GLOBALISATION : ECONOMIC POLICY CHALLENGES FOR CHINA

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"Greater China and the World Economy" Conference, Hong Kong, July 2000

Introduction

My paper covers the economic policy challenges for China that arise from its growing acceptance of and participation in globalisation. Its key point is that there are overwhelming net economic benefits from globalisation, provided the correct economic policy approaches are taken

A key, initial point I would make is that the current phase of globalisation looks to be inexorable. There is the occasional setback, such as the failure last year to commence another round of world trade negotiations, but the process does go on. There is, moreover, evidence that profitable and socially beneficial globalisation potentially has much further to run.

The forces of globalisation are so strong, moreover, that no country can avoid being affected by them. An English poet (John Donne) has said that "no man is an island", and the same can be said for countries. All countries participate to greater and lesser extents in international transactions and are affected directly and indirectly by globalisation.

I have chosen to talk about the challenges from globalisation, rather than about its benefits or its costs.

I don't propose to ignore the costs of globalisation, but to look at them from a positive perspective. That is to say, to treat the potential costs as challenges to be overcome. If governments take this approach and frame economic and other policies accordingly, they stand a much better chance of maximising the net benefits to them from globalisation.

Globalisation

Globalisation is the process of movement from local and segmented markets to multinational, integrated markets. It covers international transactions such as trade in goods and services, flows of direct and portfolio investment, transfers of technology and movements of labour and of ideas.

It is not a recent phenomenon. The 50 or so years before the First World War was a period of large flows of capital, goods and people between countries[1]. But the war and the period of trade protectionism and restrictions on capital movements that followed it reversed some of the gains in globalisation that had been made. I don't believe that the current phase would ever go through a similar sizeable reverse[2].

In the modern era, China's commitment to participation in international trade and commerce effectively started with the commencement of the "reform and opening up" policies of Deng Xiao Ping more than 20 year ago.

China did make a number of past ventures into the rest of the world. These were sporadic, but spectacular. In the early 1400s, for example, a number of naval expeditions from China explored the waters to the South, including the Indian Ocean, and some went as far as Africa.

The largest of these expeditions consisted of more than 300 vessels which carried 28,000 men. These explorations were not so much trading voyages, but were to visit potential tributary states. Independent trading voyages followed. This initial foray with globalisation was not, however, sustained. The voyages were costly and the attention of the Chinese leaders came to be diverted to domestic concerns. In the following years, Chinese were prevented by law from sailing overseas and Emperor Taizu forbade private foreign trade.

China, nevertheless, has been a significant participant in the past in the globalisation of labour. There have been large movements of Chinese into the rest of Asia, to North America and to Australia in the past and these are continuing. These flows have been both permanent through immigration and for the temporary supply of labour, such as to the Australian goldfields in the 1850s.

Around Asia these Chinese labourers soon turned into entrepreneurs, and they now represent a large business network contributing much to the output and trade of the region. It has been estimated that in 1995 the 50 million or so ethnic Chinese resident in East Asia outside China generated GDP of approximately $US 450 billion, which was not far short of China's GDP at that time.

China's opening up is now intensifying, with its pursuit of and impending admission to the WTO being the strongest sign yet of its willingness to be a strong and effective player in the world economy and in its institutions. We are seeing movement by China across a broad front towards a freer economy with more intense connections with the outside world. China is actively pursuing globalisation; it is not being pushed or forced into the process.

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[1] It has been estimated that by the end of the 19th century net international trade and investment flows as a proportion of contemporary GDP were as large as they are now. International labour flows were larger then than now.

[2] Factors inhibiting a reversal are the existence now of sounder institutional foundations for international finance and commerce; and the commitments to avoiding protectionism are embedded in a multilateral treaty and other international commitments, rather than only in an incomplete network of bilateral treaties.

Just recently, for example, it was announced that foreign funds would be permitted to purchase A shares. Consistent with the gradualist approach that China has taken towards economic reform, there will be limitations on this concession, but it represents an important step towards financial market and capital account liberalisation.

China also proposes to participate in the recently announced “Chiang Mai Initiative”, which is a regional financing arrangement designed to supplement the existing international facilities. Participation will involve China entering into bilateral foreign exchange swap and repurchase agreements with the ASEAN countries. The initiative comes from the ASEAN Plus 3 forum of Finance Ministers and central bank Governors, a grouping which China was instrumental in forming.

There are other examples of China’s commitment to opening up. It has gone a fair way towards lowering tariffs. The average tariff level has fallen from 43 per cent in 1992 to 17 per cent more recently. That level is about half the rate applying in India and is not high compared with many other developing countries. And it will fall further as China’s implements its WTO obligations.

I don’t think there is too much doubt in China about the need to globalise or about the benefits being derived from globalisation. For instance, President Jiang Zemin said recently that “It has been proven in China and in other countries that any attempt to develop a national economy will fail without opening to the rest of the world”.

Nevertheless, China’s commitment to globalisation has potential and actual costs. These are primarily not national in nature, but to various special interests and there is resistance to globalisation from those interests. In that regard, the Asian financial crisis led to greater distrust by some in China of market forces and to exaggerated concerns about globalisation

Nevertheless, experience, especially in other parts of Asia, shows that the benefits of globalisation are overwhelming. The Asian economies that have done best over the past few decades are those which are most open to trade and investment and other international influences. And the Asian region as a whole has done better than other groupings of developing countries, in part because of its relative openness and its commitment to globalisation.

China still has some way to go before it is a full and free participant in the world economy. Its external trade to GDP ratio is 34 per cent, compared with an average in excess of 100 per cent for the major Asian economies, excluding Japan. When China’s GDP is adjusted for its relative price level, ie when a purchasing power parity basis is used to measure GDP, the degree of openness is even smaller – around 8 per cent.

Over the past five years net exports have accounted for less than 15 per cent of China’s growth. The dependence of China on its domestic market for growth is a protection in times of external adversity, but it also means that China is not taking full advantage of the potential for extra growth from more trade.

China does somewhat better though with regard to foreign direct investment. It is now the second largest recipient of FDI, after the United States, and in recent years FDI has consistently accounted for 10 –15 per cent of total investment in China. Amongst the Asian economies, only in Korea has FDI accounted for a similarly high proportion of total investment. By comparison, FDI has represented only about 6 per cent of the total investment of developed economies.

There is no doubt that other countries want to see China as a full participant in international transactions and in the international institutions which seek to guide and facilitate those transactions. All countries want to see China as a member of the WTO. There has of course been intense negotiation between China and other countries over China's admission to the WTO, but that does not belie our desire to have China as a member.

And China has become a member of the G20 group of countries which was recently established as a forum for high level, informal discussion of international financial system issues. There was, I would mention, considerable debate over which countries should be members of the G20, but never any doubt about China's claims. Its membership was favoured by all countries.

Let me now cover some of the key challenges for China from globalisation.

Challenges From Globalisation

I see six main challenges for economic policy.

1. Constraints on the Independence of Economic Policy Making

One complaint about globalisation is that it reduces the freedom and independence of governments in setting their economic policies. The argument is that globalisation increases the power of markets and reduces that of governments.

There is some validity in this argument, but we need to examine the causes and consequences of such a change in relative power. If globalisation prevents a government from adopting non-market friendly economic policies, it will have lost some power. But the presumption would be that the alternative, market friendly policies that must as a result be pursued will lead to better economic outcomes for the country concerned, such as higher growth rates, increased per capita incomes and less poverty.

A government, for example, may be constrained from increasing taxes on businesses because the consequence would be the loss of some industries to other countries. The loss of policy making power is obvious. But there are benefits from not increasing taxes. These are the retention of the industries and the avoidance of the inefficiencies, burdens and other costs that are associated with excessive taxation.

So there are trade offs between particular costs of globalisation and the benefits from globalisation. But governments still have the power to place their own values on the trade off and to frame their policies accordingly.

Governments increasingly are adopting pro-market policies and, in so doing, freely choosing to give up some of their power to market forces. Participation in globalisation is part of this process; it simply means exposure to market forces external to an economy as well as to the internal forces. Ceding more power to the market is not forced on governments, but the power is given in the knowledge that freer markets produce, on the whole, better economic outcomes and better living standards.

China, too, can make its own choice regarding participation in globalisation. It has clearly chosen to integrate with the world economy, though at a careful pace determined by its own circumstances.

The associated challenge is that economic policy making in a market environment is more difficult. The available policy tools are fewer, policymakers' experience with the new environment and with market-oriented policy tools is limited, and the reactions of the economy to changes in policies can be less predictable.

For instance, the removal of tariff and non-tariff barriers to trade places a greater weight on indirect measures, such as fiscal and monetary policy, to influence the balance of payments.

The Australian experience during the 1990s has been that national governments can run independent macroeconomic policies. The effectiveness of soundly based, credible and transparent macroeconomic policies is unlikely to be compromised by external influences. But it is clear from other countries' experiences that globalised financial markets can impose severe costs on economies whose governments pursue what the markets view as inappropriate policies, and it is probably also the case that "bad" policies are more readily penalised by investors than previously.

2. Susceptibility to External Disturbances

A country's exposure to world markets makes it susceptible to the volatility of those markets and to adverse developments in them. Exposure results in external disturbances being transmitted to economies that are integrated in the world trading and financial systems.

Exposure also means that any weaknesses in an economy become more apparent more quickly than if the economy were insulated, and it also means that those weaknesses have to be dealt with quickly.

We saw the implications of this exposure very starkly during the Asian financial crisis. The absence of confidence and the associated contagion also played a role in the transmission of the crisis from one country to another.

But while individual countries may have no control over external disturbances and volatility, they do control the preparedness of their own economies to cope with such shocks, and they control the domestic economic policies that can be used to moderate the shocks.

Let me provide examples, those of China and Australia.

Australia succeeded in avoiding the Asian crisis, not because of our insulation from the Asian economies. In fact, the opposite is the case – our trade connections with Asia are stronger than those with any other region. Rather, Australia was protected by the strength of its economic fundamentals; by its sound institutions and businesses; and by pursuing, both before and during the crisis, appropriate economic policies.

So Australia met the Asian crisis full on and was able to avoid the shock of the crisis – Australia continued to grow faster than our long term potential growth rate and faster than most other developed economies; Australian financial institutions remained sound and profitable; foreign investment and confidence in the Australian economy was maintained; and share prices continued to rise. The only major adverse effect was a rise in the current account deficit.

The other major regional economy that was not greatly affected by the crisis was China. Throughout the crisis, China maintained economic growth, a strong currency and a current account surplus. But the reasons for China's success were different.

China still deliberately insulates itself from some outside influences through the non-convertibility of its currency, limits on short term foreign borrowing and trade and investment barriers. This, and the pursuit of appropriate macroeconomic policies, helped China avoid the worst of the Asian crisis.

China's experience is not an argument for economies to close down to outside influences. The overall long term benefits from openness far outweigh the short term benefits insulated economies would enjoy from being able to avoid the occasional external shock.

External disturbances, shocks and volatility will recur[3], but the pursuit of appropriate domestic policies and the development of strong economic fundamentals are the best means of dealing with them.

3. Maintaining Competitiveness

The economic policy challenge for China most topical at present is the maintenance of competitiveness. The concern about competitiveness arises from China's imminent accession to the WTO and from the implications of membership for domestic industries and businesses.

[3] Despite recent experience, the evidence shows that the frequency of financial crises has fallen. Over the last 25 years, financial crises were more frequent in the period 1975 to 1986 than more recently, while banking crises were at their peak in the early 1980s.

The competitiveness of China's export industries is not an issue. Indeed, their competitiveness will be increased as China implements its WTO commitments. The costs of export industries will be reduced as tariffs on imported inputs are lowered and as more foreign competition lowers the cost of domestically produced goods and services used by the exporters.

The challenge is for the currently protected industries to be able to compete against lower cost imported goods and for Chinese service providers such as banks and insurance companies to maintain market share in the face of liberalised conditions for the operation of foreign service providers.

If it were simply a matter of a cost disadvantage for domestic producers, import competition could be countered with a devaluation of the renminbi. But the devaluation would probably need to be quite large and it would not address the core causes of uncompetitiveness, which are the large gaps between the efficiency of some Chinese companies and their foreign competitors, and between the efficiency of the Chinese economy and that of other economies.

The enterprise efficiency gap is partly reflected in the average return on assets of the top 500 Chinese companies being 2.8 per cent, compared with 11.3 per cent for the global top 500 companies. And the global 500 spend 5-10 per cent of their sales income on R & D, compared with 1.4 per cent for the Chinese companies

So the better approach to enhancing competitiveness is reform, both of the economy and of enterprises. That provides a permanent boost to competitiveness, whereas devaluation can lessen the incentive for reform and there is no guarantee that a devaluation can be maintained in real effective terms.

I have to say, however, that building a better functioning economy takes considerable time and effort. Effecting structural reform is not easy. In Australia, for instance, it took around a decade for Governments to be persuaded of the value of having free trade in goods and services, and even longer for Australia to achieve the low tariff regime we now have. And tariffs still remain a contentious issue.

Structural reforms can involve dislocation of whole industry sectors and they affect businesses, workers and other vested interests, including the interests of the regulators. In cases of attempted quick and wholesale reform across an economy, the disruption can be severe. The economies of Eastern Europe, for example, suffered large falls in output during their reform process. And all of the financial sectors of the developed economies that were reformed during the 1980s and the 1990s experienced dislocation in the form of bank failures or forced mergers.

So the odds are against reform. It is, nevertheless, heartening to know that the more an economy is exposed to the forces of globalisation the more efficient it is likely to become. Studies have shown a close link between productivity performance in industries and globalisation. Protected domestic industries have little incentive to improve their productivity, whereas the pressure of global competition is a powerful force for reform.

It has been said that global competition is a bit like tennis – a tennis player improves his game by playing against people better than him. Vice Minister Long Yongtu, China's chief WTO negotiator, put it rather better when he said recently that "If the Chinese Government did not allow Chinese sports teams to attend the Olympic Games…how can they become a world player?".

There is a number of Chinese companies that have grown stronger after facing import competition. These include Haier, Guangdong Kelon, Konka, Legend and Chang Hong.

Moreover, reform has to be an ongoing process. In today's competitive world, it is not sufficient to achieve a certain level of efficiency and then stop the reform process. An economy needs to be continually moving forward simply in order to maintain its relative position.

These considerations are relevant to China's current situation. China has set out on an ambitious, but necessary, program of reform, both of its economy and of its enterprises. Some costs from that program are already apparent, such as unemployment. But China should look at the experience of other economies and gain reassurance from the eventual success of their reform efforts.

My impression is that reform in China is currently proceeding as fast as it can reasonably be taken, given the constraints on the pace of reform. These constraints include resistance from political and other vested interests and the desire of the Leadership not to jeopardise social and economic stability.

But another important constraint is the sheer inability of institutions and individuals to effect speedy reform. There is a lack of sufficiently committed and competent people in China to implement reform and government institutions involved in the reform process often have too few people and resources available to them.

It is probably also the case that most of the "easy" reforms have been completed in China. The current difficulties arise because the reforms now being attempted are mostly "hard". "Easy" reforms are those whose benefits are large, focussed and immediate; which can be relatively easily implemented; and whose costs to vested interests are minimal. One such reform was the household responsibility system. On the other hand, the "hard" reforms have immediate and focussed costs, diffuse and longer term benefits and are difficult to implement. Some such current reforms are SOE, financial sector and institutional reform.

So it is not surprising that current reforms are meeting with resistance and some disillusionment. Another reason for these reactions is the sometimes large gaps between expectations from reform and actual outcomes. Benefits have been slower coming through and lesser in size than had been expected. One such example is housing. The reforms announced in 1998 were confidently predicted to add up to 1 ½ percentage points to GDP growth in their first year of operation, but the reality was delayed implementation and a lesser impact than expected.

The Asian financial crisis had a profound impact on China's attitude and approach to economic reform. It learnt, for instance, that opening up to greater foreign competition, capital flows, exchange rate movements and external economic influences in general can be damaging, at least initially, if the domestic economy and its institutions and companies are unprepared. So China's current focus is to make the necessary preparations.

Those preparations will, however, take time. For instance, China's insurance regulator, Ma Yong Wei, has said that ten years will be required for China's insurance companies to match the technical and managerial efficiency of their foreign competitors.

A key question is whether reform in China is proceeding too quickly or too slowly. If reform is too slow there is a real risk of the economy sliding into slow decay – it can only be propped up for a certain period by fiscal stimulus and by non-market based government interventions. If the reform is too quick, economic and social dislocation will result.

Whatever the views on this question, one reality is that the totality of China's reform process is unique - it is the only country to have achieved as much growth and reform as it has without losing its Communist mantle. Other Communist regimes have had no or negative growth (North Korea), have had growth but not the extent of reform that China has achieved (Vietnam), or have reformed only in conjunction with movement to democratic systems (Eastern Europe and the former Soviet Union).

An associated challenge for China is the elimination of local protectionism and the establishment of a national common market. The development of cross regional competition would be just as rewarding as international competition in building efficiency.

4. Benefiting From Foreign Direct Investment

The fourth challenge for China arises from the massive amounts of worldwide foreign direct investment (FDI) that are associated with globalisation. The challenge is twofold – ensuring that sufficient returns are received by China from the FDI undertaken here, and ensuring that the FDI undertaken in China is maximised.

I don't subscribe to the view that there is a third challenge – which is preventing multinationals from abusing their size and power by extracting undue concessions and other preferences from their host countries. Foreign companies can negotiate with host countries the terms and conditions of their investments, but the host always holds the dominant position in such negotiations. It can withhold permission for the investment if the preferences sought by the investor are excessive.

There are connections between these two challenges – if a host country seeks to extract very high returns from a foreign investor, such as through taxation, it will deter investment, to the detriment of achieving the objective of maximising FDI. So a country needs to strike a balance between the degree of direct and indirect benefit it expects to receive from FDI and the degree of foreign participation in its economy with which it is comfortable.

There are three other points I would make on this issue.

First, the trade off between net benefits from FDI and the amount of FDI attracted to a country is not a linear one. It is possible for a country to improve its attractiveness to foreign investors without sacrificing any of the benefits, such as taxation revenue, from FDI.

Foreign investors place a high value on certainty and stability in the laws that apply to their operations, and on the fair and consistent application of those laws. So establishing a comprehensive, transparent and equitable regulatory environment which provides adequate protections and safeguards for business operations is a necessary means of improving the investment environment, not only for foreign companies but for domestic ones as well.

The second point is that countries, including China, should not be too concerned about the prospect of their economies becoming dominated by foreign multinationals. China is the second largest recipient of FDI but FDI still only accounts for 3 – 4 per cent of GDP.

History shows that it is not unusual for countries in their development stages to be large recipients of FDI – that is an important cause of their development. But it would be unusual for total investment in a country to continue to be dominated by multinationals as the country reaches higher developmental levels. Australia has always been a large recipient of FDI, but we are not dominated by foreign ownership. The same applies to the United States. Even as late as 1914, the stock of FDI represented 21 per cent of United States' GDP, but the figure would be much lower now.

Thirdly, FDI can be a two way flow for China. Just a foreign multinationals can invest in China, so too can Chinese companies invest overseas. And this is occurring at an increasing pace. Official figures show that China now has almost 6000 enterprises with investment overseas totaling $US 6.3 billion. That is very small compared with FDI undertaken in China, but unofficial investment is believed to be very much higher. As China continues to develop its outward FDI is sure to grow rapidly.

5. Exchange Rate Arrangements and Capital Controls

Economies opening up to the rest of the world are confronted with decisions concerning the exchange rate arrangements they should adopt and whether their controls over capital movements should be maintained. Taking the right approach on these issues is a major policy challenge for China.

It is not necessary to adopt a flexible exchange rate in order to participate in the globalisation process. Hong Kong, for example, has had its currency pegged to the United States dollar for many years now yet it is a very open economy.

Nevertheless, the advantage of a flexible rate is that it helps to dampen the impact on an economy of external shocks. Allowing the Australian dollar to fall in response to market forces during the Asian financial crisis softened the impact on Australia of the crisis. We did not, as did some countries, attempt to support our currency through higher interest rates.

This reaction by Australia at the onset of the crisis was one of the contributors to our success in avoiding a large adverse impact from the crisis. The lower Australian dollar partly cushioned Australia's exporters from the sharp fall in commodity prices and the external demand shock.

Hong Kong's experience was, however, different. By preventing an adjustment of its export prices, Hong Kong's fixed exchange rate magnified the impact on it of the Asian crisis, and it experienced negative growth for several quarters.

The most hotly debated topic concerning the economy in China in 1998 ands 1999 was whether the renminbi would be devalued. Those predicting a devaluation have been proved wrong and China currently faces no pressure on its currency.

There is some speculation that China might introduce a more flexible exchange rate regime, such as less management of the value of the renminbi through allowing wider bands for its movement. There are three points I would make in this regard.

First, the timing of such a change is crucial to its success. The least appropriate time to move to a more flexible exchange rate regime is when the rate is under pressure. Experience shows that regime changes in such circumstances rarely work well. The best time to change is when there is no or upward pressure on the exchange rate.

Second, economies that adopt flexible exchange rates need to be well managed and have sound fundamentals. The change of regime should be preceded by reforms that assure a disciplined fiscal policy and a sound financial sector. The recent questioning of the value of flexible exchange rates does not arise from any inherent deficiency of flexibility, but from its inappropriateness for economies that are not sufficiently prepared for exposure to the disciplines imposed by world financial markets.

A completely unrestrained float of the renminbi would not be sensible, at this stage of underdevelopment of Chinese capital markets and of its financial sector, and in a climate of some exchange rate uncertainty around the world[4].

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[4] A recent IMF study has found that "The financial infrastructure for a broad, deep and resilient foreign exchange market for the Chinese currency does not now exist and would take time to develop (along with other essential improvements in the Chinese financial system). A gradual move to more flexibility in the future, combined with development of the financial infrastructure, would be consistent with other desirable reforms in the Chinese economy. The study concluded that for many developing and transition countries, especially those with limited involvement in global financial markets, pegged exchange rates retain important advantages.

Third, the primary motivation for China to move to a more flexible exchange rate regime should be to improve economic efficiency. A wider trading band would enhance the flexibility of the economy, provide a release valve against pressures on the exchange rate, and give the central bank greater freedom in the conduct of monetary policy.

The associated challenge for China is whether to relax its restrictions on capital movements. Capital controls reduce an economy's susceptibility to speculative inflows and outflows of funds, but they also limit the access of its businesses to finance, increase the cost of funding and constrain opportunities for investors.

There is another trade off here, but the prospect of deriving net benefits from removing capital controls is improved if the grounds for speculative capital movements are reduced. That is to say, establishing and maintaining a sound economy is the best protection against destabilising capital flows.

The Asian financial crisis, the Mexican crisis earlier in the 1990s and the Latin American debt crisis of the 1980s show that the challenge is not so much to prevent outflows of capital, but to manage inflows. Properly used, inflows are less likely to turn into destabilising outflows.

The IMF has found a relationship in practice between prudential policies and capital controls. Strong prudential practices and financial reforms were found to reduce vulnerability to external shocks, and so reduce the need for capital controls. So the pace of liberalisation of capital controls should be undertaken in a manner consistent with the capacity of a country's financial infrastructure.

It is, of course, the case that capital controls, no matter how well they are designed and enforced, do not guarantee protection for an economy from balance of payments or financial crises that arise from domestic macroeconomic imbalances. And China's experience has shown that capital controls are not always effective in preventing capital outflow, though they do help in limiting the rate of outflow.

An overall question is the sequencing of exchange rate and capital account liberalisation. Which should be done first, or should both be effected at the same time?

To float without the removal of capital controls would partly defeat the purpose of the float. And the removal of controls while maintaining a fixed exchange rate runs some real risks. Such an approach requires very careful attention to be given to the conduct of monetary policy, as the Asian economies have discovered. And amongst the factors contributing to the Asian financial crisis was too early and unbalanced capital account liberalisation, and the absence of sufficiently strong financial institutions to cope with large and volatile capital flows.

Whichever course is chosen, it is essential that the economy be well prepared for the liberalisations. To successfully remove exchange rate and capital controls, China would need a carefully planned and sequenced set of prudential, financial market, interest rate and monetary policy reforms.

6. Defining a Role in the World Economy

The final challenge is the need for China to define the role it wants to play in the world economy. That is to say, what contribution is China prepared to make to world economic progress and what role does it want to have in the world's economic and financial organisations.

In respect of the first issue, let me say that what is good for the Chinese economy would invariably be good for the world economy. There is normally a coincidence of national and international interests when a country runs sound structural and macroeconomic policies – their favourable domestic effects carry over into positive direct and indirect impacts on the rest of the world.

China's economic performance during the Asian financial crisis is a good example. China's actions then to maintain growth and the value of the renminbi were in its own interests, but they were also a force helping to restore stability in the Asian region.

China's performance at that time has given it enhanced standing and credibility amongst its neighbours and in the world in general, and also in the various regional economic and financial fora. I have mentioned the strong support for China being one of the members of the G20 as one such outcome.

But China's enhanced standing and reputation might also give rise to some obligations. In addition to representing its own interests in the international fora, there may be an expectation amongst other countries at a similar stage of development and with similar objectives that their interests be represented also. And China may be called upon again to support economies in difficulties, as it supported Thailand and Indonesia during the Asian crisis with commitments to the IMF rescue packages for those countries.

Finally, China's participation in international and regional organisations carries an important requirement to accept and implement the various obligations of membership of those organisations. In particular, the implementation by China of its WTO commitments and its adherence to the WTO rules are important obligations.

Benefits from Globalisation

My talk has not focussed on the benefits of globalisation because these seemed to be obvious. Nevertheless, a few are worth noting.

It is arguable that China stands to gain more than other countries from the reduction of its trade barriers. WTO accession will open up more overseas markets to Chinese exports and guarantee continued access to them. The reduction in China's vulnerability to unfair trade restrictions is a valuable benefit of WTO membership. Lower trade and investment barriers in China mean more FDI and the benefits that flow from that. The demands of competition will improve efficiency in Chinese enterprises and reduce opportunities for rents to be derived by businesses and individuals. And market-oriented policy approaches will help increase overall growth, efficiency and wealth.

China has the world's largest workforce and its labour costs are amongst the world's lowest, so as trade barriers are reduced it has the potential to play a huge role in driving restructuring and specialisation around the world. At the same time, more active participation in the process of globalisation should improve China's access to foreign technologies and help China move up the technological ladder.

There are anxieties in China about the implications for it of opening up. This is a legitimate concern, but provided the process is properly managed, China will emerge with a much larger and stronger economy and considerably enhanced living standards for its people.

Conclusion

The challenges posed by globalisation for individual countries are not particularly unique or different from the challenges that arise from an economy allowing the free play of domestic market forces. The challenges from globalisation may be greater, but so too will be the potential benefits from participation in it.