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The Impact of Globalization on China's Economy

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Globalization is not a process that has just started; it has been ongoing since the late 18th century. As described by Marx and Engels (1848, pp. 18–19) 150 years ago:

> In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property... The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilization... The bourgeoisie has subjected the country to the rule of the towns... It has made barbarian and semi-barbarian countries dependent on the civilized ones, nations of peasants on nations bourgeois, the East on the West.

However, just like political and cultural internationalization, the process of economic globalization has been accompanied by an opposing trend namely, the popularization of nationalism, regionalism, and polarization. This paradox is inevitable, not only because of historical, cultural, traditional, and social and psychological factors, but also because of economic reasons. Political or military coercion aside, the dynamics of economic integrity can only come from the comparative advantages of different nations, which is relative and constantly changing. For instance, a popular point of view among developing countries for some time has been that allowing the free entry of foreign commodities into domestic markets will inevitably lead to the decline of domestic industries and the collapse of the national economy. While some cases may seem to justify this point of view, in reality it is wrong when looked at from macroeconomic and long-term perspectives. If a country can import that many foreign goods, it is because that country has the ability to pay for these imports. If this were not the case, the local currency would be devalued and foreign goods would become expensive, which would in turn alter the comparative advantage of that country.

In the past, at present, and even in the future, cases might arise in which some economies are harmed in the process of international economic integration; however, such integration will not lead to a collapse of the world economy. In an open global economy, maintaining individual economic autarky is possible, but its costs will be extremely high. On the one hand, openness could lead to accelerated development and prosperity within an individual economy and help to integrate it into the world economy. On the other hand, it could also keep this economy in its original underdeveloped circumstances. Nevertheless, developing countries should stick to the policy of opening up to the outside world, because only this policy will help narrow the gap between developing economies and the world economy as a whole. Even though openness alone is far from sufficient for the modernization of a country, it is absolutely necessary. This is why China has adopted opening to the outside world as one of its basic state policies.

The Effects of Openness

The open door policy that began 20 years ago has enabled China to emerge from its past isolation and become integrated with the world economy. This policy has had a profound and far-reaching impact on China's economy in a number of respects.

First, it has greatly enhanced the reform process and played a key role in transforming the economy from a centrally planned one to a market-based one. Without having adopted an active open door policy from the very beginning of the transition from a planned economy to a market one, domestic economic reform would not have been accomplished so rapidly and so successfully. The open door policy can help to emancipate the mind of the people and harmonize opinions in a very short time. It has quickly changed people's way of thinking and allowed civil servants and enterprise managers to learn about market mechanisms. In addition, it has helped reform measures to be implemented rather than only being discussed. This has occurred simply because once the door has been opened, international market rules, foreign competition and global economic integration have inevitably forced China to follow a path of reform.

However, during the past 20 years, China's economic transition has been notably unbalanced among regions. Market mechanisms were initially introduced in the coastal regions, and then gradually extended to central and western parts of the country. For instance, Guangdong and Fujian provinces have been given preferential policy treatment since the early 1980s. Given that these coastal provinces are close to Hong Kong (China), Taiwan (China), and other economically advanced regions in Asia, foreign management mechanisms had to be adopted in these areas to enhance competition and cooperation with their foreign counterparts. Over the years, the coastal areas have usually been the first to relax price controls, give autonomy to enterprises, introduce market-based financing, allow workers to choose where they wanted to work, allow land rental, and so on. These areas have thus been playing a pilot role in China's reforms.

Second, the open door policy has led to rapid economic development, and hence accelerated the process of modernization. This policy has enabled China to use huge amounts of foreign capital to compensate for the shortage of domestic funds. Statistics indicate that 300,000 foreign direct investment (FDI) projects were approved during 1979–97. Total contracted foreign investment during this period reached US$510 billion, and foreign funds actually used reached US$220 billion. Foreign funding has so far accounted for 14 percent of total investment in fixed assets. Since 1994 the scale of foreign fund utilization in China has being ranked second in the world, and first among developing countries.

When the reforms started, a huge gap in technological development was observed between China and the industrial countries. As opening up has progressed and reforms have deepened, large amounts of advanced technology and equipment have been introduced through the inflow of FDI. This has, in turn, greatly advanced domestic technological development. A 1996 census of 3,200 major industrial equipment items showed that the share of imported items had reached 47.1 percent, a 28.9 percent increase over 1985.

Before the reforms, China's management skills were relatively backward. As the reforms proceeded, and through cooperation with foreign enterprises, financial institutions, and government agencies, China has become aware of advanced management skills and experiences, which have helped accelerate the reform process. Moreover, the open door policy has greatly enhanced economic and technological exchanges between China and other countries. Through such exchanges, China receives large amounts of information and informs the rest of the world about its own development situation. This has promoted the exchange of resources between domestic and international markets and helped to integrate China's development with that of the rest of the world.

Third, the open door policy has helped improve the economy's overall quality and efficiency. In the agriculture sector, the importation of fertilizers and pesticide and the introduction of new species of crops and advanced farming technologies have enabled China to achieve higher yields. Unit yields increased from 2.53 tons per hectare in 1978 to 4.48 tons per hectare in 1996, an increase of 77 percent. The unit yield of cotton increased from 450 kilograms per hectare in 1978 to 1,025 kilograms per hectare in 1997, which is more than double. The output of major agricultural products has also advanced significantly in terms of world rankings. Grain output moved from second place in 1978 to first in 1997, cotton moved from third place to first place, rapeseed went from second to first place, and meat went from third to first place. All these achievements were unimaginable before the reforms.

China has also made great progress in industry, especially in the manufacturing sector. In 1978 China's output of steel, coal, cement, fertilizer, and televisions was ranked fifth, third, fourth, third, and eighth in the world, respectively. By 1997, output of all these items had become first in the world. At the same time, the ranking of the output of crude oil was up from eighth to fifth, power generation output and synthetic fiber were up from seventh to second, and the output of cotton cloth has continuously been ranked first.

China's technological development in the electronics, machinery, chemical, and metallurgical industries is still relatively backward compared with that of the industrial countries, but the difference has not increased despite the rapid development in these areas, and some progress has been achieved. The development of tertiary industry has also benefited from the open door policy. The proportion of value added from tertiary industry in gross domestic product (GDP) increased from 21.4 percent in 1979 to 32.1 percent in 1997, a rise of more than 10 percent. Moreover, the previous bottleneck sectors, such as transportation and telecommunications, have also made great progress. The quality and efficiency of service sectors such as wholesale and retail trade, foreign trade, finance, and tourism has also improved significantly. Intermediaries, such as accounting and auditing services and law firms have emerged across the country. Thus the potential for the development of tertiary industry is strong, and this will be a driving force for further economic development in the future.

There is no doubt that the open door policy has also brought with it some side effects and problems. Some of these problems could be quite serious, and their consequence can be observed in the economy.

First, there is obvious regional disparity. China's regions can be classified into three categories as follows:

- Those coastal regions with a relatively strong economic base and sound transportation network. Such regions have developed close economic links with the outside world and have been developing rapidly.
- Regions with a reasonably good industrial base, but which are still suffering from the effects of the traditional planning system. These regions have fewer links with the outside world and their development is progressing relatively slowly.
- Inland and remote areas, whose pace of development has accelerated greatly, but which still lag far behind the coastal regions.

In terms of economic development and income levels, regional disparities have been widening. Such differences will hinder sustained and coordinated economic development as well as the country's social stability.

Second, the promotion of free trade and the inflow of foreign capital have shocked domestic industries. Because of extensive smuggling over the years, the statistics on the volume of imports are grossly underestimated. Such shocks were first felt in the machinery and household electrical appliance subsectors, and then spread to almost all consumer goods industries. In recent years, such effects have also spread to the energy and raw materials sectors, such as crude oil and petroleum-chemical products, chemicals, pesticides and fertilizers, steel, and nonferrous metals.

The current poor performance of state-owned enterprises (SOEs) and decreasing trend of village and township enterprises are related to some extent to the inflow of foreign goods and competition from foreign-funded enterprises. In recent years, grain prices have kept dropping and farmers have not been able to enjoy higher income by increasing their grain production. This phenomenon is obviously related to the excess grain supply on the world market. The service sector, which is in the process of opening up, has already felt pressures from outside.

Third, imports of advanced equipment and technology have also shaken up the old scientific and technological research system. The traditional scientific and technological institutions were all government owned and had been developed in an isolated environment. Thus it is difficult for these institutions to adapt to the market environment, and their efficiency is low. As the economy opens to the outside, the authorities have realized that in the short run, importing needed technologies is much more efficient than developing them domestically, and that importing equipment and products is better than importing technologies. Most of the technologies needed are available through imports, except those embargoed by some of the industrial countries. Under such circumstances, the domestic institutions have little to do. Engineering is no longer considered a prestigious profession, and university departments offering majors in related subjects are suffering from a lack of demand.

Meeting the Challenges of Economic Globalization

When China first started its reforms 20 years ago, it had few suitable experiences to emulate. The East European countries and the former Soviet Union could be taken as a reference; the "four little Asian dragons" were regarded as a model whose approach was instructive; and Japan, North America, and Western Europe were "teachers" that were too advanced to follow. Thus no ready-made economic model was available that China could easily adopt. In retrospect, one can conclude that the secret of the success of China's reforms is quite simple: seek truth from the facts, and all policies adopted must be based on the conditions prevailing in the country.

From the very beginning, the government realized that it should not confuse reform measures and the ultimate objectives of the reform. It intended to establish an open economic system, but could only realize it step by step. Changing the mentality of the people and transforming an existing economic system takes a long time. Otherwise, there would only be shocks, but no "therapy." By taking a gradual approach, China tried to maintain and maximize the positive aspects of the old system, while containing and minimizing its negative aspects. This has greatly helped the success of the open door policy. When the reform was in difficulties, the government did not lose confidence in its reform objectives. It endeavored to find solutions while sticking to the basic policy of opening to the outside world. Throughout the whole reform process , the government has firmly believed that the open door policy is in the interests of the people. This is the main reason for the success of the open door policy.

While taking bold steps in opening the commodities market, the authorities were cautious in opening the factor market. For most of the 1980s, China had a trade deficit . On the one hand, by introducing FDI, China opened its commodities market to the outside world. However, for some time the government required foreign-funded enterprises to export a certain portion of their products. However, this requirement was not strictly implemented, and the rationale behind it was questionable when both imports and exports were increasing annually by as much as 15 percent. On the other hand, in opening the factor market, especially for capital markets and money markets, the government planned to act cautiously, perhaps over cautiously according to some observers. Actually, China could have made the renminbi convertible under the current account in the early 1990s. However, this cautious attitude may have been one of the major reasons why China survived the Asian financial turmoil. In any case, the controls on foreign currencies held by citizens and on capital flows between financial institutions were actually very weak, and a net capital outflow has been apparent for some time. This net capital outflow was even more serious in the early 1990s, as can be seen from the huge errors and omissions reflected in China's international balance of payments (table 6.1). In opening the factor market, China has repeatedly declared that it will follow an active and sustainable policy. In the meantime, it will try to coordinate the speed of opening up and the promotion of a sound domestic management system.

China has long been aware of the problem of unbalanced development between regions, and has taken some measures to tackle the issue. Large policy loans have been arranged to help the development of agriculture and village and township enterprises in the inland areas. At the same time, funds have been channeled to these areas in the form of fiscal transfers, earmarked allocations, and work for food programs to help economic development in these regions. Since 1998, a huge amount in additional government bonds has been issued to promote infrastructure development. Most such projects are located in central and western regions of the country. Some preferential treatment was also given to these areas to help them attract more foreign capital.

Table 6.1. International Balance of Payment, 1991–97
(US$100 million)

Year	Current account balance	Capital account balance	Errors and omission	Changes in reserves
1991	119.97	32.56	–31.31	–121.22
1992	64.02	–2.50	–82.74	21.22
1993	–119.02	234.72	–98.04	–17.67
1994	76.57	326.44	–97.74	–305.27
1995	16.18	386.74	–178.10	–224.81
1996	72.43	399.67	–155.59	–316.51
1997	297.17	229.58	–169.52	–357.23

Source: State Statistical Bureau (1991–97).

Partly due to the preferential treatment, but mainly due to the intrinsic laws of market economics, the regional disparities between the provinces are being narrowed down. The central issue in regional income disparity is the difference between urban and rural incomes. For some time Shanghai and Guizhou have been the two extremes in terms of gross national product (GNP) per capita. In 1980 GNP per capita in Shanghai was 12.5 times that in Guizhou. By 1997 it was down to 10.2 times (see also the paper by Yamada in this volume). This reveals that the difference in GNP per capita is becoming smaller. If we take into consideration the differences in price changes and the fact that prices in Shanghai rise more sharply, then the actual income disparity between the two should be even smaller. However, when we compare the two provinces in terms of rural and urban incomes, the results are quite different. In 1997 the average annual income of urban residents in Shanghai was 1.9 times that in Guizhou, while the same indicator for suburban residents of Shanghai was 4 times that of farmers in Guizhou (table 6.2). The development of village and township enterprises in eastern areas has also helped narrow urban and rural income disparities, though such disparities still need to be addressed. Narrowing urban and rural disparities in the central and western regions will be a particularly difficult task.

Table 6.2. Average Net Incomes of Farmers, Selected Regions and Years
(RMB)

Region	1978	1980	1985	1990	1995	1997
Beijing	224.80	290.46	775.09	1,297.05	3,223.65	3,661.18
Shanghai	290.00	397.35	805.92	1,907.32	4,245.61	5,277.02
Guangdong	182.30	274.37	495.31	1,043.03	2,699.24	3,487.69
Inner Mongolia	100.30	181.32	360.41	607.15	1,208.38	1,780.19
Henan	101.40	160.78	329.37	526.95	1,231.97	1,733.89
Guizhou	108.00	161.46	287.83	436.14	1,086.62	1,298.54
National average	133.57	191.33	397.60	686.31	1,577.74	2,090.13

Source: State Statistical Bureau (1998).

In dealing with the weak performance of SOEs and the increase in unemployment, the government has encouraged reducing the number of employees in SOEs, stimulating the development of the nonstate sector, and launching re-employment schemes for laid off workers. At the same time, it has set up a fund to provide basic social security benefits to laid-off workers. The fund is derived from three sources: local budgets, local social security pooling, and enterprises. In the past, China's social security system, including pensions and medical care, was a pay-as-you-go system. So the newly established social security system is still partially funded, and cannot provide enough financial support to laid-off workers and those unemployed in the process of transition. In addition, government revenues are insufficient to cover all the necessary expenditures. Better-performing enterprises can spend some of their own money saved from reducing the work force to provide better social security benefits, but those that are bankrupt or that have merged with other enterprises are asked to use funds acquired from liquidation, the transfer of land use, and so on to provide social security to laid-off workers. In the absence of any sources for social security funding, the local and central government will provide the funds as a last resort. These measures have greatly helped to provide basic needs for these workers, of whom about half have already been re-employed and a sizable proportion have retired. These policies have also effectively help maintain social stability and improve the overall environment for reform and opening up.

China has been moving ahead in the past 20 years. However, the responses to the challenge of economic globalization have not been perfect, and errors and mistakes are inevitable. Luckily grave mistakes have been avoided, as have those that once made, cannot be corrected. In my opinion, we have overestimated the importance of foreign trade to the national economy. Statistics show that the level of dependence on foreign trade is as high as 40 percent, which is about twice that of Japan or the United States (table 6.3). The share of trade that involves processing imported materials has accounted for more than 50 percent of the total. Moreover, service industries in China are still far from market-price-based; national accounts have significantly underestimated their value added. Taking the over-reporting of foreign trade and the under-reporting of GDP into account, estimates indicate that actual dependence on foreign trade is only about 20 percent. Overestimating foreign trade might bias reforms and development strategy. One important phenomenon is that various policy measures and actions give priority to foreign trade and foreign-funded enterprises. This has both positive and negative effects. Domestic demand and purchasing power have usually been neglected while emphasizing foreign trade; however, for an economy as large as China's, tapping domestic demand and enhancing domestic purchasing power are more fundamental factors for sustained and healthy development of the economy. If the domestic economy is not handled properly, foreign trade will lose its momentum for further development.

Table 6.3. *Dependence on Foreign Trade and Per Capita GDP, Selected Countries and Years*

	Dependence on foreign trade (percent)		*GDP per capita, 1997 (US$)*	
Country	*1980*	*1996*	*Exchange rate method*	*Purchasing power parity method*
Brazil	20	15	4,720	6,240
China	13	40	860	3,570
Egypt	73	46	1,180	2,940
India	17	27	390	1,650
Japan	28	17	37,850	23,400
United States	21	24	28,740	28,740

Source: World Bank (1998).

In the past 20 years, a frequently observed phenomenon is that reform of the domestic economic system usually lags behind the process of opening up. In a sense, this situation is inevitable; however, it does not have to be so serious for so long. For example, the problem of SOE management mechanisms has long been apparent, and it is obvious that solving the historical burden of SOEs would imply costs. Therefore, relevant reform of the banking system should be launched as soon as possible. With regard to restructuring the pattern of resource allocation, progress is also slower than it should be, and relapses occasionally occur. The reform of housing and social security is also long overdue, and in turn has hindered reforms in other areas. There is still a long way to go in monetizing income redistribution, and the composition of salaries in state-owned sectors is still incomplete, and thus not comparable with that in other sectors.

These problems have hindered and distorted the development of labor markets, capital markets, and land markets. Even in the field of foreign trade reform, which has been progressing more rapidly, many problems remain to be solved. Government orders and guidance are still heavily influencing the performance and operations of foreign trade enterprises. In the past, China had relied on devaluation of the domestic currency to stimulate exports. The quality of export goods and the techniques used in business management and operations have improved only slowly. The management of state-owned foreign trade enterprises still faces many problems, and these enterprises have incurred serious debts and losses. However, due to concern about the chain reaction it may cause, allowing all the poorly managed enterprises to declare bankruptcy is difficult. Bad debts are thus still accumulating. Resolute measures have to be taken to solve these problems during the next stage of the reform program.

Looking further into the matter, some aspects of opening up could probably be improved, especially in terms of market structures and some concrete policy steps. Encouraging the investment of foreign capital in light industry at the beginning of the opening up is correct. However, the opening up of sectors such as energy and raw materials has been delayed for too long. International cooperation was introduced quite early in offshore oilfield exploration, while the opening of exploration of other subterranean deposits has long been delayed. The use of foreign capital to construct and operate airports was allowed several years ago; however, in railway transportation, some railroad branches have only just opened to foreign participation. The opening up of the service sector, which has been criticized both domestically and abroad, also does not seem to be well planned. Foreign participation in hotels and tourism was permitted quite early, and the recreation industry and retail commerce have actually been allowing free entry, while the opening of such sectors as telecommunications, finance, and foreign trade has lagged far behind. Those sectors less open to foreign investors continue to suffer from monopolies, inefficiency, overstaffing, low salaries, and other problems.

Policy Responses to the Asian Financial Crisis

The onset and evolution of the Asian financial crisis was in many ways quite different from the expectations of many Chinese economists, whose comments and forecasts vary widely. However, they generally agree on one point, that is, few believed that the financial turmoil would destroy the Chinese economy. During the course of the crisis, China became aware of the advantages and disadvantages of its economy.

China's first reaction is that it has started to put more emphasis on tapping domestic consumption and investment to compensate for the decrease in exports. The targeted growth of fixed asset investment for 1998 was initially 6 percent, then was adjusted to 10 percent, and is now 15 percent. It is estimated that total fixed asset investment this year will reach RMB 2.8 trillion. To solve the problem of pooling funds for infrastructure, the government has issued RMB 100 billion of government bonds and another RMB 100 billion in bank loans. These funds will be used to build railway and highways and for farming, forestry, water resources, environmental protection, city infrastructure, grain warehousing, and so on. While choosing active fiscal policy, the government has also adjusted its monetary policy. The guidance plan for bank loans has been relaxed to some extent, and measures have been taken to encourage banks to improve their service while paying close attention to preventing financial risks, increasing loans to medium and small enterprises, and providing more credit and loans for housing and various forms of household consumption.

In reforming the SOEs, the government has taken measures to encourage mergers and acquisitions, regulate bankruptcy, cut employees so as to promote efficiency, and implement re-employment schemes. It has also established an inspection and auditing system for key SOEs to strengthen the supervision of the financial and operational management of large SOEs. To solve the problem of undercapitalization of state-owned commercial banks, the government issued RMB 270 billion in special bonds at the beginning of 1998. This has enabled the capital adequacy of state-owned commercial banks to meet international standards, and thus has strengthened the capacity of these banks to resist taking financial risks. Measures have also been taken to shut down some poorly managed financial institutions and those suffering from payment crises, such as the China Agricultural Trust and Investment Corporation, the Hainan Development Bank, China Venture-Tech, and the Guangdong International Trust and Investment Corporation. This has helped to remove some hidden perils and eliminate financial risks.

In November 1998 the scheme to reform the management system of the central bank was formally announced. Provincial branches have all been closed and nine new regional offices covering different economic zones have been established. This marks a historical step toward strengthening and improving the central bank's supervision of the financial sector. At the same time, the China Insurance Regulation Commission has been established and the China Securities Regulation Commission has been restructured. A framework has been established whereby financial activities are classified into different industries for operating and supervision purposes.

In 1998 the government introduced unprecedented measures to improve market order, with the emphasis on two aspects. One is foreign trade. The government has focused on close supervision in approving applications for export tax rebates and taken resolute measures to crack down on smuggling activities, which has strengthened the customs service. Meanwhile, a group of officials involved in unlawful activities has been punished. These measures have quickly benefited those industries that have suffered the most from smuggling, such as petrochemicals, motor vehicles, chemical fertilizer, and tobacco.

The other focus is on the administration and supervision of foreign exchange. In tackling the worsening problems of evasion and arbitrage of foreign exchange, obtaining foreign exchange by deception, and the black market, the government has taken measures to strengthen appropriate supervision and punishment. A computer network has been established between banks, the customs service, and those administering foreign exchange. This will help to assure the quality of data in the current account and improve the management of foreign exchange inflows and outflows under the capital account, and thus help to crack down on unlawful foreign exchange flows. Thousands of unlawful foreign exchange transactions that involve billions of U.S. dollars have been found so far.

Closely related to these problems, China also strongly believes that it is extremely harmful to allow army, party, and government organizations to be involved in business. Since 1998, the army, the armed police, and the executive organs of judicial departments have been ordered to separate themselves from enterprises affiliated to them. All SOEs or state holding companies originally affiliated with central government departments had to be uncoupled from them by the end of 1998. These enterprises are to be independently managed and entirely responsible for their own profits and losses.

Measures have been taken to further encourage opening the market and using foreign capital. Since January 1, 1998, for capital equipment imported by foreign and domestic investors, customs duty and import value added tax has been revoked. The Guidance Directory for Foreign Investment was revised. The revised directory contains 329 items, of which 270 are given tax free treatment. This fully reflects the policy inclination to ratchet up the level of opening up. More foreign financial institutions have access to China's market, and about 20 foreign banks have been allowed to do renminbi business. Generally speaking, China's opening up has achieved progress in both scale and quality.

More preferential treatment policies to encourage foreign investment in central and western parts of the country were declared in 1998, including the following:

- Foreign investors are allowed to invest in projects that have comparative advantages locally, even if these projects are not encouraged in the Guidance Directory for Foreign Investment. These industries or projects can enjoy the same treatment as those listed as industries to be encouraged in the directory.
- The conditions for market entry and for establishing enterprises in which the foreign share of registered capital is limited can be relaxed to a certain extent.
- Preferential treatment is given to encourage foreign participation in projects in agriculture, water resources, transportation, energy, raw materials, and environmental protection. Measures have also been taken to help raise counterpart funds.
- Those projects involving investment from foreign-funded enterprises located in eastern China can enjoy the same preferential treatment as that given to foreign-funded ones if the enterprise's share of the project's registered capital exceeds 25 percent.
- Large SOEs and enterprises converted from military ones are encouraged to carry out technical innovations by introducing foreign investment.
- An experiment will be approved to allow foreign participation in the wholesale and retail, foreign trade, and tourism sectors.
- More than 80 percent of loans from international financial institutions and foreign governments will be allocated to investment in the western regions.
- More autonomy has been given to local governments to assess and approve their own foreign-funded projects.

The year 1998 was one in which the government announced many reform measures. Besides those involving SOEs and state-owned banks, it has also reformed the medical insurance system. Meanwhile, preparations for investment system reform and for changing charges and ad hoc levies into formal tax collection systems are also in progress.

The government's policy measures have been effective. The national economy is developing healthily. In the first three-quarters of 1998 GDP grew by 7.2 percent, the price indicator for consumer goods dropped by 0.7 percent, and the trade surplus increased by 15 percent. Total FDI reached US$31.3 billion, which was about the same level as the same period previous year. By the end of September 1998 , foreign exchange reserves had reached US$141.1 billion, an increase of US$1.2 billion The exchange rate of renminbi has remained stable. Currently growth in fixed asset investment is increasing, and economic growth is steadily picking up.

It is becoming clearer that in an economy like China's, long term growth must rely on the sustained expansion of domestic demand. The government is therefore speeding up infrastructure construction, promoting labor mobility and urbanization, stimulating household consumption, and developing the country's western regions.

Perspectives on the Process of Globalization

At first glance, the Asian crisis seems to have been the result of financial problems. However, it was actually caused by adjustment of the industrial structure and dynamic changes in demand and supply. After all, payment difficulties are caused by clogging of the economic circulation, by obstructions in the process of transfer between goods and money, or by changes in relevant conditions. When many luxury housing and office buildings stand idle; when the price of household electrical appliances is plummeting, yet plenty remain in stock; and when garments, toys, and even iron and steel and petrochemical products are overstocked, it is not surprising that enterprises cannot pay back their bank loans on time and that domestic banks cannot pay back their foreign loans. Twenty years ago, the four little Asian dragons produced high-quality consumer goods at lower prices than other countries and exported them to Europe and North America. They were praised as successful, export-oriented economies. However, almost all the Asian countries, as well as Eastern European and Latin American countries, are now doing the same. Even if we do not consider international markets, but only domestic ones, when the economic circulation is clogged, a payments crisis will inevitably arise. For these reasons, the Asian crisis cannot be attributed to economic globalization.

Although the influence of external factors is becoming stronger, the determining factors for the operation of an economy still come from within that economy. In fact, the more advanced globalization is, the heavier an economy's dependence on itself. One major lesson that we can learn from the Asian financial crisis is that every economy has to maintain a healthy domestic economic structure, something that will enhance, rather than hinder, the process of economic globalization. Economies that were affected by the financial turmoil differ significantly from each other. Those economies with a unitary structure and without their own special advantages are usually quite fragile. Every economy, no matter how high its level of dependence on foreign trade, has to make its economy operate on a healthy basis. Just as automated modern industries cannot substitute for some traditional handicraft industries, globalization does not mean that most products have to be internationally traded. To the contrary, most products have to be produced and consumed domestically. For instance, in most economies tertiary sector services are mainly produced, sold, and consumed domestically. The average share of tertiary industry currently accounts for more than 60 percent of the world economy, and this figure is continuously increasing.

Every nation should take a responsible attitude toward the world economy. Every economic system, including those in the industrial countries, has its problems. Economies that had been flourishing are now in trouble, and those that are now booming may be embroiled in turmoil tomorrow. Experience shows that all flowers will eventually fade. During economic globalization, an economy cannot be managed in a laissez faire manner. Some guidance and regulations are needed. The international community should understand that all countries should determine how they will proceed with liberalization and globalization on their own. Forcing countries to make decisions hastily will harm both them and the world economy. Countries should be allowed and encouraged to adopt their own approaches for integrating with the international economic system.

The Asian financial crisis and market fluctuations in some industrial countries have indicated that the international financial system does have some flaws, namely:

- Because international capital is allowed to flow freely, it will, intentionally or unintentionally, cause shocks to an economy. For instance, if some international hot money is available for speculation against a small country's currency, it may cause the collapse of the currency even when the economy is sound. This is obviously absurd.
- Effective measures to avoid risk and to manage highly speculative financial derivatives have not been developed.
- The question of whether an international central bank is needed to substitute for the relatively weak International Monetary Fund system is worth further study. This is an important issue. It is not only relevant to the recovery of the Asian economies, but also to the healthy development of the world economy.

The financial crisis had a serious impact on the Asian economies, but it will not cause lasting harm. The Southeast Asian countries still possess the basic foundations for an economic take-off. While some exceptions exist, the industrial bases of Japan and the Republic of Korea are still solid and their domestic and regional market potential is still strong. The East Asian miracle is not a beautiful bubble, as some people have described it, but a real story in the real world. The crisis reminded the Asian countries to accelerate their industrial structural adjustment and may have given them an opportunity to strengthen their economic links and cooperation. However, it is doubtful that Asia will develop an economic system similar to that of Europe or North America, because it is not sure what role Japan, the most powerful economy in the region, will play.

China has benefited greatly from the opening up process. There is no reason for China to change its open door policy, and doing so is now impossible. Its basic approach toward international economic integration remains unchanged. The problems of food shortages have been solved, and the days of steel and coal shortages have gone forever. The problem China is facing today is the underdevelopment of the service sector. Investment, growth, employment, industrial upgrading, and improvement of people's daily quality of life are all closely related to the development of the service sector. By accelerating urbanization and the transition to market economy and by popularizing information technology while pushing forward industrialization, China may be able to set a record in maintaining high growth for the longest period.

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