



# Strategies for Furthering the PRC Integration with the Global Economy

*David Roland-Holst*  
*University of California, Berkeley*

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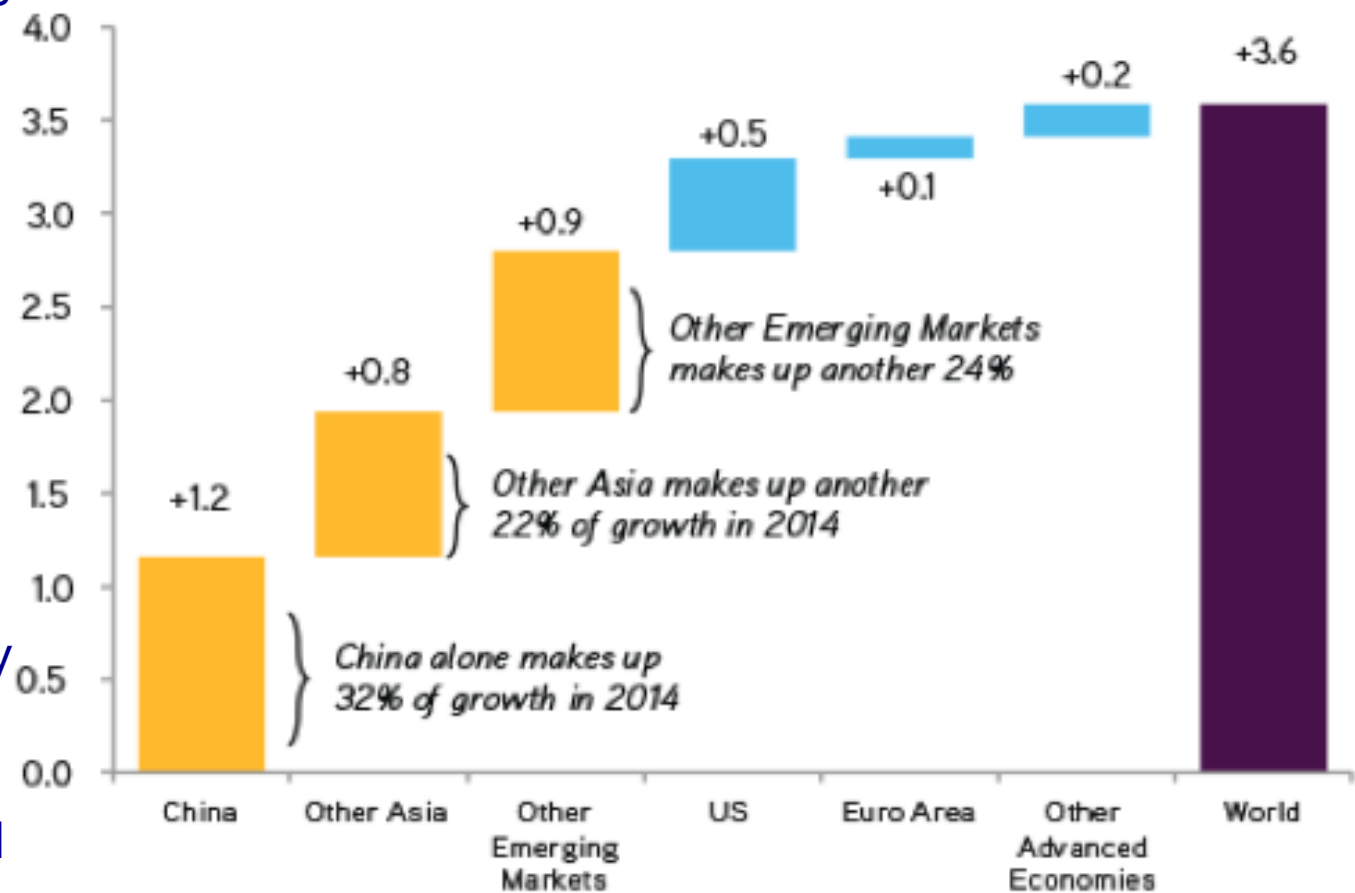
# 1. Global Macroeconomic Trends

Although the PRC is much larger now relative to overseas markets, expanding international trade can continue to make important contributions to the Chinese economy.

China should pursue further globalization through regionalism, leveraging superior growth and diversity among the Asian economies.

It should also build upon comparative regional advantages for higher value added and higher technology goods and services, recognizing the PRC economy's need to support higher labor productivity and real wages.

**Figure 2: Global Growth Decomposition, 2014  
(percent growth of real GDP)**

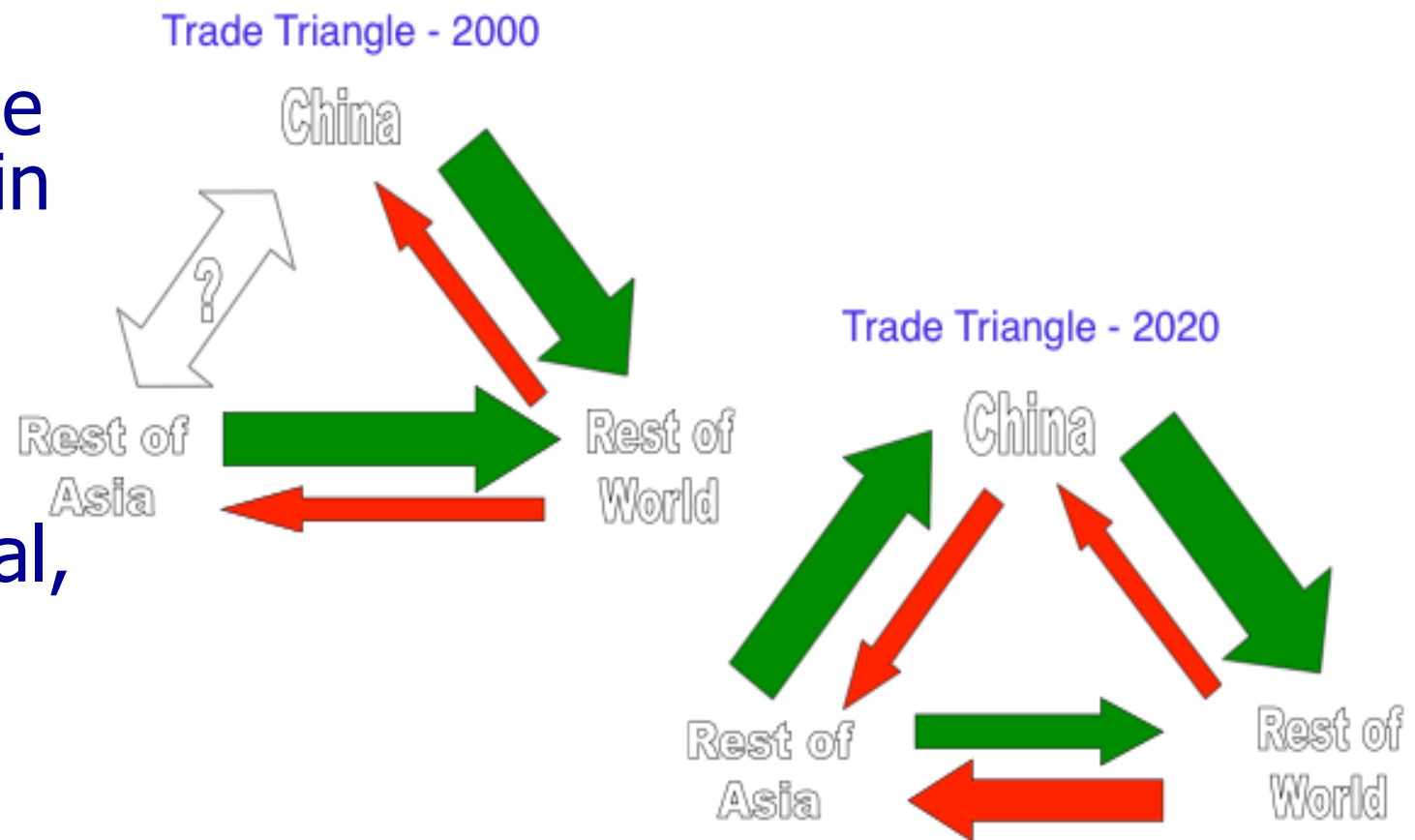


Source: IMF.

## 2. International Trade Agreements

To respond effectively to emerging trade opportunities in the medium term, China should more intensively pursue bilateral, sub-regional, and regional agreements.

Figure 12: China and the Trade Triangle



Source: Author forecasts.



# 3. International Market Access

The strongest basis for international market access is reciprocity.

This is fortunate for China, because the scale and dynamism of its economy offers an unparalleled opportunity to leverage reciprocity for the benefit of PRC exporters and investors overseas.

Figure 14: China's Trade Balance with Selected Markets





## 4. International Financial Integration

- As the emerging economic hub of the Asia region, China must assert leadership in delivering the financial infrastructure needed for the next generation of domestic and regional growth and trade.
- Asia has huge reserves of domestic and external saving, centered in China, yet their current allocation is well below its potential to promote Asian regional growth.
- Without more determined reform and innovation in its financial sector, China risks a decade or more of slowing of productivity growth.

# 5. Internationalization of the Renminbi

The PRC's economic scale is consistent with reserve currency status, but its current financial policy framework is not.

Reserve currencies are technologies for managing financial liquidity and risk, and their adoption is a voluntary global process responding to the quality of these two services.

This can be done through more determined financial sector reforms, including capital account opening, central bank independence, and bank privatization.

Figure 18: RMB Share of World Currency Payments (percent)

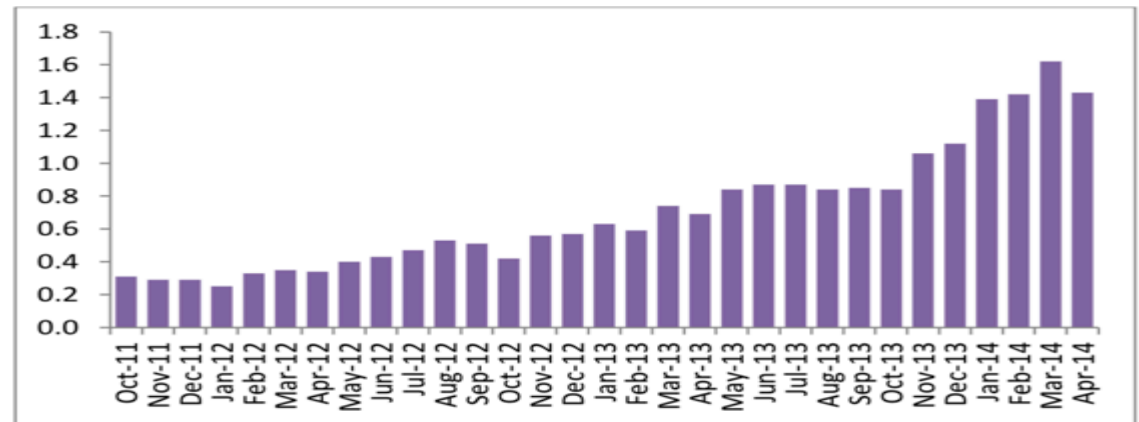
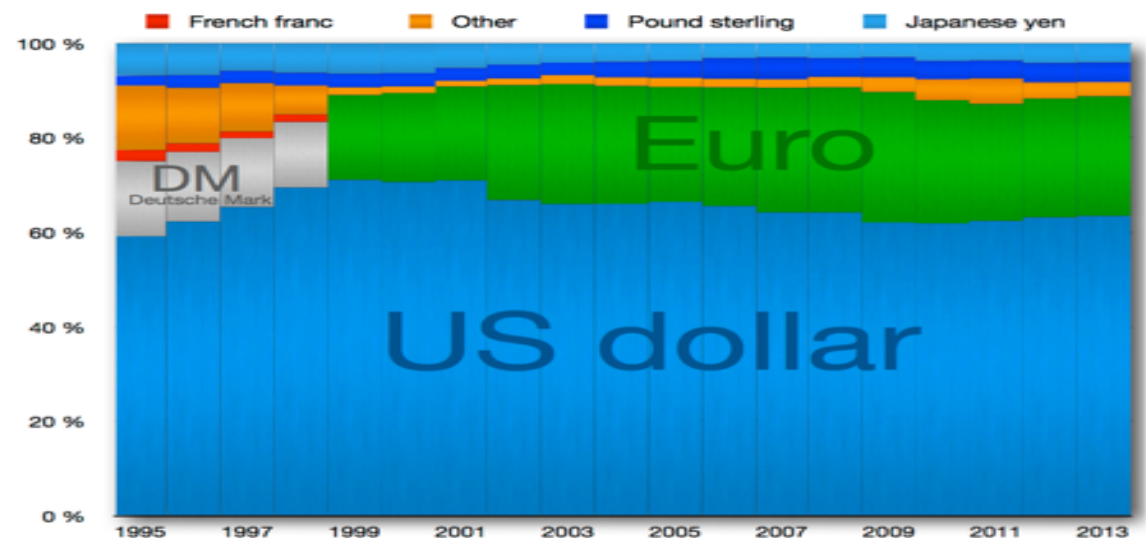


Figure 23: Reserve Currency Currency Distribution





## 6. Cross Border Trade and Spillovers

- To the extent possible within the FYP, China should be more proactive in facilitation of trade on its fourteen borders.
- This includes improving expediency and consistency in customs administration, prioritizing urban development and expansion at existing borders, and stronger partnership initiatives for development across China's borders.
- The latter should include targeted lending, grants to trading partners for bidirectional trade facilitation, local infrastructure for transport, urbanization, training, and technology transfer.
- Finally, China must advance the status of existing bilateral and regional trade agreements, some of which are well below their potential.





# 7. China's Role as a Development Partner

- China's historical growth experience makes it a unique partner for developing countries, particularly in Asia.
- Across the region, the PRC can exert beneficial influence by promoting knowledge sharing, trade, and investment:
  - China's own development experience contains valuable lessons for each of its lower-income neighbors, and it can play an influential role in regional development assistance.
  - By improving bilateral and regional trade relations and partnering to expand infrastructure, China can offer its neighbors access to the world's most dynamic internal market.
  - By promoting private Chinese investment overseas, the PRC can help lower-income regional partners overcome domestic savings and technology constraints.



# 8. Internationalization and Energy Policy

- China's energy system has become an important source of national public health risk.
- Urban emissions can be sharply reduced by natural gas conversion of electric power and vehicle fleets.
- Nuclear and renewables will take time to achieve substantial mitigation, as will natural gas development from shale and marine deposits.
- Over the next five years, China should expand natural gas imports, especially in the Asian region where Chinese investment can play an important role.

# 9. Internationalization and Food Security

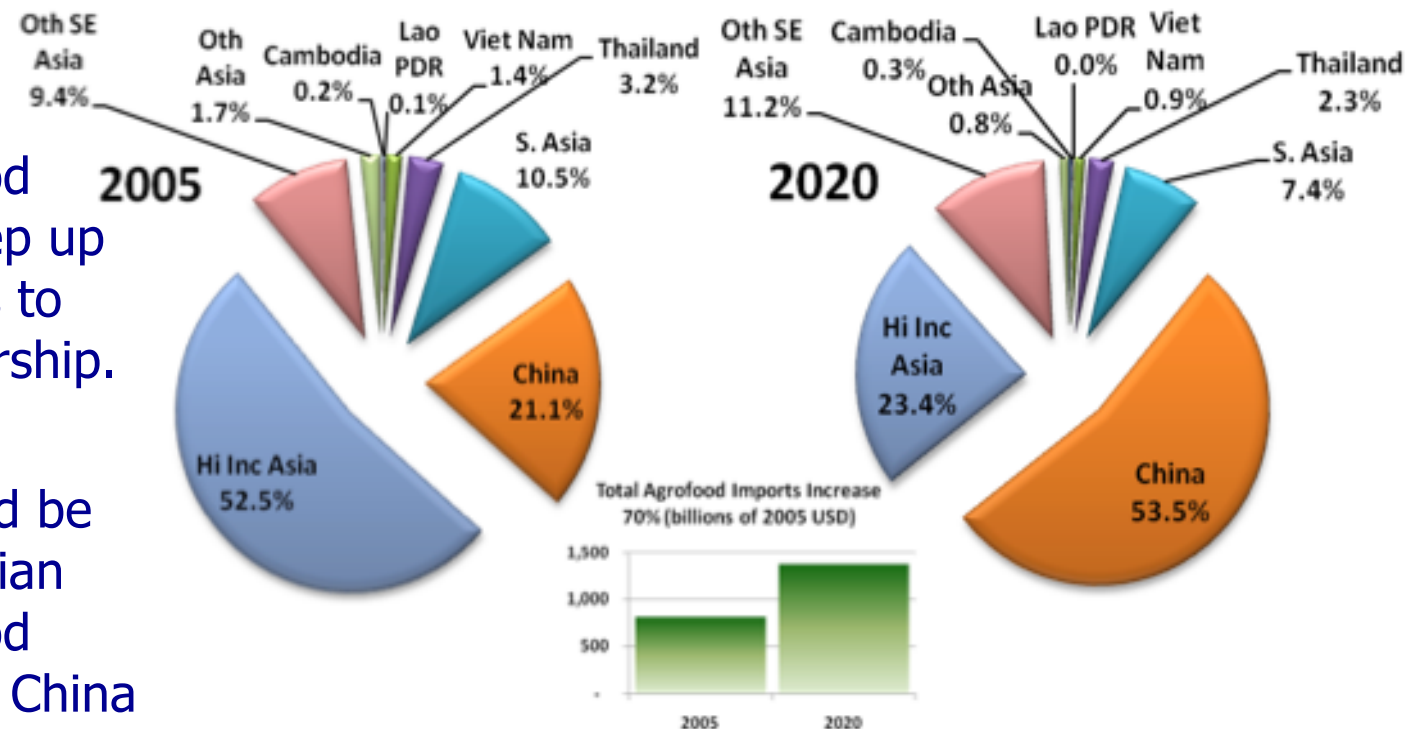
In two decades, rising income and resource constraints have moved China from self-sufficiency to become Asia's largest food importer.

To improve long-term food security, China should step up supply side commitments to overseas agrifood partnership.

Particular attention should be given to lower income Asian neighbors. Where agrifood productivity remains low, China can promote self-directed poverty reduction and greater food security for on both sides.

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**Figure 30: Shares of Asian Food Imports (percent)**





## 10. Strategic Framework for Cooperation: Trade, Investment, Assistance

- China can set an essential example by supporting the next generation of Asian multilateralism.
- In addition to more active engagement with existing international institutions, the PRC should assert leadership in establishing a regional multilateral framework aimed at facilitation of trade, financial integration, and assistance.
- Rather than being treaty based like binding trade agreements, this arrangement could be modeled on the OECD, a venue for collaborative dialog that actively and consistently promotes standard setting, policy coherence, and transparency.



# Thank you