



## **China in the World Economy: Internal and International Challenges.**

### **A personal note on the 5<sup>th</sup> International IDREC<sup>1</sup> Conference by Bing Hang, economist intern at TAC**

The 5th international IDREC conference dealing with the Chinese economy took place in Clermont Ferrand on October 20<sup>th</sup> and 21<sup>st</sup>, 2005, organized by the CERDI (Centre d'Etudes et de Recherches sur le Développement International). The speakers were numerous and came from the four corners of the world. Among them, we can quote Mr. Gang FAN (Chinese Academy of Science, Beijing University and NERI, China), Mr. Wing Thye WOO (University of California, Davis, USA), Mrs. Elize BREZIS (Azieli Center for Economic Policy, Bar-Ilan University, Israel), Mrs. Françoise LEMOINE (CEPII, France), Mr. Gilbert ETIENNE (Graduate Institute of International Studies, Geneva, Switzerland), who are all considered today as the pre-eminent "China specialists". The focus of this international conference was the discussions about the challenges confronting the development of China, both internal and international.

From a practical perspective, the reception and welcome by IDREC's members was impressive, from organization to practical occasions for networking and informal exchanges. IDREC's director, Professor Patrick GUILLAUMONT, even tried to say some words in Chinese during the gala dinner at the Batisse Castle on Thursday evening, providing both enjoyment and cheerfulness to the whole audience!

Concerning the content of the Conference, it was equally impressive: about thirty different research papers were presented and discussed (see the program at the end of this note), with many diverse subjects covered, including international trade, labor market, distribution and retail development, financial markets, exchange rate policy, China's integration in Asia, provincial or regional perspectives, and industrial organization. Several key questions were raised, notably "How China can develop its economy in a context of the globalization while it has such a large catch-up process to accomplish?" or "What is the degree of dependence of China on foreign supplies, notably for raw materials, metals, farm products and energy? How manage this dependence?" or "Is there a dimension of spatial dependence?" or "What is specific about intra-Asian business development?"... We noticed that the issues of environment, dependency to commodities, financial markets, population aging, were the most often discussed. Conversely, questions related to industrial standards, and risks of protectionism in the West were simply alluded to in the introduction of this 5<sup>th</sup> international IDREC conference.

I am currently leading a research for TAC within the framework of a Master's Degree in International Management and Europe-China Exchanges (University of Paris XII) entitled *Impact of China on the world markets*. This Conference was therefore particularly timely in this research, and several papers drew my attention: in particular, Mrs. Catherine LOCATELLI (CNRS and University of Grenoble) presented her research on *The international integration of the Chinese energy industry and the geopolitical consequences*, where she explains the current status of China regarding oil consumption and dependency, the different solutions that China can adopt to face its increasing dependency on petroleum and the geopolitical implications. Obviously, no miracle solution was presented, but the main messages included the need for an increasing diversification of sources of supplies, protection and security of supply lines, and increased equity participation of Chinese companies in large energy producers. Another interesting paper was presented by Mr. Scott ROZELLE (University of California - Davis), entitled *Agricultural trade liberalization and poverty in China*. Mr. ROZELLE insisted on the issue of food security and possible dependence on imported food products, and concluded his presentation with key (and unconventional) remarks, including the

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<sup>1</sup> Institut De Recherche sur l'Economie de la Chine



positive impact of the current trade liberalization on overall and rural household income in China, the growing weight and influence of China in the WTO and for the current Doha round of negotiations, and the long-term positive impact on other food exporters. In the Thursday afternoon session, *Labor Market*, Mr. Jean-Baptiste LEHEN (CERDI, University of Clermont Ferrand) presented *the impact of the WTO membership on the reform of the pension system*: this is an area on which I dwell a lot in my research, where I look at the expected changes in China's demographic characteristics on a very long period (1820-2030). He discussed four solutions to finance the deficit of pensions, with a preference for an increase of 7% in overall production taxes (see, for reference, charts on China's recent and future demographic changes at the end of this note). Finally, a very stimulating paper was presented by Mr. Jean-Joseph BOILLLOT, financial counselor for South Asia at the French Embassy in India (and previously posted in Hong Kong), on *The lessons of 25 years of exceptional changes in trade relations between China and India*. Two scenarios are envisaged for the future: one is of two very separate but complementary economic development, with China concentrating more on low value-added activities while India would move more forcefully into higher value addition trade. The other scenario, called *Chindia*, is based on a much more integrated relationship between the two giant nations with a more intricate (and intra-industry) specialization. Boillot's conclusion was that any scenario would entail significant, but not unmanageable, adjustment costs for the developed world, with a key point being the ability of western companies to improve their targeting of domestic demands in both India and China.

The rise of China's power in the economic world is one of the major events of the beginning of 21<sup>st</sup> century. For the past twenty years, as other Asian countries before her, China has relied heavily on her successful integration in international trade and investment to engineer a successful development and catch-up. Today, China is by far the largest world producer for toys, television sets, shoes, domestic appliances, aluminum and steel. It is also a very large importer of raw materials. This emergence as a world leader in these different industries is based massively on a huge capital accumulation effort and the targeting of world markets, notably through the intensive "use" of foreign direct investment.

As a conclusion, let me quote Mr. Gang FAN's, who is considered as one of the key economic thinker in China and a close advisor to the Chinese leadership, and who summarized six key issues facing China in the near-term:

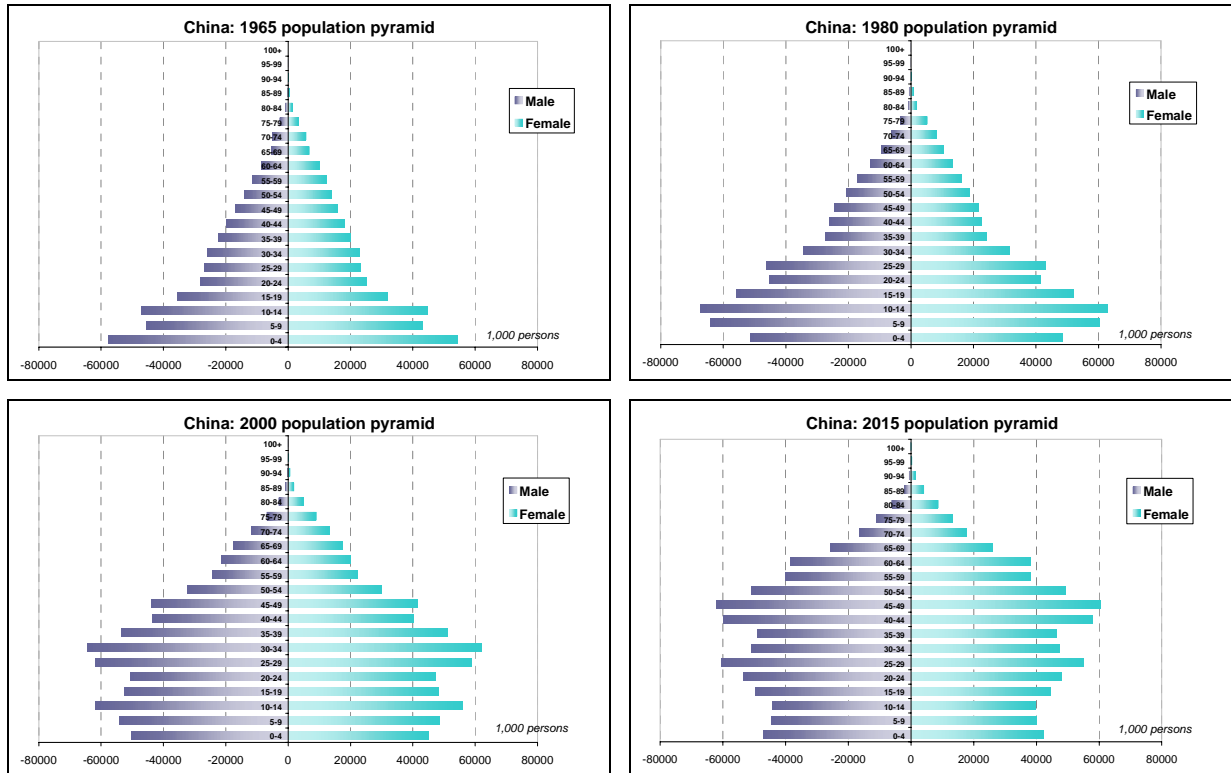
1. To benefit from globalization, China above all has to solve its internal problems such as the excessive use of banking resources and too high leverage;
2. Foreign Direct Investments (FDI) is required, but with a stronger selection and a more aggressive targeting of new technologies;
3. International trade is vital, but China still needs some protection, less in the field of the technology but more for consumer products;
4. Some sort of control on capital movement is fundamental: China needs time for the liberalization of capital, even though developed countries try to push developing countries too rapidly in this area;
5. The need for further efforts in education is crucial;
6. Finally, it is important that politics avoid populism, and that economic pragmatism remains stronger than ideology.

This very interesting conference has reinforced the validity of the current research undertaken at TAC: the inter-dependence between China's economic development and prospects on the one hand, and the overall world balances (commodity prices, trade, currencies, ...) on the other hand, is probably the single most important question for the whole world outlook during the next 15-25 years. How can China's "massive" entry into world flows be accommodated by the current world situation and organization, and what are the risks of significant disruptions, which can cause both a derailment of China's path and significant shocks for the world.



## Demographic changes in China: a reminder

### Evolution of China's population pyramid



Source: T-A-C, from U.N. Population Division.



## 5<sup>th</sup> IDREC Conference - Program of the Conference

Note: many papers can be downloaded from the CERDI website: <http://www.cerdi.org>

JEUDI MATIN 20 OCTOBRE

8h30-9h00 Accueil des participants  
9h00-9h30 Séance d'ouverture  
Allocutions d'accueil

**Annie Veyre**, Présidente de l'Université d'Auvergne, Clermont-Ferrand, France  
**Claire Grelet**, Doyen de la faculté des Sciences Economiques et de Gestion, Clermont-Ferrand, France  
**Patrick Plane**, Directeur du CERDI, Université D'Auvergne, Clermont-Ferrand, France  
**Mary-Françoise Renard**, Responsable de l'IDREC, CERDI, Université d'Auvergne, Clermont-Ferrand, France

### 1 - CONFERENCE INTRODUCTIVE

9h30-10h45 **The Global Adjustments to China's Return to a Crowded World Stage**  
Woo Wing Thy (University of California, Davis, University of California, Davis)  
**How to Develop with Globalization: the Case of China**  
Fan Gang (National Economics Research Institute, China Refor, CASS, Peking University, NERI)

10h45-11h00 Pause café

### 2 - COMMERCE INTERNATIONAL

**China in Asian Regionalism: Hub or Spoke?**  
Chen Lurong (Graduate Institute of International Studies (IUHEI), Graduate Institute of International Studies)

11h00-12h45 **L'intégration internationale des industries chinoises de l'énergie et ses conséquences géopolitiques**  
Locatelli Catherine (CNRS, LEPII-EPE, Université Pierre Mendès France, LEPII-EPE, Université Pierre Mendès), Martin-Amouroux Jean-Marie (CNRS, Université Pierre Mendès France, Grenoble, Université Pierre Mendès France)

**The Dynamics of China's economic openness: A political Economy Perspective**  
Brezis Elise (Azrieli Center for Economic Policy (ACEP), Bar-II, ACEP, Bar-Ilan University )

**The Rise of China: Prospects of Regional Trade Policy**  
Van Hove Jan (Catholic University of Louvain, Catholic University of Louvain)

13h00-14h00 Déjeuner

JEUDI APRES MIDI 20 OCTOBRE

### 3 - REPARTITION

**How does Globalization affect the poor in the PRC?**  
Liang Zhicheng (CERDI, Université d'Auvergne, Clermont-Ferrand, CERDI-IDREC, Université d'Auvergne)

14h15-15h30 **The Grave Fiscal Burden of China from the Generational Account Perspective**  
Woo Wing Thy (University of California, Davis, University of California, Davis)

**Agricultural Trade Liberalization and Poverty in China**  
Rozelle Scott (University of California, Davis, University of California, Davis)

15h30-15h45 Pause café

15h45-17h15 4 - MARCHE DU TRAVAIL

**L'impact de l'adhésion de la Chine à l'OMC sur la réforme du système de retraite : une**

**[analyse en équilibre général](#)**

Le Hen Jean-Baptiste (*CERDI, Université d'Auvergne, Clermont-Ferrand, CERDI-IDREC, Université d'Auvergne*)

**Skill-Sorting, Self-Selectivity, and Immigration Policy Regime Change: Two Surveys of Chinese Graduate Students' Intention to Study Abroad**

Chen Yiu Por (*De Paul University, Chicago, De Paul University*)

**[Decision of Hired Labor Demand and Off-farm Labor Supply: Evidence from Chinese Agricultural Household](#)**

Wang Xiaobing (*Institute of Agricultural Development in Central &, Institute of Agricultural Development in Central &*)

**5 - L'IMPACT DE L'OUVERTURE : UNE PERSPECTIVE PROVINCIALE****[What is the role of openness for China's Environment? An analysis based on Divisia decomposition method from the regional angle](#)**

He Jie (*CERDI, Université d'Auvergne, Clermont-Ferrand, CERDI, Université d'Auvergne, Clermont-Ferrand*)

17h15-18h45

**[FDI spillovers and growth: spatial evidence from China](#)**

Poncet Sandra (*TEAM, Université de Paris I Panthéon Sorbonne, TEAM, Université de Paris I*)

**[Does China Have an Impact on Foreign Direct Investment to Latin America?](#)**

Santabarbara Daniel (*Central Bank of Spain, Central Bank of Spain*)

**FDI Convergence and Spatial Dependence between Chinese Provinces**

Renard Mary-Françoise (*CERDI, Université d'Auvergne, Clermont-Ferrand, CERDI-IDREC, Université d'Auvergne*)

20h00

Dîner

VENDREDI MATIN 21 OCTOBRE

**6 - INTEGRATION REGIONALE****[China-India: Some Comparative Views](#)**

Etienne Gilbert (*Graduate Institute of International Studies (IUHEI), Graduate Institute of International Studies*)

8h30-10h00

**[Les effets de l'émergence chinoise sur les spécialisations des économies asiatiques](#)**

Lemoine Françoise (*Centre d'Etudes et de Prospective Internationales, CEP II*)

**[Leçons de 25 ans de mutation exceptionnelle dans les échanges entre la Chine et l'Inde](#)**

Boillot Jean-Joseph (*Ambassade de France en Inde, Ambassade de France en Inde*)

10h00-10h15

Pause café

**7 - POLITIQUE DE CHANGE****[Should RMB Appreciate? - An Analytical Framework](#)**

He Yong (*CNRS, LEP II-EPE, Université Pierre Mendès France, LEP II-EPE, Université Pierre Mendès France*)

**[Economic Fluctuations and the Choice of Exchange Rate Regime](#)**

Sun Lijian (*CCES, Fudan University, Shanghai, CCES, Fudan University*)

**[Winners and Losers: Assessing the Impact of Chinese Yuan Appreciation](#)**

10h15-12h00

Zhang Jian (*UNESCO/IAEA, ICTP, Trieste, UNESCO/IAEA, ICTP*)

**[The Modification of Chinese Exchange Rate Policy: Rationale, Extent and Recent Developments](#)**

Guérineau Samuel (*CERDI, Université d'Auvergne, Clermont-Ferrand, CERDI-IDREC, Université d'Auvergne*), Goujon Mickael (*CERDI, Université d'Auvergne, Clermont-Ferrand, CERDI-IDREC, Université d'Auvergne*)

**[Real exchange rate and employment in the manufacturing sector in China](#)**

Hua Ping (*CERDI, Université d'Auvergne, Clermont-Ferrand, CERDI-IDREC, Université d'Auvergne*)

12h00-13h15

**8 - ECONOMIE INDUSTRIELLE**

**Fast-falling barriers and growing concentration: the emergence of a private economy in China**



Dougherty Sean (*OCDE, Paris, OCDE*)

[Job Choices among Traditional, Foreign-Invested, and Private Enterprises in China's Transition Economy](#)

Fleisher Belton M. (*The Ohio State University, Columbus, The Ohio State University*)

[Efficiency in Chinese factor markets](#)

Zax Jeff (*University of Colorado, Boulder, USA., University of Colorado, Boulder*)

13h30-14h30 Déjeuner

VENDREDI APRES MIDI 21 OCTOBRE

9 - MARCHES FINANCIERS

**Why is Capital flowing out of China?**

Ljungwall Christer (*CCER, Peking University, Chine and Goteborg Univer, CCER, Peking University*)

[Hot money inflows and capital controls: the case of China](#)

14h45-16h15 Bouvatier Vincent (*TEAM, Université de Paris I Panthéon Sorbonne, TEAM, Université de Paris I*)

**The regime-switching impact of global financial markets on China's stock market**

Girardin Eric (*GREQAM, Université d'Aix-Marseille 2, Aix-en-Prove, GREQAM, Université d'Aix-Marseille 2*)

[Determinants of the Development of Insurance in China under Globalization](#)

Zhu Nong (*INRS-UCS, University of Quebec, INRS-UCS, University of Quebec*), Zhang Cuizhen (*China Foreign Affairs University, Beijing, China Foreign Affairs University*)

16h15-16h30 Pause café

16h30-17h45 Table Ronde

17h45-18h00 Clôture