Chapter 13
Financial Globalization and the Development of China's Economy

Zhao Weili
Southern Federal University, China

ABSTRACT

Since the outbreak of COVID-19, the official Brexit and the trade friction between Sino-US, anti-globalization become the focus of the world. After 40 years of reform and opening up, China's economy is facing new challenges under the new world situation. This chapter mainly focuses on how to promote China's economic growth under the background of financial globalization. Firstly, this chapter will introduce the development trend of the globalization and analyze the relation between financial globalization and economic growth. Secondly, this chapter will examine the state quo of China's financial openness and compare the change of China's de jure financial openness with the change of China's de facto financial openness. At last, this chapter will expound challenges faced by China's economy and put forward possible solutions to these challenges in terms of financial globalization.

INTRODUCTION

At present, China's economy seems to have entered a painful period of adjustment. On the one hand, under the pressure of rising labor cost and resource cost, the low-end manufacturing industries have been transferred from China to other emerging developing countries such as Vietnam, Myanmar, India, Indonesia. On the other hand, under the pressure of "anti-globalization", parts of the high-end manufacturing industries are flowing back to some developed countries such as Europe and America under their "re-industrialization" strategy. China's economy is facing double pressures from developed countries and other developing countries.

From the perspective of marginal benefit and marginal cost, this chapter will analyze that only under specific social basic conditions, the marginal benefit of financial opening is greater than the marginal cost, namely, only when a country's social basic conditions reach a certain level, financial globalization

DOI: 10.4018/978-1-7998-4459-4.ch013

can promote its economic growth. That is the threshold point between financial globalization and social basic conditions. Financial globalization can bring direct benefit and indirect benefit for a country, but all benefit is interacted with social basic conditions. The social basic conditions of a country can determine the absorptive capacity for all benefit brought by financial globalization. Therefore, in order to seize the opportunity of financial globalization to develop economy, China must improve the current social basic conditions, namely establish a financial system matching the real economy, create a good business environment, and internationalize the governance capability.

BACKGROUND

In academic research, the impact of financial integration on economic growth can be roughly divided into three categories: promotion theory, conditional theory, and irrelevant theory.

Bekaert, Harvey and Lundblad (2003) believe that the integration of equity markets is conducive to reduce the cost of capital, so it makes sense that a lower cost of capital is associated with increased investment and better prospects for GDP growth. Quinn (1997) finds that financial opening can promote the efficiency of capital allocation. So, it is robustly and positively associated with economic growth. Vanassche (2004) concludes that financial integration not only enhances growth of industries, but also promote the development of the domestic financial system.

Edwards (2001) finds that financial opening can inhibit the economic growth of poor countries but promote the economic growth of developed countries. Edison et al. (2004) believe that capital account openness and stock market liberalization are in favor for economic growth in middle-income countries, not for economic growth in poorer or richer countries. So, they think financial integration is conditional for economic growth.

Different from the above viewpoints, Kraay (1998), Rodrik (1998), and Durham (2004) do not find relevant or causal link between financial integration and economic growth.

In recent years, studies of the effect of financial integration on economic growth can be found in the works of Ghazouani (2019), Md Saifur and Farihana (2019), Fabio et al (2019), Inekwe and Valenzuela (2020), but all these studies concentrate on the impact of financial integration on one aspect of the economy, not on the overall economy. Although Taghizadeh-Hesary et al (2019) and Muazu (2020) have noted threshold effect of financial integration, but they explain it from the empirical analysis, not from theoretical analysis.

On the basis of these researches, this chapter points out that there are cost in financial opening, and the different impacts of financial opening on economic growth are caused by the different cost of itself. From the perspective of marginal benefit and marginal cost, this chapter analyzes that only under the specific social basic conditions, the marginal benefit of financial opening is greater than the marginal cost. But different countries have different social basic conditions at different periods, so the cost of participating in financial globalization is different too. Researchers choose different countries and periods as samples, so they will get different conclusions. That is the reason why scholars form different views before.

Related Content

Environmental Policy and Law
(2023). *Pragmatic Legal and Policy Implications of Environmental Lawmaking (pp. 1-17).*
www.irma-international.org/chapter/environmental-policy-and-law/322801

Developing a Sustainable Eco-City in Pre-Olympic Tokyo: Potential of New Methods and Their Limits in an Urban Era
Mariko Ikeda (2020). *Developing Eco-Cities Through Policy, Planning, and Innovation: Can It Really Work? (pp. 258-283).*
www.irma-international.org/chapter/developing-a-sustainable-eco-city-in-pre-olympic-tokyo/236499

A Bibliometric Analysis of Ethical Investments (EI) Research: Alternative Investments
Christos Lemonakis, Marios Nikolaos Kouskoukis, Alexandros Garefalakis, Constantin Zopounidisand Marianna Eskantar (2024). *Research Anthology on Business Law, Policy, and Social Responsibility (pp. 1-17).*
www.irma-international.org/chapter/a-bibliometric-analysis-of-ethical-investments-ei-research/335693

Evaluating and Managing Electronic Commerce and Outsourcing Projects in Hospitals
Chad Lin, Geoffrey Jallehand Yu-An Huang (2019). *Healthcare Policy and Reform: Concepts, Methodologies, Tools, and Applications (pp. 1044-1075).*
www.irma-international.org/chapter/evaluating-and-managing-electronic-commerce-and-outsourcing-projects-in-hospitals/209169

Finding a Silver Lining in the COVID-19 Pandemic: A Case of a Teachers' Online Community in Georgia
Tatia Johnson, Maka Eradzeand M. Nutsa Kobakhidze (2022). *Handbook of Research on Global Education and the Impact of Institutional Policies on Educational Technologies (pp. 267-288).*
www.irma-international.org/chapter/finding-a-silver-lining-in-the-covid-19-pandemic/291760