Background

With the financial crisis originated in industrial countries, the world economy is suffering from the worst recession since the WWII, and developing countries are hardest hit. The global economic slowdown which started in the second half of 2008 implied a drastic fall in demand for exports originated in, and in capital flows destined to, emerging market economies. The impact of these adverse shocks has been especially severe in countries with high initial current account and fiscal deficits, and/or household, financial and business sectors highly indebted especially with the rest of the world. In these cases the global downturn has led to severe financial-cum-balance of payment problems, a fall in output below capacity, unemployment of labor and underutilization of installed physical capacity. Even in countries with strong initial conditions the impact of the global downturn is visible especially in the export oriented sectors.

Against this background governments and international development agencies are designing and implementing fiscal stimulus programs and policy measures to offset the decline in aggregate demand. Chinese Government quickly designed and implemented a 4 trillion RMB ($586 billion USD) stimulus package. As government stimulus polices forcefully and promptly kicked in several months ago, China's domestic demand has increased strongly, leading to accelerating economic growth. A wide range of economic indicators have completed a V-shaped recovery with their momentum continuously surprising the market. However, the main engine of the recovery is clearly the government's supporting policies including massive fiscal stimulus and easy monetary stance. The U.S., Germany, Japan, Korea, and other OECD countries also announced their stimulus packages. Now some countries are beginning to emerge from the crisis, could this be a sustained recovery, or are they heading towards a double dip recession? The eventual impacts of these stimulus packages are still to be seen.

The design of these fiscal stimulus programs/policy strategies poses several challenges. Whether the size and content of the fiscal stimulus is appropriate; whether it is linked to the gap between potential and actual output; what will be the outcome if external conditions do not improve within the next year; what are the limits imposed by the external financing gap; what are the tradeoffs between ameliorating the current growth slowdown and the cost of paying for a higher public debt in the future; will countries have the ability to implement the programs in a timely fashion? Will some of the huge government program favoring SOEs affect private sector’s participation in the market, thus limit competition and future growth? These questions, repeated country after country, are difficult to answer categorically.

The feasibility of programs to ameliorate the impact of adverse changes of the terms of trade and the sudden stop in international capital flows depends on the specific circumstances of each country. Even so, taking stock of current policies, and exchanging ideas among countries, stakeholders, academia and international financial institutions could be very fruitful to ascertain the magnitude of the challenge and the merits of different policy responses.
Objective and Topics

The objective of the seminar is to share recent and past experience with fiscal policy measures in responding to the financial crisis. It will review China's policies to address the crisis to date, share experiences and lessons from other countries’ (including the US), and discuss how the response to the current crisis can be best designed/implemented so that it addresses need for longer-term structural changes in China's economy.

Topics to be covered include:

- Background and causes of the global financial crisis, including its impacts on economic growth, capital market development, implications with respect to fiscal policy and financial policy as the instruments of macroeconomic control, etc.
- Experience in use of fiscal policy to stimulate domestic demand, protect and improve people’s livelihoods, and encourage employment, economic recovery.
- International experience in facilitating industry transformation/restructuring via fiscal policy.
- Experience in meeting the needs of local economic development by government borrowing, analysis on the recent development in China, i.e. the central government issuing bonds for local authorities.

Target Audience

About 120 mid-senior level officials (DG/Division Director) from the MOF system, including officials from both the MOF central departments and provincial finance bureaus; international participants from Brazil, Korea, etc will also be invited to share their experiences.

Timing, Duration and Venue

November 13-15, for 2.5 days, in Beijing, China (Hotel Nikko New Century Beijing, No.6 Southern Road, Capital Gym, Haidian District, Tel: 86-10-6849 2001)

Partners

Ministry of Finance, China and The World Bank will co-host this event. Korea Development Institute (KDI) will send speakers to share Korea’s experiences. Officials from Brazil, Malaysia, and the United States will also participate as speakers and/or resource experts.

Language: Chinese and English
# Agenda

**International Seminar on**

**Fiscal Stimulus Measures in Responding to Financial Crisis: Experiences and Going Forward**

November 13-14 2009

New Century Hotel, Beijing China

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| 08:30-09:00 | **Opening Session**  
Moderator: Ou Wenhan, Director-General, Human Resource Development Center, MOF |
| 08:30-09:00 | **Opening Remarks**  
Liu Hongwei, Assistant Minister, Ministry of Finance (MOF)  
Elaine Sun, Acting Country Director for China, World Bank |
| 09:00-09:30 | **Seminar Introduction**  
Phil Karp, Lead Specialist and Regional Coordinator for East Asia & Pacific, World Bank Institute (WBI) |
| 09:00-09:30 | **Keynote Speech**  
Ding Xuedong, Vice Minister, MOF |
| 09:30-10:10 | **Session I: The Current Financial and Economic Crisis: What is Different This Time Around?**  
Triggered by a dramatic rise in mortgage delinquencies and foreclosures in the United States, the subprime mortgage crisis quickly spread to the world through the highly integrated financial market. The world economy is in a major downturn caused by the most dangerous shock in mature financial markets since the 1930s. A distinctive feature of the coming global downturn is that it is a crisis emanating from advanced economies rather than from bad policies in developing countries. Nevertheless, the world recession poses a severe test for the quality of economic policies and institutions in developing countries as well. This session will give an general introduction on the following topics:  
- A general overview of the current economic crisis;  
- The global/regional impact of the crisis in terms of growth, employment and financial losses  
- How different countries (advanced economies, BRICs and LICs) have used/are using fiscal policy to address the downturn but also protect jobs (and industries), and protect the poor and vulnerable (through social safety nets)  
- Have the lessons derived from the 1997-98 Asian Financial Crisis been useful? Why in spite of those lessons, so many countries were sucked into the current crisis? What did countries do wrong that rendered them vulnerable this time?  
- Now some countries are beginning to emerge from the crisis, could this be a sustained recovery, or are they heading towards a double dip recession? Why?  
International speaker:  
Justin Lin, Senior Vice President and Chief Economist, World Bank  
Discussant: Li Junsheng, Vice President, Central University of Finance and Economics  
Moderator: Ou Wenhan, Director-General, Human Resource Development Center, MOF |
| 10:10-10:30 | **Tea/Coffee Break** |
| 10:30-12:30 | **Session II: Economic Impacts of Financial Crisis and Fiscal Policy Responses**  
With the financial crisis having originated in industrial countries, the world economy is suffering |


from the worst recession since WWII, and developing countries are hardest hit. This session will further discuss the economic impacts of the crisis and fiscal policies to address them. Governments around the world and international development agencies are designing and implementing fiscal stimulus programs to offset the decline in aggregate demand. Though it’s still too early to determine how well these programs are working and to rigorously assess their merits, it will be useful to look at some general principles and experiences in designing the fiscal stimulus. Questions to be discussed includes:

- Further discuss the economic impacts of the financial crisis;
- What does fiscal stimulus program consist of? The pros and cons of different measures;
- Is the content of the program adapted to the underlying problem? E.g. will the demand for labor from increasing investment in physical infrastructure have effect on the unemployed workers from the export firms?
- Do the proposed measures have economic value? Will the goods and services produced as a result of the stimulus add to the country’s productive capacity?
- Should fiscal stimulus program be used to build safety nets and to promote green R&D? Stimulus program vs. sustained long term efforts.

International Speaker:  
David Dollar, US Department of Treasury's Economic and Financial Emissary to China

Chinese Speakers:  
Jia Kang, Director-General, Research Institute for Fiscal Science, MOF  
Tang Min, Deputy Secretary General, China Development Research Foundation  
Rui Huailian, Partner, KGMG

Moderator:  Raj Nallari, Manager, Growth and Crisis Program, WBI

Q&A

12:30-14:00  Lunch

14:00-15:40  Session III: How to Stimulate Domestic Consumption and Investment Demand? Issues of Project Selection and Implementation in Fiscal Stimulus

Fiscal stimulus intends to offset a fall in domestic aggregate demand and/or in net exports through stimulating domestic consumption and investment. For those export oriented countries, how to effectively stimulate domestic consumption is challenging, but also promising in terms of pursuing a more balanced and sustainable growth. On the investment front, for fiscal stimulus to have fast and effective impact there is a need to find the balance between quickly selecting projects and ensuring the quality of the selecting process. Furthermore, governments often have the tendency to award stimulus projects to state owned enterprises. In addition to the worsened global economic situation, the private sector especially the SMEs might be facing even tougher environment. Subdued competition may limit future growth. This session will discuss the following topics

- What kinds of policies are effective for stimulating consumption and/or investment?
- What are the basic principles and experiences to stimulate consumption and/or investment?
- How to select projects in a quick but effective way? How to speed-up implementation?
- Large parts of the fiscal stimulus package were invested in infrastructure development in China, how to better manage infrastructure investment and improve its effectiveness?
- Is there crowding out of private investment?

International Speaker:  
Raj Nallari, Manager, Growth and Crisis Program, WBI

Chinese speakers:  
Hu Jinglin, Director-General of the General Office, MOF
Li Junsheng, Vice President, Central University of Finance and Economics

Discussant: Joaquim Levy, Secretary of Finance, Rio De Janeiro State, Brazil

Moderator: Phil Karp, WBI

Q&A

15:40-16:00 Tea/Coffee Break

16:00-17:30 Session III: How to Stimulate Domestic Consumption and Investment Demand? Issues of Project Selection and Implementation in Fiscal Stimulus (Continued)

International Speaker:
  Sanghoon Ahn, Head, Policy and Research Division, Korea Development Institute (KDI)

Chinese Speakers:
  Yang Xiaochao, Director-General of Finance Bureau of Beijing Municipal Government
  Wang Jianguo, Director-General, Office of National Agricultural Comprehensive Development, MOF

Moderator: Phil Karp, WBI

Q&A

18:00 Welcome Dinner Hosted by the Beijing Municipal Government

20:00 End of Day 1

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Day Two

08:30-10:10 Parallel Sessions

| Session IV (a): The Role of Fiscal Policy in Improving Social Security and People’s Livelihood |
| Crisis will hit the vulnerable the hardest and put challenges to countries’ social security system, this session will discuss how to use proper fiscal measure to improve social security and people’s livelihood in the context of current crisis. |
| International Speaker: |
| John Langenbrunner, Lead Specialist, China Human Development Sector Coordinator, World Bank |
| Chinese Speakers: |
| Sun Zhijun, Director-General of Social Security Department, MOF |
| Ma Haitao, Dean, School of Public Finance and Administration, Central University of Finance and Economics |
| Moderator: Yan Wang, Senior Economist, WBI |
| Q&A |

| Session IV (b): Can Fiscal Policy Help Economic Restructuring and Upgrading in Urban Centers? |
| In the past decades, China has made significant achievements in improving investment climate, and promoting industrialization and development. However, China is approaching a critical stage of its development. The growth model that China has followed over the past decades has largely relied on capital and resources. A major part of China’s comparative advantage remains in labor intensive low-tech industries. Can the current crisis be turned into opportunities in terms of economic |
| International Speaker: |
| John Langenbrunner, Lead Specialist, China Human Development Sector Coordinator, World Bank |
| Chinese Speakers: |
| Sun Zhijun, Director-General of Social Security Department, MOF |
| Ma Haitao, Dean, School of Public Finance and Administration, Central University of Finance and Economics |
| Moderator: Yan Wang, Senior Economist, WBI |
| Q&A |
restructuring and upgrading? How could fiscal policies affect future adjustment and growth in China and in the Asia region? These topics will be discussed in this session.

International Speaker:
Shahid Yusuf, Economic Advisor, World Bank Institute

Chinese Speaker:
Wang Baoan, Director-General, Economic Construction Department, MOF

Discussants:
Sanghoon Ahn, Head, Policy and Research Division, Korea Development Institute
Sun Kai, Associate Dean, School of Public Finance and Taxation, Dongbei University of Finance and Economics

Moderator: Raj Nallari, WBI

Q&A

10:10-10:30  Tea/Coffee Break

10:30-12:30  Parallel Sessions

Session V(a): How to Use Fiscal Policies to Promote Sustainable Trade Development

The global economic slowdown implied a drastic fall in global demand for exports originated in, and capital flows destined to, emerging market economies. The impact of these adverse shocks has been especially severe in countries with high initial current account and fiscal deficits. Even in countries with strong initial conditions like China the impact of the global downturn is visible especially in the export oriented sectors. This session will

• Explore the impact of the global downturn on trade flows, and its implication to employment, poverty and growth
• Discuss policies (both trade and non-trade) adopted to support exporters internationally and in China, as well as the motivation, and effectiveness of these polices
• Are these policies complied with WTO rules, are they sustainable?

International Speaker:
Joon-Kyung Kim, Professor, School of Public Policy and Management, KDI

Chinese Speakers:
Shi Yaobin, Director-General, Tax Policy Department, MOF
Li Jian, Research Fellow, Research Institute of International Trade and Economic Cooperation, Ministry of Commerce

Moderator: Yan Wang, WBI

Q&A

Session V(b): Local Government Borrowing and Sub-national Debt Management

As part of China’s stimulus package, local government is required to provide matching funds to finance selected projects. The central government has moved quickly to provide local authorities new means of raising funds: in December 2008, draft regulations were sent to the State Council, and was approved at the recent National People’s Congress annual meeting earlier this year. Local governments are allowed to issue bonds. Xinjiang Autonomous Region and Anhui province issued the first and second batch (RMB3 billion and RMB4 billion respectively) of the RMB200 billion (about USD29.4 billion) local government debt, other provinces will follow. This session will

• Discuss the challenges facing local governments
• Introduce international experiences on regulating local government borrowing and sub-national debt management; explain central features and variations of sub-national
insolvency mechanisms across countries; and discuss the challenges within;

- Discuss the motivation of China’s move to allow local government borrowing and the design of sub-national debt management

International Speaker:
Lili Liu, Lead Economist, Economic Policy and Debt Department, World Bank

Chinese Speakers:
Zhang Zhihua, Director, Budget Department, MOF
Qiao Baoyun, Dean, Public Finance & Policy School of Central University of Finance & Economics
Sun Kai, Associate Dean, School of Public Finance and Taxation, Dongbei University of Finance and Economics

Moderator: Sheng Li, Senior Learning Specialist, WBI

Q&A
12:30-14:00 Lunch
14:00-15:30 Session VI: Country Experiences: Brazil, Korea and Malaysia

The constraints each country is facing are different. The feasibility of programs to reduce the impact of adverse changes of the terms of trade and the sudden stop in international capital flows depends on the specific circumstances of each country. For example, Vietnam and Malaysia are more affected by the fall in global trade and also by disruptions in international financial flows. The fall in external demand has implied increase in unemployment and probably brought firms to the verge of bankruptcy. Brazil doesn’t experience an acute case of crisis in any particular sector, but has used large forex reserves to support corporate sector while adopting a moderately fiscal stimulus. It is still too early to draw any hard and fast lessons from these experiments, but there might be an “early harvest” of findings (both experiences and lessons) from a number of counties which have taken the lead in using fiscal stimulus to cope with crisis. This session will look at the policy responses from some of these countries to see what is the focus of the selected programs? Have them been effective? What are the experiences and lessons so far?

International Speakers:
Joaquim Levy, Secretary of Finance, Rio De Janeiro State, Brazil
Joon-Kyung Kim, Professor, School of Public Policy and Management, Korea Development Institute
Ahmad Razi, Deputy Director, Economics Department, Bank Negara Malaysia

Chinese discussant:
Wang Chaocai, Deputy Director-General, Research Institute of Fiscal Science, MOF

Moderator: Raj Nallari, WBI

Q&A
15:30-15:45 Tea/Coffee Break
15:45-17:00 Session VII: Looking ahead-Lessons Learned and Prospects in the Post Crisis Era

International Speaker:
Ardo Hansson, Lead Economist for China, World Bank

Chinese Speakers:
Ma Guoqiang, Vice President, Dongbei University of Finance and Economics
Liu Shangxi, Deputy Director-General, Research Institute for Fiscal Science, MOF
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| 17:00-17:30 | **Wrap Up and Closing**                   | - Raj Nallari, WBI  
|           |                                            | - Li Chi, Deputy Director General, HRDC, MOF |
| 17:30    | **End of Day 2**                           |                                              |