The Chinese Financial Crises and their Impact on Asia

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"The size of government debt in China is scary"

\- Dr Carmelo Ferlito

In examining China's recent financial crises, Dr Carmelo Ferlito shared his perspective on the country's debt holdings and monetary policy. Dr Ferlito noted that the size of large government debt holdings are a cause for worry. It currently amounts to USD $28 trillion, which is approximately half the world's debt combined. Regarding the country's monetary policy, Dr Ferlito mentioned that low interest rates have incentivised people to borrow money and venture into investments.

This has increased the demand for capital and consumption goods, which in turn creates an investment cycle where prices are continuously increasing. Increased demand for labour have also raised household incomes. However, Dr Ferlito warned that such a boom could only be sustainable if China's central bank decides to conserve its credit policy. The central bank would be forced to increase the interest rates eventually. Dr Ferlito concluded that a managed monetary mechanism by the government will not necessarily benefit the economy in the long run, and that it would be better if interest rates are controlled by the market instead.

Andrew Shuen of Lion Rock Institute in Hong Kong examined the financial crises through the political lens. He views the Chinese government not as a monolithic body;

instead, as an entity rife with internal friction - with different policy levels made up of different beliefs. The government is now facing an uphill task of liberalising its banking system. While much economic growth has been generated through accumulating debt, Mr Shuen claimed that the debt is already causing the banking system to show signs of collapse. This is worsened further by a carefree attitude with creditors and bankers. In light of this situation, Mr Shuen predicted that the government would impose more capital controls in the near future.

Mao Shou Long mentioned that the current crises faced by China is not a crisis of the market, but a crisis of governance. With improper policies implemented by bureaucrats in the past, Dr Mao was insistent that capitalist reforms are the only means of alleviating China's debt issue.