China. At the end of November in 2008, the number of effective accounts listed on the Shenzhen and Shanghai stock markets was already 103.5688 million, so the falling of share market must give rise to lots of people's losing. However, the people who are involved in stocks and bonds in Russia only be a few of rich people and agency investors. According to incomplete statistics, at the end of 2007, less than 2 percent of Russians would like to dabble in share market.¹ Although Russian share market also shrunk in the past time, it would bring no influence on the general public's confidence factually. Usually, in Russia, it would be that only does large-scale enterprise suffered from financial crisis, or other, Russia's Oil and Natural Gas Corporation are susceptible in this crisis (the market value of Gazprom has slumped to 95.9 billion dollars from 350 billion dollars in May 2008, which shrunk by more than 2/3. From September to October in 2008, the market value of Gazprom dropped by 52.4% to 110.8 billion dollars. Gazprom is the largest company in Russia and it provides 20% of Russian Federal budget. The weight of Gazprom's stock in Russian PTC stock exchange is 15%). The majorities of minor enterprises have low proportion of bank loans and mainly focus domestic market, so the main problems are liquidity shortage and marketing difficulties for them.

Therefore, in terms of absolute size, the shrinkage degree of Chinese share market is heavier than that of Russian share market and China has a much larger fictitious economy in scale than Russia.

III. Thinking the Impact on China and Russia

The international financial crisis stimulates the thinking of all over the world. It is necessary for China, which plays a critical role in the world economy, that to draw lessons from the past so that itself could get better development in the future.

First, it is the principal risks and lessons in this financial crisis that Chinese economy has heavy dependence on American economy. Chinese economic growth relies on commodities exports excessively so that degree of dependence upon foreign trade is exorbitant. There is a close correlation between American economy and Chinese main

¹ People's Daily Online, December 17, 2007, <http://world.people.com.cn/GB/41217/6639770.html>

economic factors such as export, capital market, economic growth, inflation rate, wealth growth rate and so on. Owing to that, Chinese economic suffers more than Russia in this financial crisis. All this indicates that the risks and crisis in Chinese economy are the over-reliance on American market, or the “asymmetrical dependency relationship”

Second, in the globalizing world, the precondition of economic opening-up is the benefit of nation economy and nation safety. In the past, we usually quoted indicators such as economic openness to explain the degree of a country's economic reformation, thereby arguing the necessity of implementing economic transition. As Russia conducted an economic policy of opening-up, America asked Russia to open up its financial market unconditionally at the beginning of negotiation about Russian joining WTO. However, the Russia government strengthened the control of resource state-owned enterprises, and financial sector contrarily. After Putin came to power, the Russia government controlled most of the interests of some major companies such as Gazprom gradually. Indeed, conducting open policies is the necessary condition of developing market economy in the context of economic globalization.

Third, China should be able to mitigate economic and financial risks in order to protect national economic interest. After the explosion of this financial crisis, the facts suggested that a country (such as Ukraine, Hungary) would suffer more from this crisis as its economic integrated into global economy (the Western economy) in depth. On the face of that, one of the reasons of Russian did not enter WTO is that Russia would not like to transfer its economic benefits for the qualification of being a member of WTO. In some sense, in the context of globalization, Russia does not submit to American economic supremacy as insists on the awareness of great power and power politics. Hence, people are stimulated to think about China as an emerging economy how to guard its national economic interest better in the background of economic globalization.

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