

# China's Integration into the World Economy: Implications for Developing Countries

Yongzheng Yang  
International Monetary Fund  
[yyang@imf.org](mailto:yyang@imf.org)

*The views expressed in this presentation are those of the author and do not necessarily represent those of the IMF or IMF policy.*

# Questions

- How does China's integration into the world economy affect other developing countries?
- And WTO accession in particular?

# Trading Partners' Concerns

- **Export competition** (e.g., textiles)
- **FDI diversion** (in the 1990s FDI up in China, but down in ASEAN)

# Outline of presentation

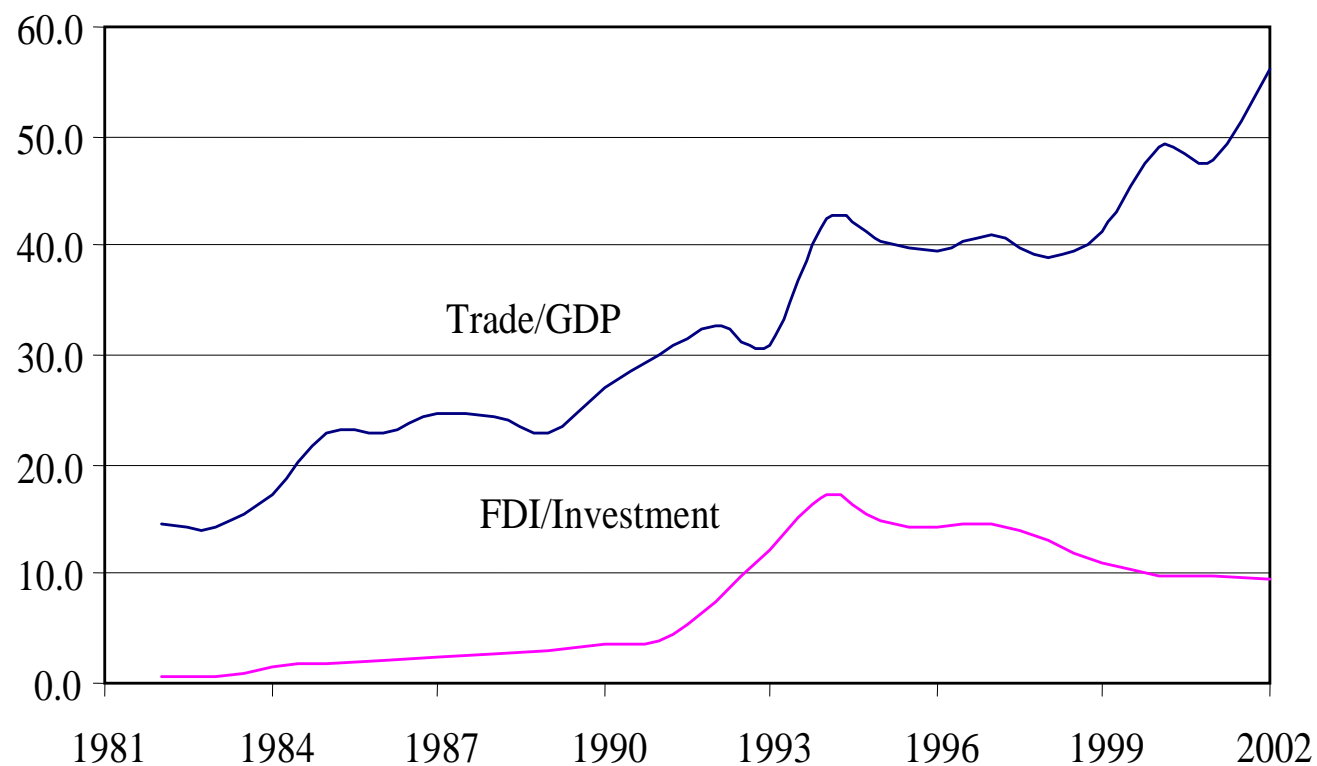
- China's integration into the world economy
- Impact of WTO Accession on other countries
- A long-term perspective on China's emergence
  - Looking backward
  - Looking forward
- Conclusions

# China's growing openness

# Falling trade barriers

Year	Tariff (%)
1982	55.6
1991	44.1
1998	17.5
2002	12.3

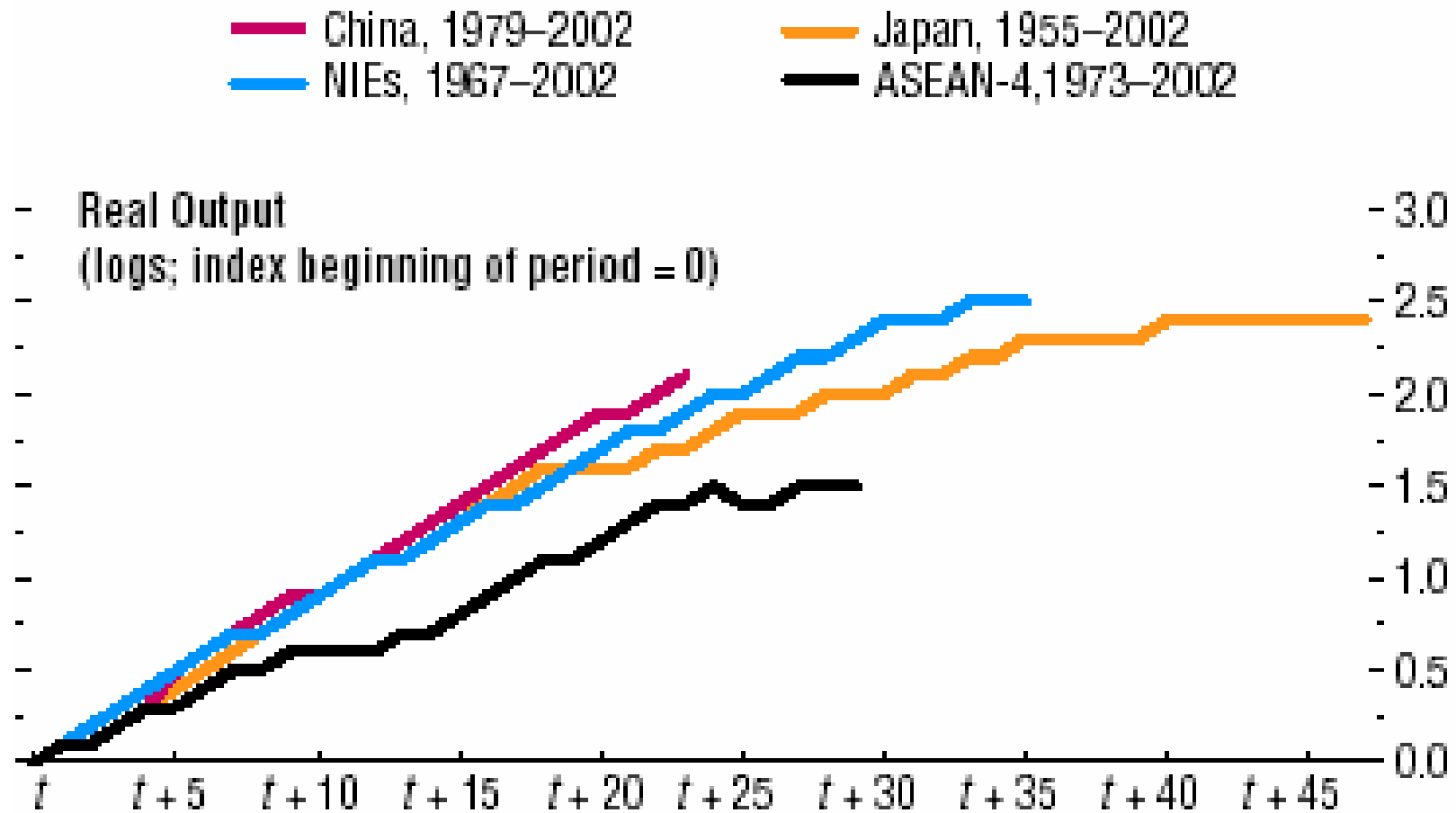
# Increasing openness in trade and investment, 1981-2002



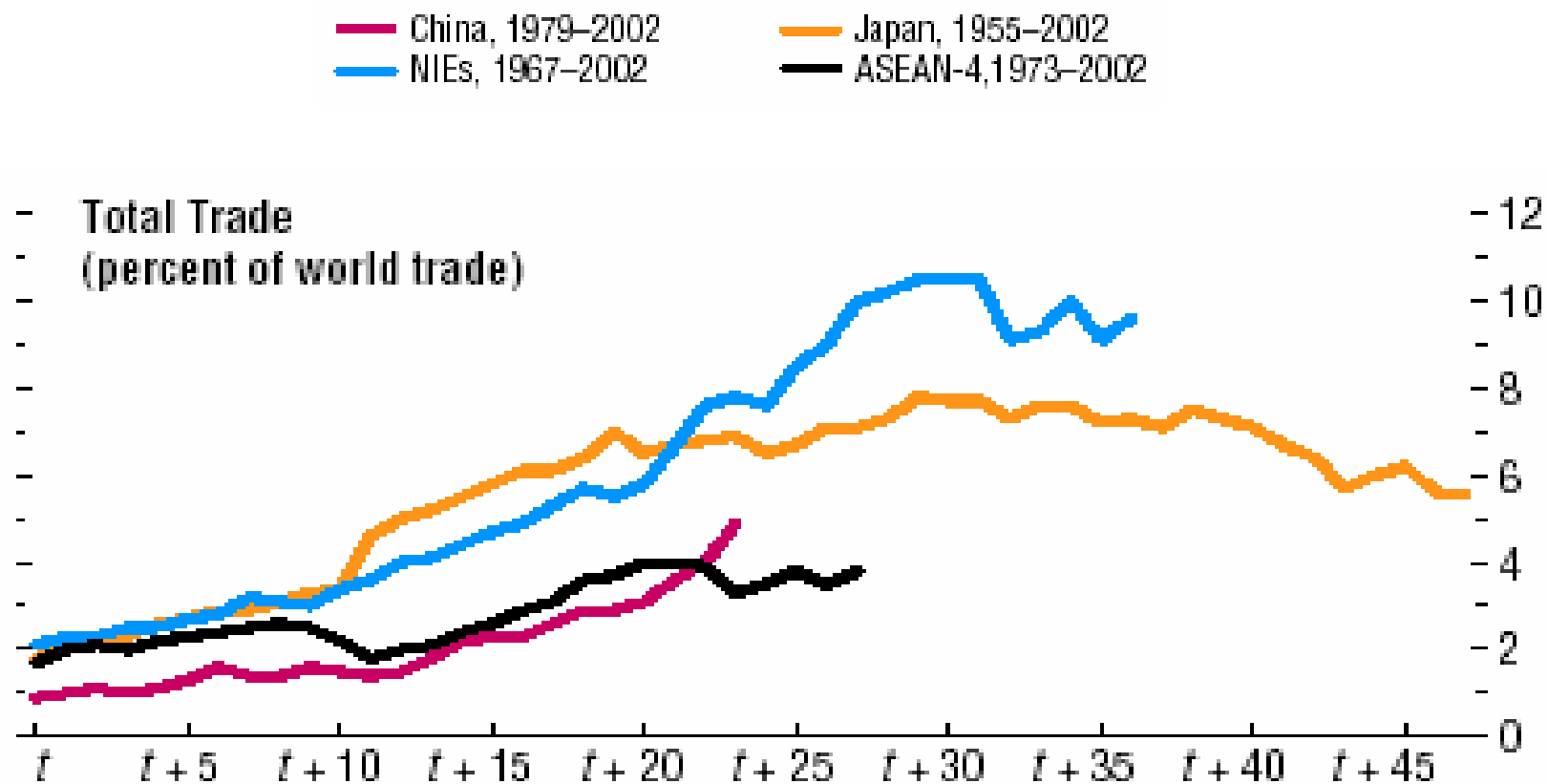
Is China's emergence different  
from previous episodes of fast  
integration?



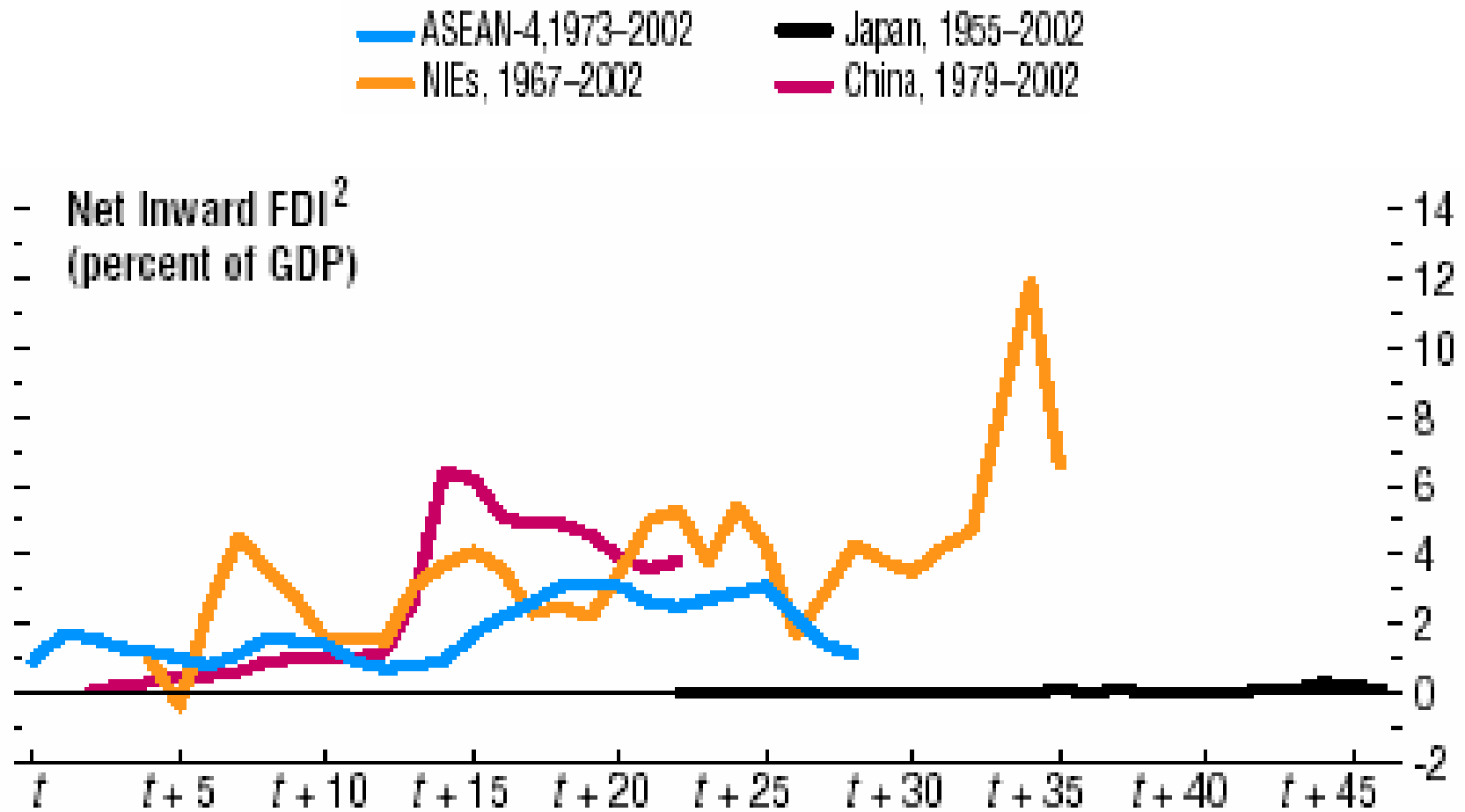
# Real output



# Total trade



# Net inward FDI



# Impact of WTO Accession

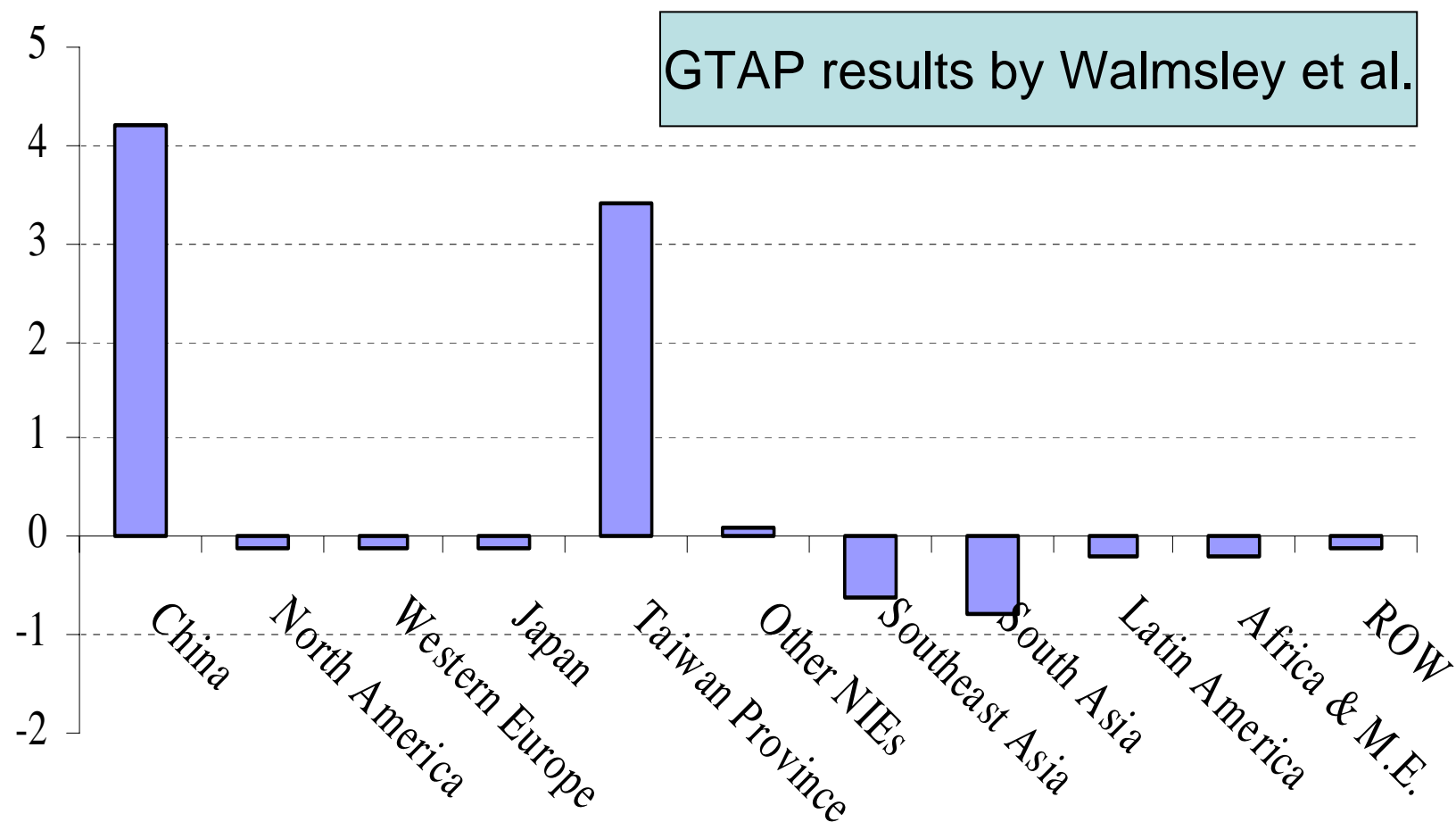
# China's WTO commitments

- Tariff bindings and reductions
- Opening of services markets
- Rule changes in China
- Provisions dealing with import surges, dumping and subsidies

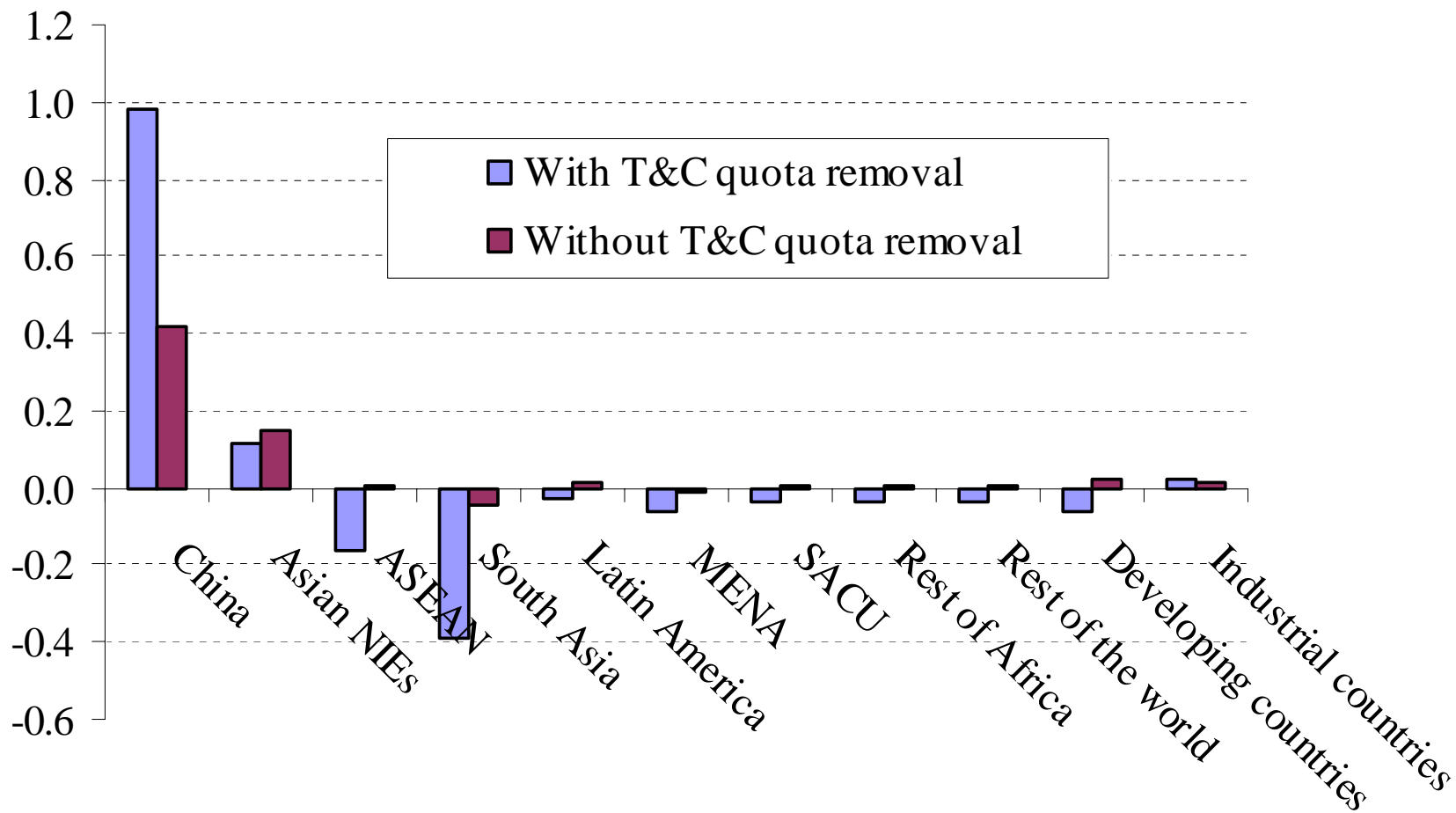
# Channels of impact

- **Increasing import demand** for developing country exports and improving their terms of trade
- **Increasing export competition:** reducing developing country exports and terms of trade vis-à-vis the rest of the world, but improving terms of trade vis-à-vis China
- **Attracting more FDI:** Making capital more expensive for other developing countries.

# GDP impact of China's WTO accession, 2020 (percentage deviation from baseline)



# Real income effects in percentage of GDP with and without T&C quota removal, 2007 (percentage deviation from baseline)





# More to the model results

- Services sector needs to be considered
- Institutional impact: greater transparency and predictability of the Chinese market
- New products and services for trade, e.g., Indian computer software exports
- Price stability for primary commodities
- Benefits for macroeconomic management
- “Dynamic” effects (e.g., productivity)

# A long-term perspective

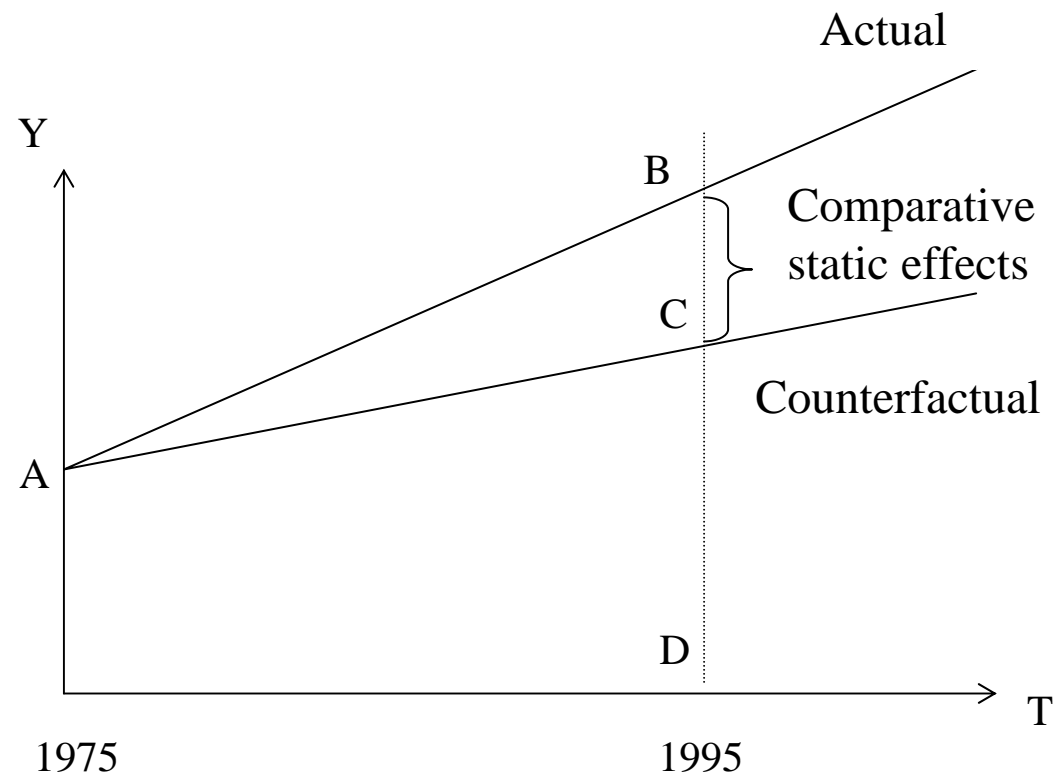
- Backward-looking
- Forward looking

# Looking backward

# Modeling strategy (using GTAP)

- What the world economy would have looked like in 1995 had China not grown relative to industrial countries over the period 1975-95?
- This requires running a counterfactual:
  - GDP
  - Factor endowments
  - Technology
  - Trade and its composition
  - Trade policies

# Comparative static effect



# The effects of China's accelerated growth of 1975-95, 1995 (percentage deviation from the counterfactual)

	NIEs	ASEAN	South Asia	Latin America
Terms of trade				
Total	1.0	0.2	0.1	0.2
China market	1.2	0.4	0.3	0.3
Third markets	-0.2	-0.2	-0.2	-0.1
Welfare (utility)				
Total	0.6	0.0	0.1	0.1
China market	0.9	0.2	0.2	0.1
Third markets	-0.2	-0.2	-0.1	0.0

The impact of China's accelerated growth of 1975-95 on  
the exports of other countries, 1995  
(percentage deviation from the counterfactual)

	China market		Third Markets		Total	
	Percent	(US\$b)	Percent	(US\$b)	Percent	(US\$b)
<b>NIEs</b>	<b>740.3</b>	<b>49.0</b>	<b>-8.5</b>	<b>-38.6</b>	<b>2.4</b>	<b>10.4</b>
<b>ASEAN</b>	<b>545.2</b>	<b>6.6</b>	<b>-3.4</b>	<b>-8.0</b>	<b>-0.4</b>	<b>-1.5</b>
<b>China</b>	<b>0.0</b>	<b>0.0</b>	<b>571.1</b>	<b>181.5</b>	<b>571.1</b>	<b>181.5</b>
South Asia	870.9	1.0	-2.4	-1.5	-0.8	-0.5
Latin America	481.4	3.2	-1.3	-3.5	0.0	-0.3
Older industrial	525.0	41.6	-1.2	-41.4	0.1	0.2
Japan	713.0	27.9	-5.6	-21.0	1.5	6.9
Rest of world	619.4	9.2	-1.6	-8.6	0.3	0.6
<b>World – China</b>	<b>629.9</b>	<b>138.5</b>	<b>-2.3</b>	<b>-122.6</b>	<b>0.3</b>	<b>15.9</b>
World	629.9	138.5	1.1	58.9	3.6	197.4

# Implications of the results

- Countries having strong trade ties with China benefit from China's growth
- Imports from China increase welfare as terms of trade improve

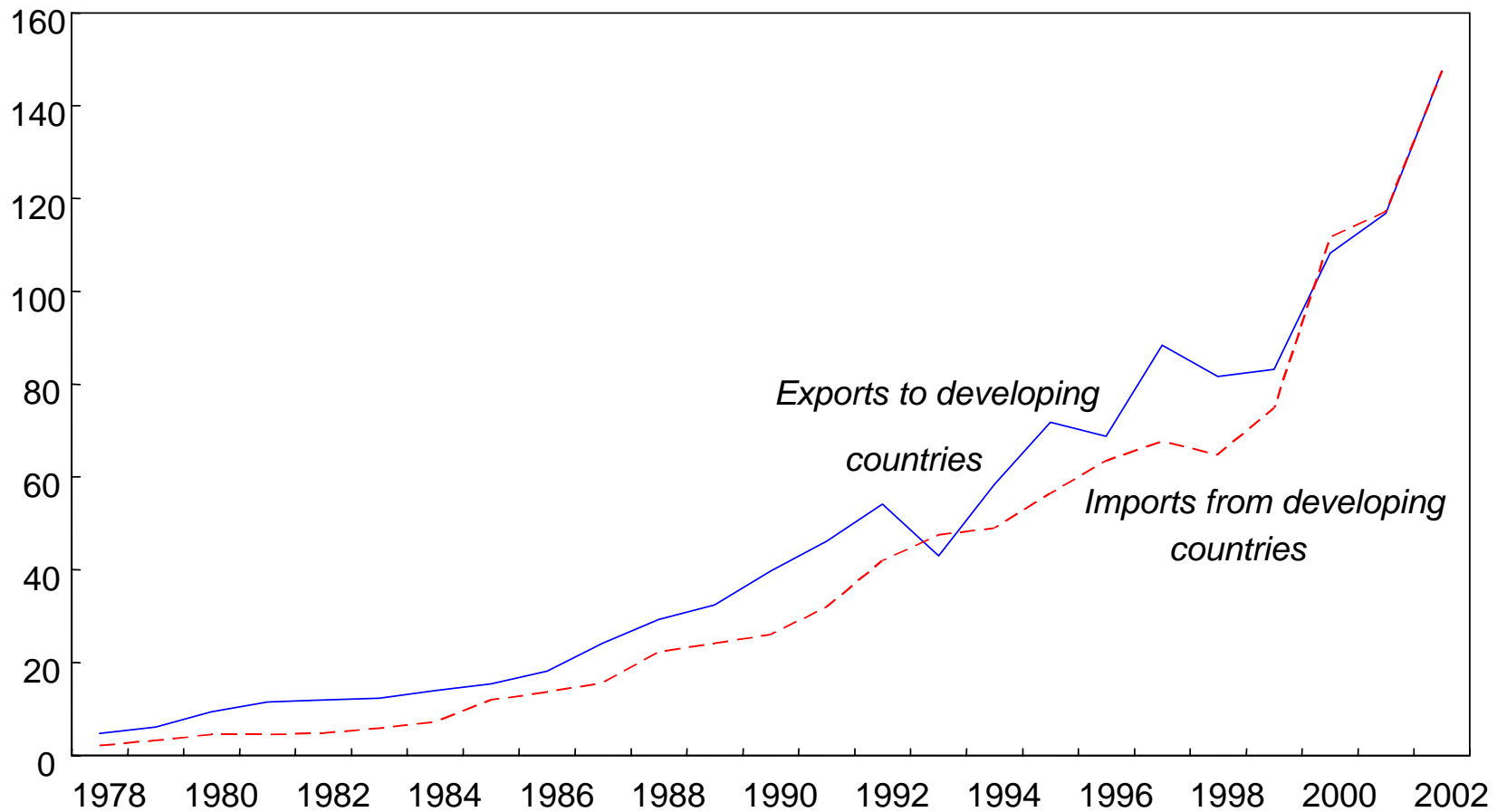


Have developing countries been able to increase trade with China?

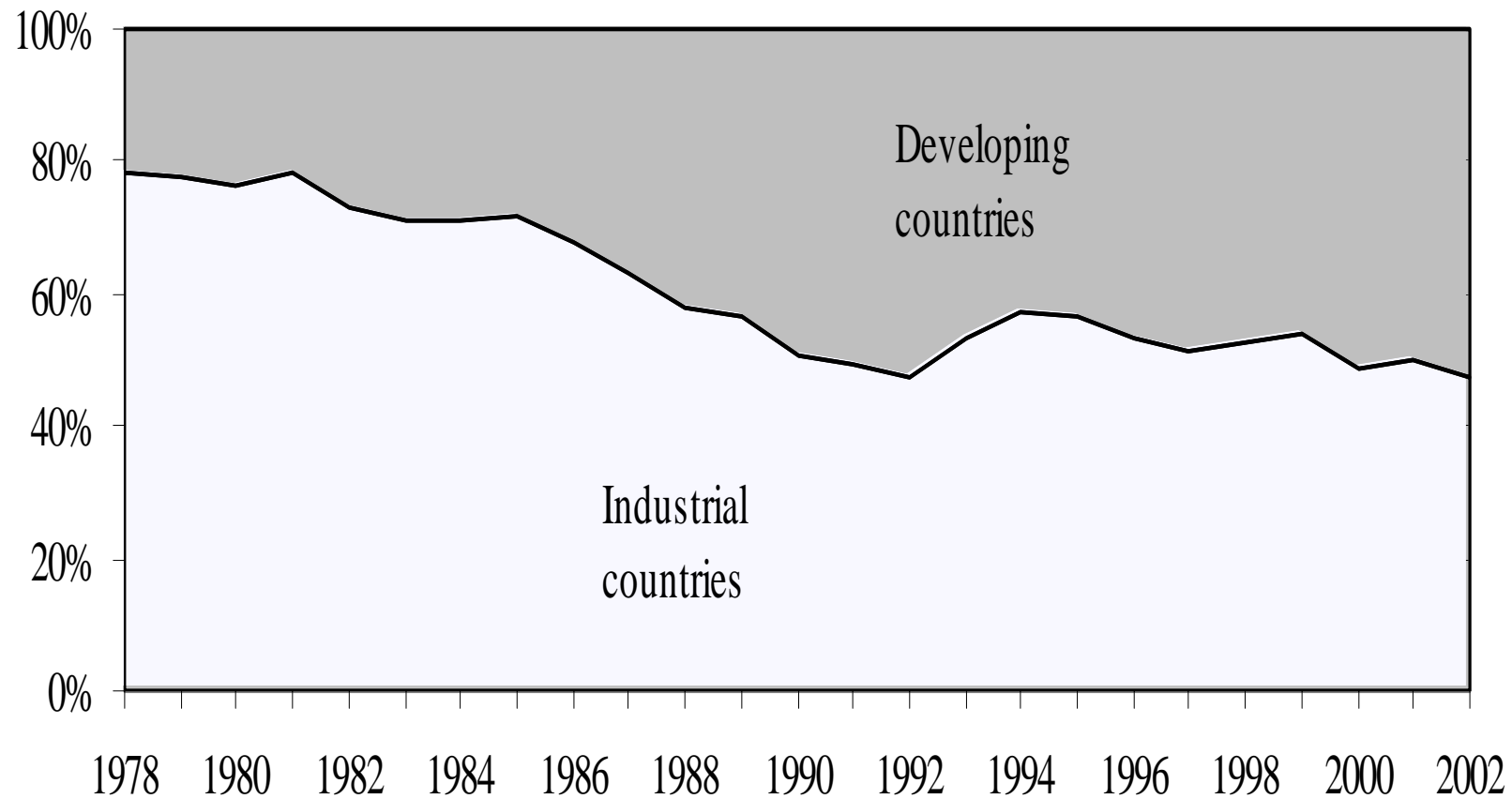
# China's trade with industrial countries, 1978-2002 (US\$ bn)



# China's trade with developing countries, 1978-2002 (US\$ bn)



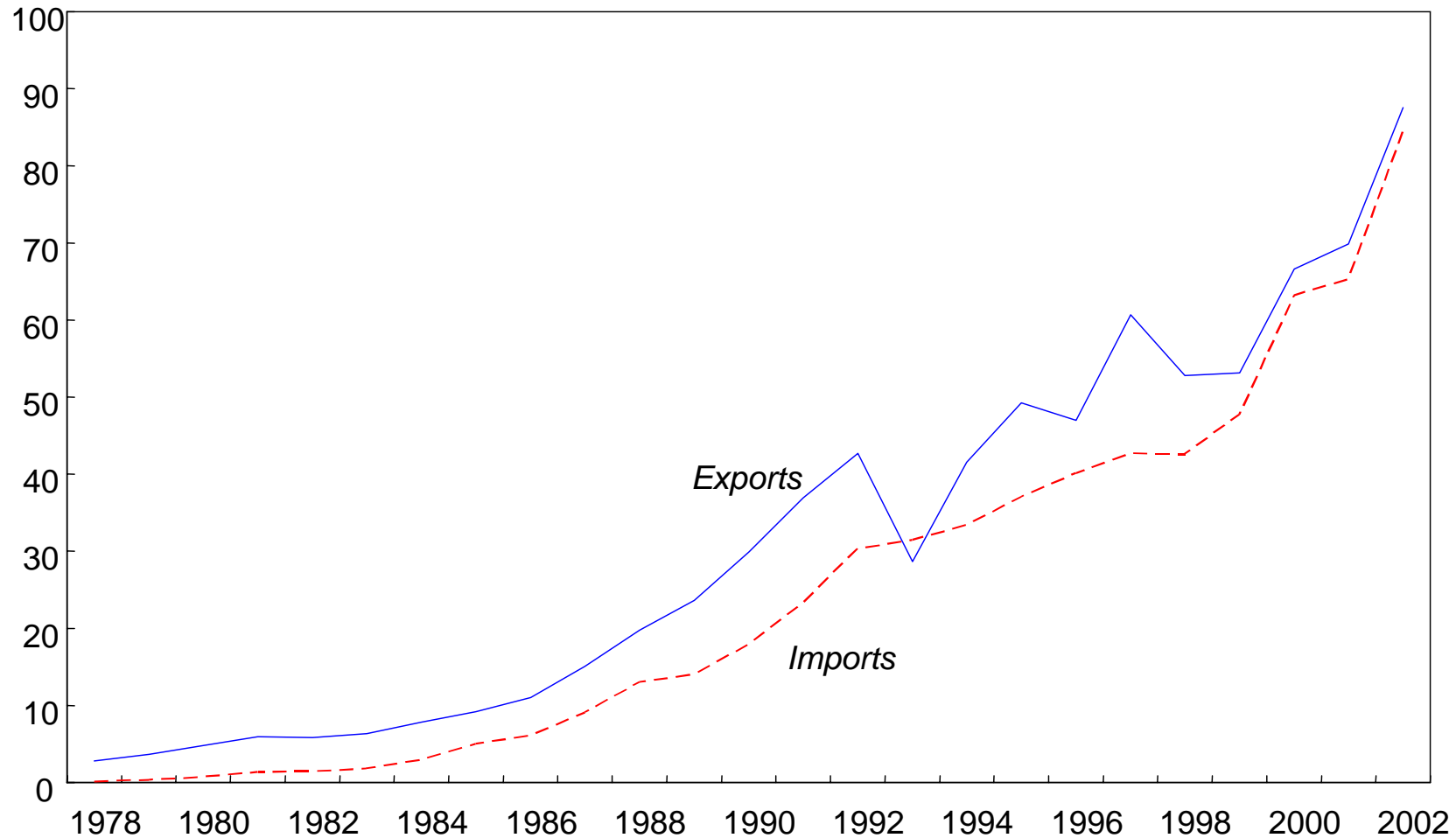
# China's import sourcing, 1978-2002



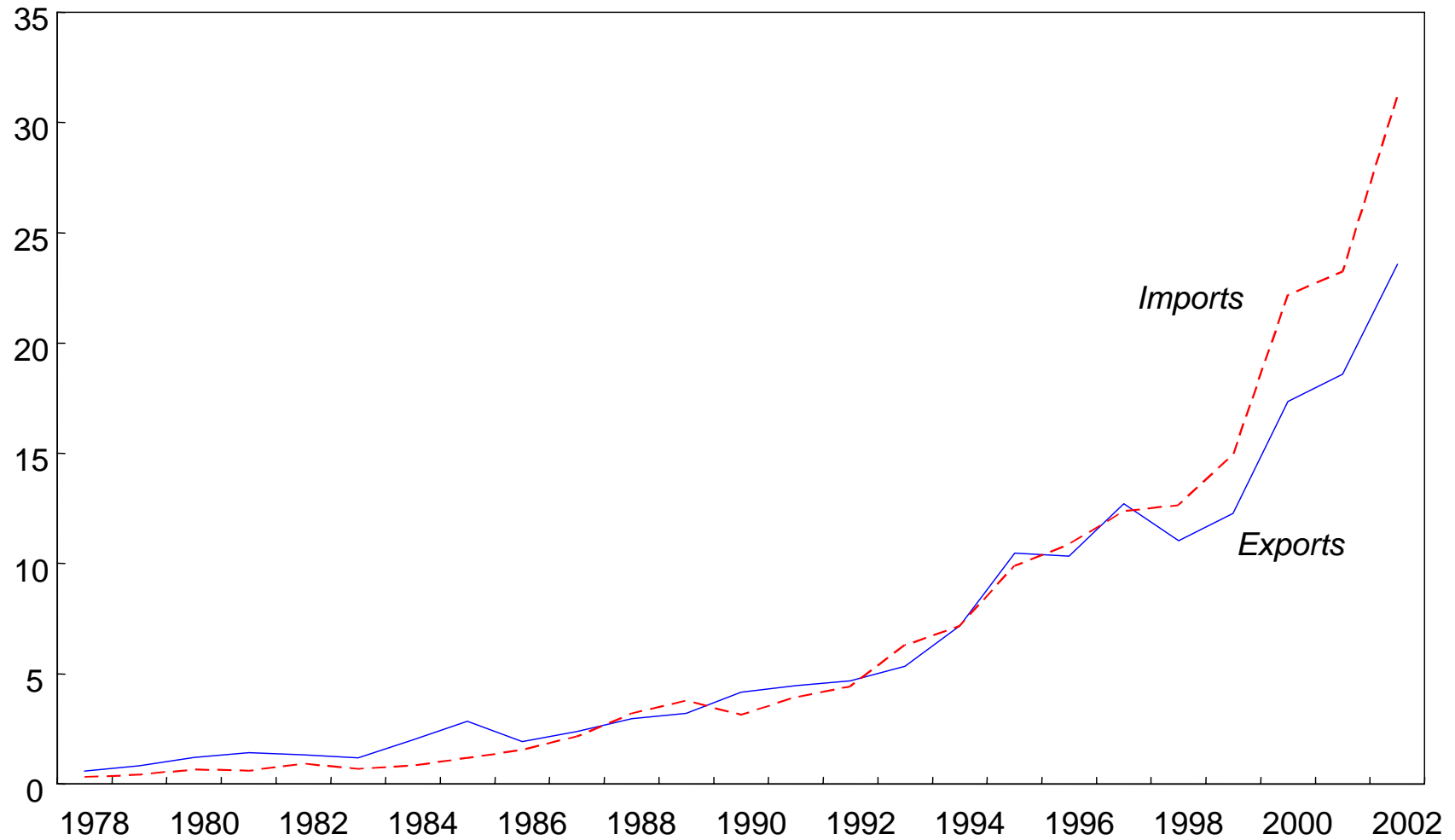
# China's trade with LDCs, 2002

China's imports from LDCs (US\$ billion)	3.5
China in world imports from LDCs (%)	8.7
LDC imports in China's total imports (%)	1.2
Imports from LDCs in world imports (%)	0.6

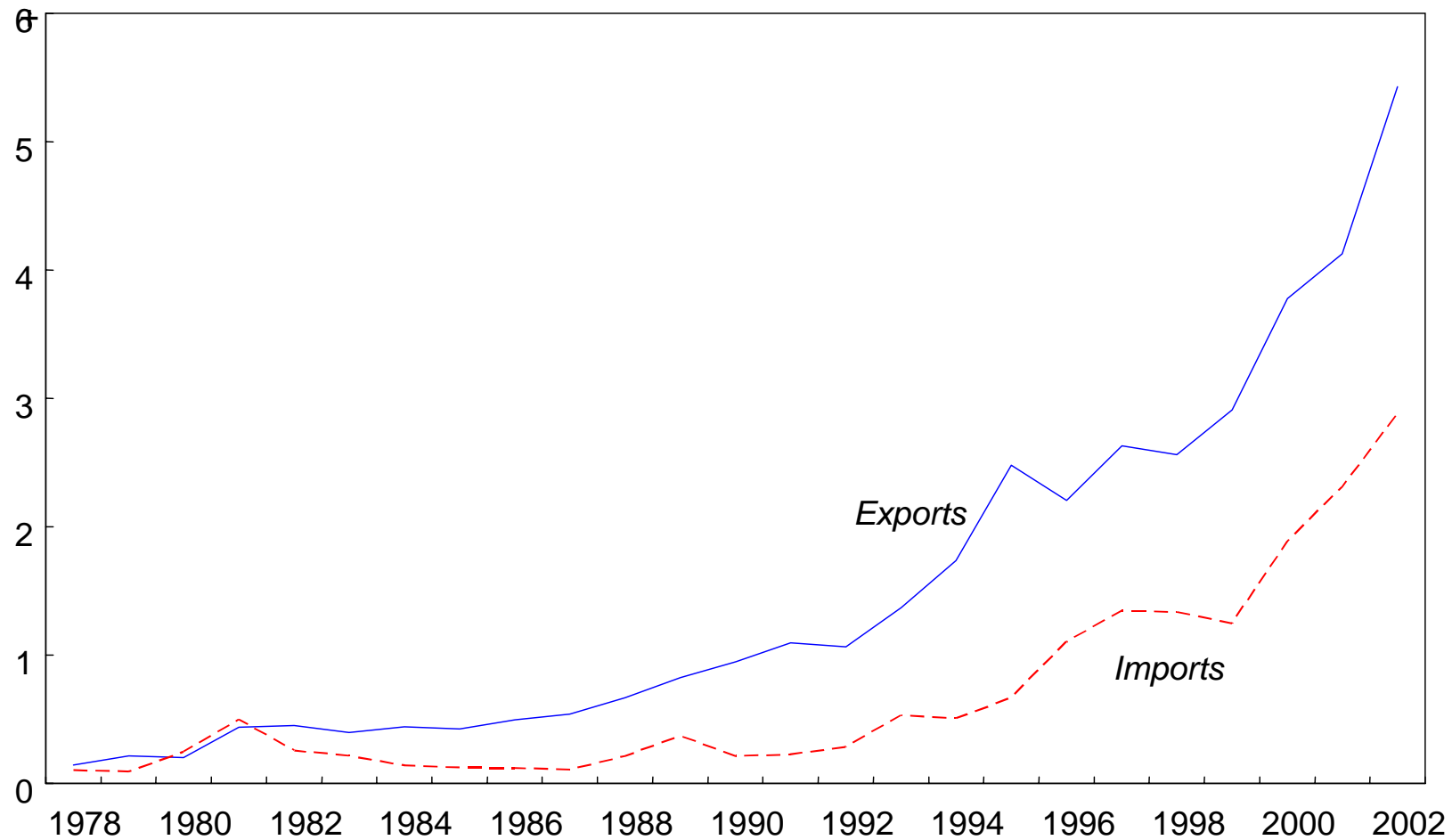
# China's trade with Asian NIEs, 1978-2002 (US\$ bn)



# China's trade with ASEAN, 1978-2002 (US\$ bn)

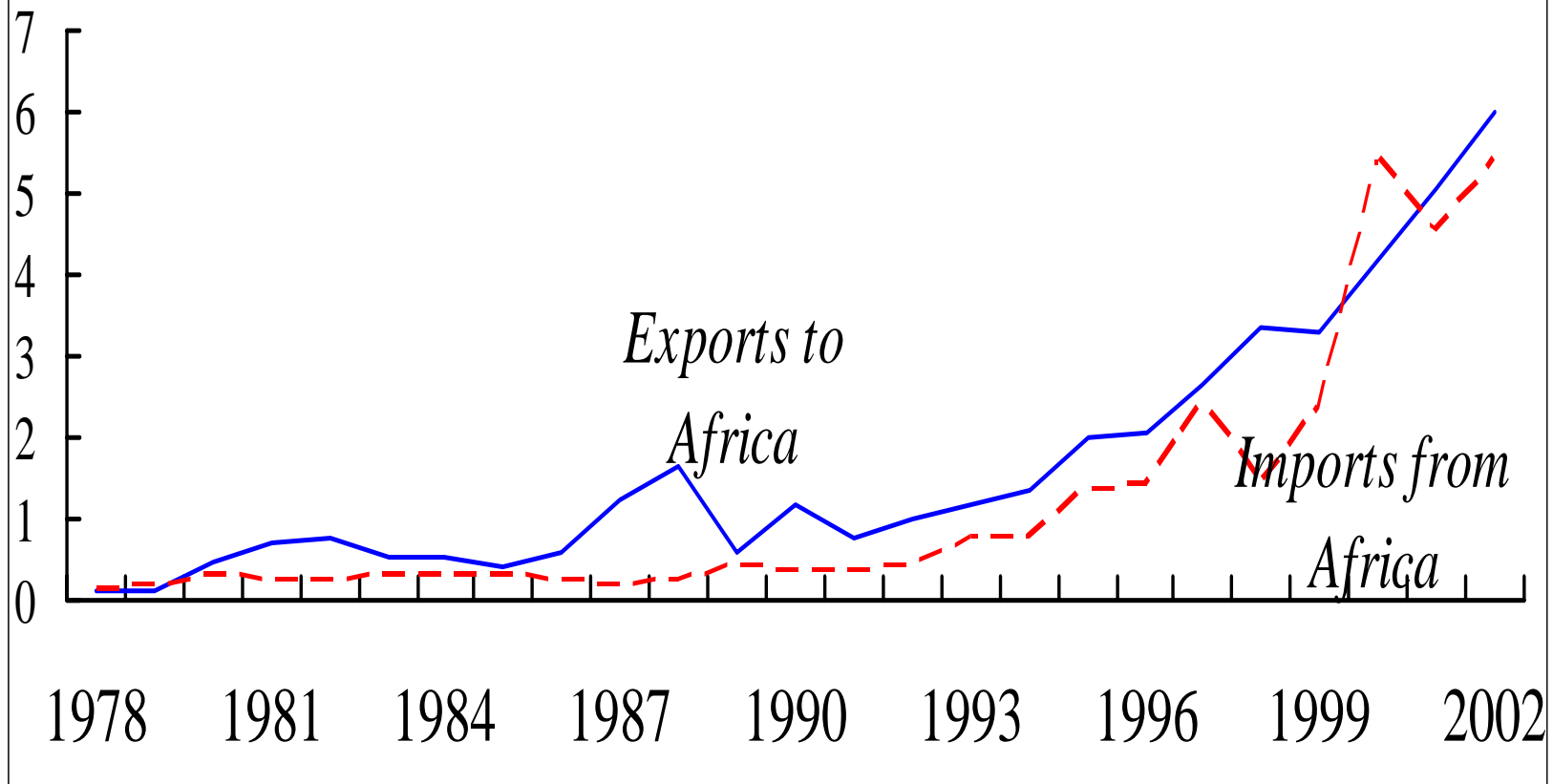


# China's trade with South Asia, 1978-2002 (US\$ bn)





## China's trade with Africa, 1978-2002 (US\$ billion)



# Looking forward

# Modeling strategy (using GTAP)

- First run a baseline assuming Chinese GDP growth at 7.6% per year over the period 2002-2020 (based on *WEO*)
- Compare the baseline with a slow growth scenario with no Chinese growth relative to the rest of the world
- Initially assume other economies are flexible in face of China's emergence

# Trade-Related Impact of Faster Chinese Integration, 2020

(percentage deviation from the baseline; welfare in % of GDP)

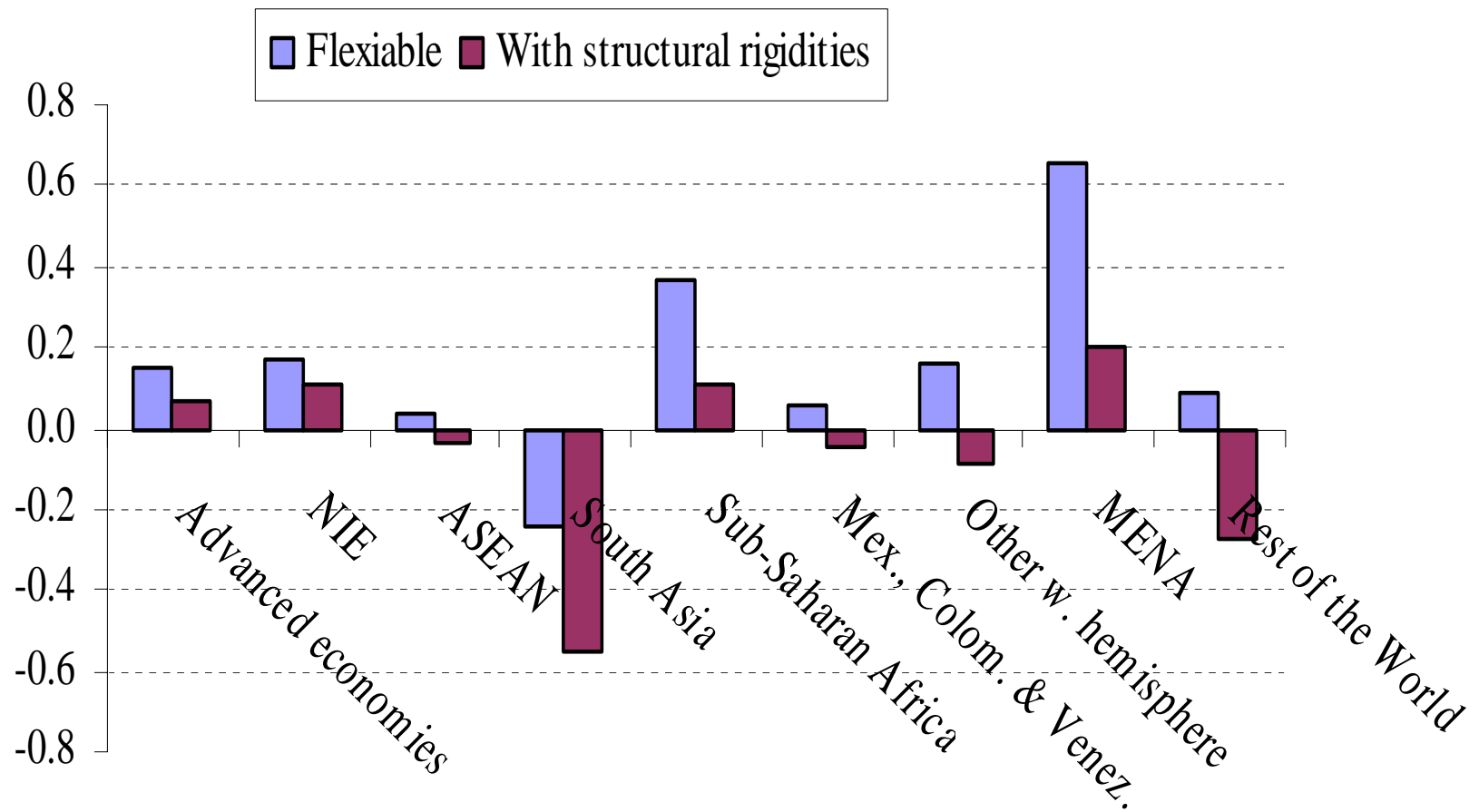
	Welfare	Exports	Imports	TOT
World	5.3	7.4	7.2	0.0
China	126.1	86.6	85.7	-7.0
Advanced economies	0.1	2.3	2.7	0.7
NIEs	0.2	2.2	2.9	0.5
ASEAN	0.0	0.9	0.5	-0.1
South Asia	-0.2	0.1	-2.3	-1.0
Sub-Saharan Africa	0.4	0.2	0.8	1.4
Mexico, Colombia & Venezuela	0.1	-0.7	-1.2	0.3
Other w. hemisphere countries	0.2	2.5	2.8	0.9
Middle East and North Africa	0.7	-0.8	0.4	1.9
Rest of the World	0.1	1.3	0.6	0.4 <sup>36</sup>

# Impact of faster Chinese Integration on South Asia's export volumes, 2020

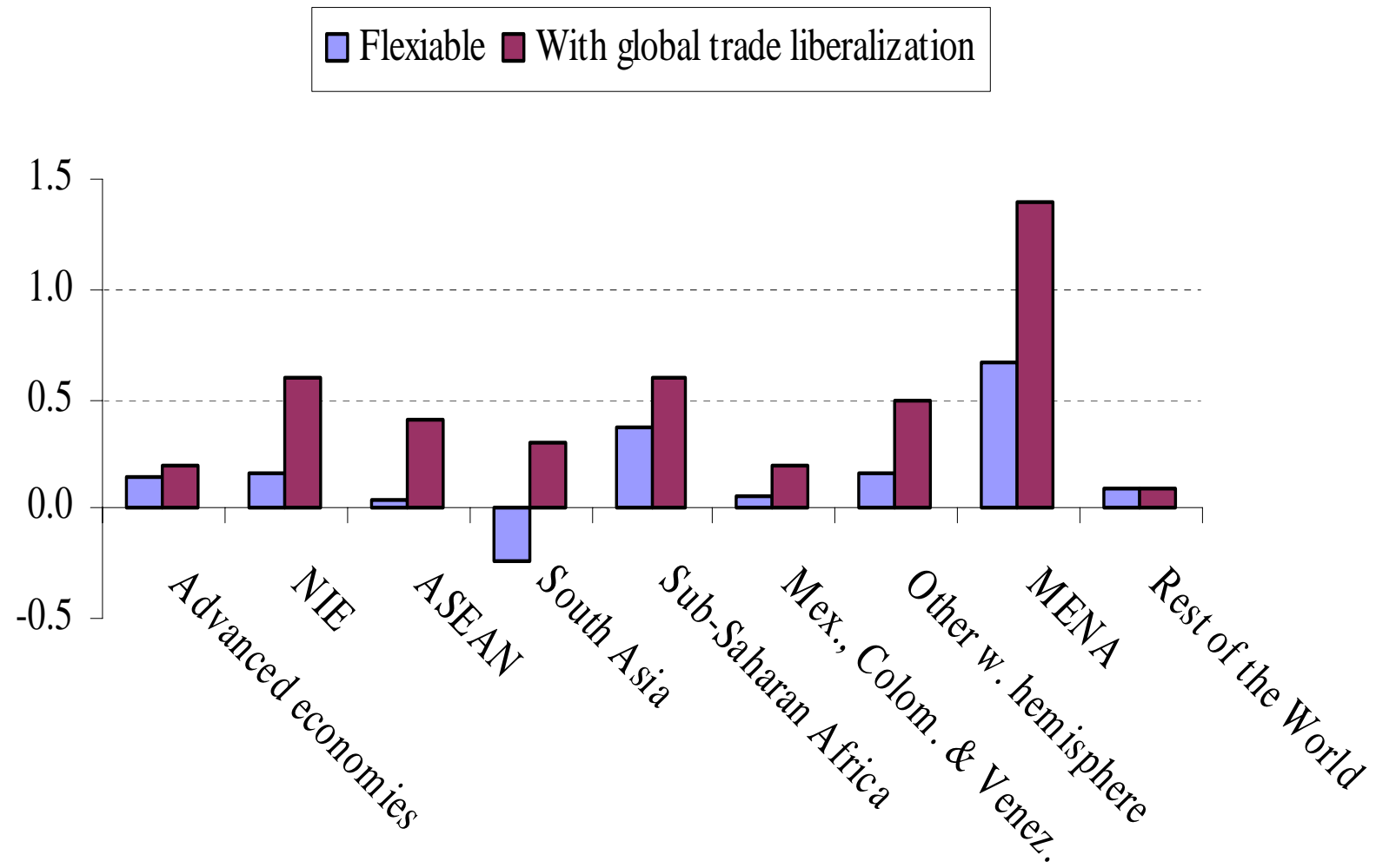
(percentage deviation from the baseline)

	Total	To China	To ROW
All commodities	0.1	83.6	-3.7
<i>Contribution to Total of:</i>			
Agriculture and food	0.2	2.9	0.1
Minerals	0.5	14.0	0.0
Textiles and clothing	-4.6	5.1	-5.0
Labor-intensive manufactures	-0.3	4.1	-0.5
Skill-intensive manufactures	1.2	22.4	0.4
Labor-intensive services	1.0	10.4	0.3
Skill-intensive services	2.0	24.5	1.0

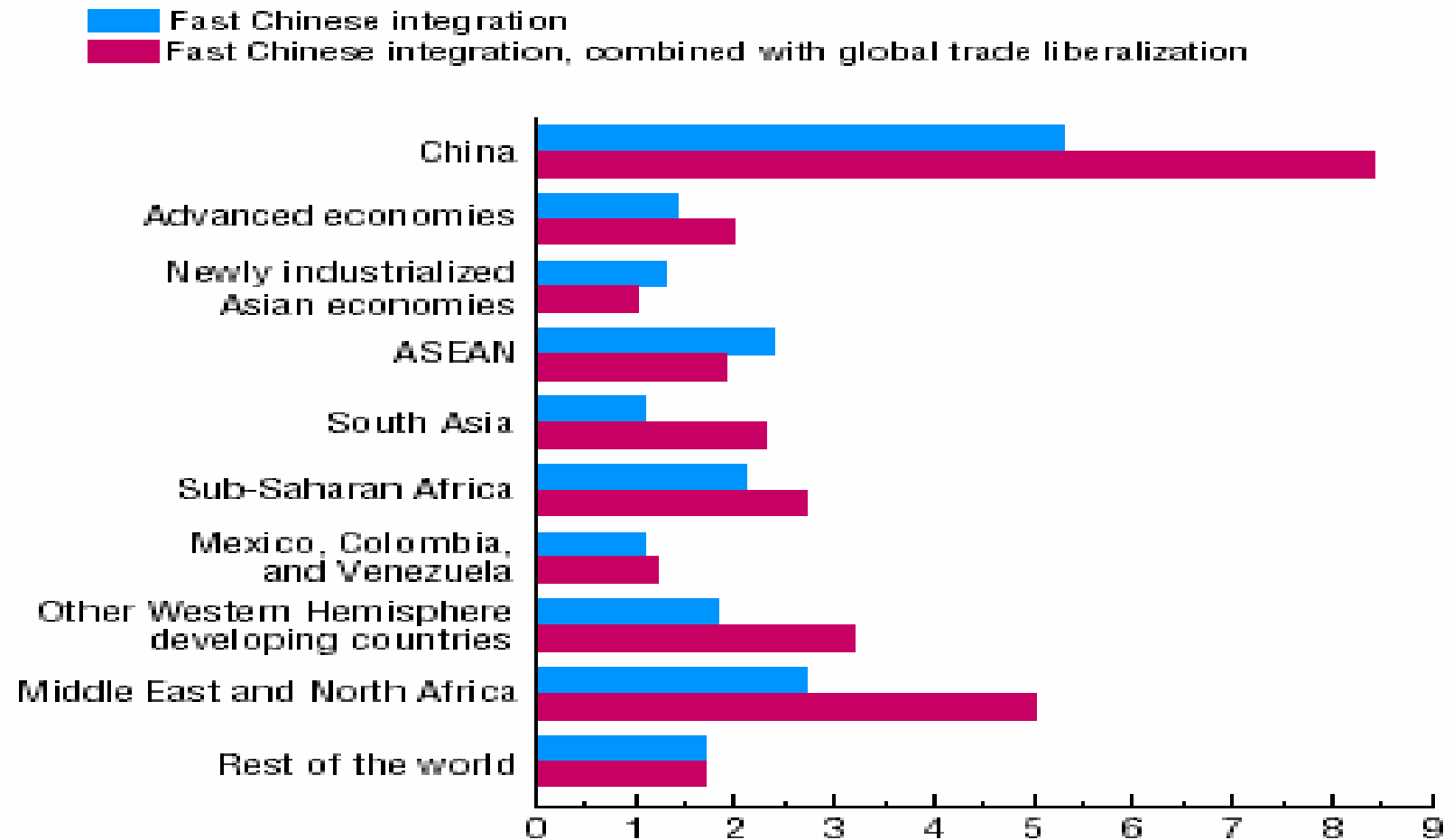
# Welfare impact of faster Chinese integration assuming structural rigidities. 2020



# Global trade liberalization helps



# Required structural adjustment





# Conclusions

- China's emergence is not different from previous episodes of integration, but the impact is likely to be larger over time.
- The impact of China's WTO accession on developing countries depends on trade and investment links with China and the composition of trade
- China's growth and opening up are more likely to benefit developing countries in the long run
- China's integration into the world economy requires structural adjustment in other countries