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CHAIRMAN JIM SAXTON

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STUDY FINDS CHINA'S ECONOMIC FUTURE FACES MAJOR CHALLENGES

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WASHINGTON, D.C. – There are at least five major problems Chinese policymakers must surmount to ensure China's future economic health, according to a new Joint Economic Committee study released today by Chairman Jim Saxton. The study, *Five Challenges That China Must Overcome to Sustain Economic Growth*, examines unfavorable Chinese demographic trends; corruption and a weak rule of law; financially distressed state affiliated enterprises; unsound banking practices; and domestic and international imbalances.

"The Chinese economy has been growing at a very rapid pace, but there are a number of looming problems that could undermine this growth over the longer run," Saxton said. "The Chinese government itself has acknowledged some of these problems, but resolving them would require major structural reforms that could threaten aspects of the Chinese political system.

"National, regional, and local government officials have close relationships with government-owned banks and businesses, and these relationships often engender conflicts of interest. Pervasive corruption, unhealthy state-owned and influenced enterprises, and weaknesses in the banking sector are endemic to the current system. Firms with good political connections use their influence and resources to obtain loans from state-owned banks. Thus credit often is extended regardless of the soundness of a particular loan, and the result is a lot of bad investments and nonperforming loans in China.

"This politically influenced allocation of credit erodes the integrity and capital of the Chinese banking system, which is now largely insolvent. These practices also subsidize the existence of many firms that should be restructured or liquidated. Although the Chinese economy has experienced booming investment, many Chinese government officials have voiced concern about an investment bubble.

"The Chinese authorities have addressed many of their problems using an incremental approach to reform. However, the challenges identified by the study will require fundamental structural reforms that involve some political risk," Saxton concluded.

For a copy of the JEC study, *Five Challenges That China Must Overcome to Sustain Economic Growth*, please visit our website at www.house.gov/jec/

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