How globalisation has affected China and related policy issues

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Abstract

Globalisation is a double-edged sword, especially for EMEs. On the one hand, globalisation has boosted national income, spurred trade and investment and promoted the sustained and healthy development of China's economy. On the other hand, globalisation has also expanded China's domestic income gap and intensified pressure on cross-border capital flows. As a response to these challenges, and like other EMEs, China conducts sound macroeconomic policies and promotes structural reforms with the aim of creating a robust macroeconomic environment.

Keywords: globalisation, China's economy, reform.

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Implications for output, trade and investment in China

Globalisation has promoted the sustained and healthy development of China's economy and China has also injected new impetus into globalisation. Especially after China's WTO accession, the adoption of advanced technologies and management expertise, external competition and technological innovation have enhanced China's total factor productivity and economic growth. GDP expanded from USD 189 billion in 1980 to USD 12.2 trillion in 2017, accounting for 15% of global GDP. While benefiting from globalisation, China has also contributed significantly to global growth. Between 2012 and 2016, China contributed over 30% to the global economic growth on an average annual basis. Globalisation also promoted a synchronised uptick in China's output and the global economic cycle, but it also aggravated the impact of external shocks, as in the Asian financial crisis in 1997 and the Great Financial Crisis in 2007–09. The Chinese economy has been resilient to external shocks thanks to reforms, economic opening and new growth drivers.

Globalisation has spurred trade and investment, intensifying pressure on cross-border capital flows. Since the reforms and economic opening, China's external trade has surged. In 2017, the total volume of imports and exports exceeded USD 4 trillion, compared with less than USD 40 billion in 1980. Meanwhile, China has cumulatively attracted over USD 1.7 trillion of foreign investment and made a total of USD 1.2 trillion of outward direct investment. Globalisation has intensified the pressure of cross-border capital flows. After China joined the WTO in 2001, the scale of cross-border capital flows continued to increase. Later, with the shift of monetary policy stance in the major advanced economies, international capital began to flow out of China, reaching USD 6.1 trillion in 2016, 13 times that of the 1997 Asian crisis. Short-term capital flows accounted for nearly 60% of this. The leverage ratio of Chinese enterprises increased from 96% in 2006 to 144% in 2016, higher than that not only of advanced economies such as the United States (72.8%) and Japan (94.2%) but also of some EMEs such as Korea (103.7%).

Implications for population flows and income distribution: globalisation has promoted labour flexibility and geographic mobility in China.

Migration has been growing in the past 30 years, especially after China's WTO accession in 2001. By 2016, domestic population flows had reached 245 million. During this period, economic restructuring and rapid industrialisation supported a boom in labour-intensive industries in the coastal region. Migrant workers have moved from rural to urban areas, and from underdeveloped to developed areas. China's per capita income has risen substantially in this process. Moreover, China has gradually evolved from a country of emigrants to being both a source of emigration and a country for immigration. In addition, China has facilitated the international flow of labour by simplifying its visa procedures.

Globalisation has boosted national income but also expanded the domestic income gap. With the reforms, economic opening and continuous integration into the global economy, China has grown at a remarkable pace. A massive amount of people have been lifted from poverty. The rural poor population has dropped from 98.99 million in 2012 to 43.35 million in 2016. The quality of life has improved significantly. Per capita disposable income reached CNY 25,974 in 2017, 2.1 times that of 2010. However, the income gap has also expanded. The Gini coefficient rose from 0.292 in 1981 to the peak of 0.491 in 2008, before declining slightly to 0.465 in 2016, above the internationally acknowledged appropriate level of 0.4. Wealth gaps exist between urban and rural areas, as well as between different regions and industries.

Discrepancies in the progress of reforms, the shift of economic activities to coastal areas and monopolies in certain industries have contributed to such gaps. According to estimates, the Gini coefficients of urban and rural areas rose from 0.172 and 0.256 in 1981 to 0.326 and 0.376 respectively in 2014. From 2005 to 2014, the average income of the top quintile in Beijing was four times as much as that of the bottom quintile. Income gaps between senior management and ordinary staff yawn in the monopoly industries, especially the telecommunications and petroleum industries.

Policy issues

Globalisation is a double-edged sword, especially for EMEs. Like other emerging market economies, China has responded with sound macroeconomic policy and structural reforms to create a good domestic environment for participating in globalisation.

First, we are adapting to the new normal of economic development and deepening supply side structural reforms. We actively promote the reform of state-owned enterprises, and we are adjusting industrial structures, and eliminating overcapacity and "zombie" enterprises. We have sought to encourage technological innovation, increase investment in education, and improve labour quality and total factor productivity. We aim to cut costs for enterprises, reduce real estate inventory through tax measures, land and resource price reforms, and to reform the administrative system by streamlining administration and delegating powers.

Second, we are implementing precise poverty relief measures and increasing financial assistance to the agricultural sector and farmers. We will leverage fiscal policy to adjust income distribution, integrate agriculture-related fiscal funds through various channels, actively improve poverty relief and development policy, strengthen supervision of capital and projects, and improve the infrastructure and basic public services in poor areas. We aim to achieve the goal of reducing the rural poverty population by 10 million this year.

Third, we are strengthening the macroprudential management framework of the financial sector and coordinating monetary policy with macroprudential management. In particular, we will strengthen macroprudential management of cross-border capital flows and regulate risk reserves for forward sale of foreign exchange in a flexible manner. This will ensure that cross-border financing is consistent with macroeconomic conditions, overall solvency, and the balance of payments position, with a view to creating a stable macro environment for economic development.

Last but not least, we will further open up the financial industry. We will actively promote the Belt and Road Initiative and explore new paths for opening up the financial industry. We will implement comprehensive financial sector reforms and enhance the competitiveness and soundness of financial institutions. We aim to restore the profitability of the financial sector to an appropriate level and reduce the wealth gap within the financial industry through greater competition. We will also improve financial services and mitigate overall financial risks.