

Navigating the Financial Landscape in China under Reverse Globalization: Challenges and Strategies

Yifu Chen

School of Physical Sciences, Nankai University, Tianjin, 300071, China

2211596@mail.nankai.edu.com

Abstract. This paper extensively conducts an extensive exploration of the ramifications of reverse globalization on China's financial sector. At first, the paper focuses on international trade flows, selects three trade orientations, that are China and US, China and ASEAN, China and the belt and road to analyse the condition of Chinese economy oversea. Then, by leveraging financial indicators such as the Renminbi exchange rate and the Shanghai Interbank Offered Rate, etc., the study scrutinizes the repercussions, pertinent financial metrics, and the formulation of macroeconomic policies in the context of Sino-US political discords. Furthermore, the paper puts tactical measures to address these challenges, which encompass stabilizing foreign exchange markets, fine-tuning the trajectory of financial liberalization, and fostering initiatives in green finance. The underlying objective of these recommendations is to capitalize on opportunities that arise from the currents of reverse globalization, while concurrently alleviating the stressors it imposes on the Chinese financial marketplace.

Keywords: Reverse Globalization; The New Tide; Financial Opening-up.

1. Introduction

Scholars at home and abroad have long been worried about the development of reverse globalization. The so-called reverse globalization refers to the emergence of different trends in the market relative to globalization. Under the uncertainty of economic policies represented by the "political conflict between China and the United States", the adjustment and reform of regulations in various developed economies, and investors' reconsideration of the risks brought by globalization, international trade and capital flows have been slowing down, which also means the resurgence of protectionism and the reduction of international cooperation.

China has been rapidly rising in international status, but the country still lacks the ability to lead global financial governance reform. As the world's second largest economy, China's financial markets are not immune to the influence of other countries. So how to maintain the high-quality development and reduce the pressure in the anti-globalization trend has become a top priority to Chinese. The Chinese market must face a higher trade barrier, a more volatile exchange rates and a more complex geopolitical environment. In fact, reverse globalization has the greatest inhibitory effect on the export of the secondary industry (manufacturing industry). Even if the export of related service industries such as water transportation, construction and land transportation is relatively less restricted, the impact on China, a late-developing manufacturing country, is hard to estimate as a small number [1]. Without proper thinking and response, a series of negative consequences such as slowing economic growth and declining market confidence will be unbearable, which further highlights the importance of this study.

In recent years, with the in-depth discussion of globalization and reverse globalization, scholars have expressed their own opinions. However, the existing essays all just carry out rational and objective data analysis on one or several specific aspects, and lack the connection between these aspects and the comprehensive effect on China's financial market as a whole [2-4]. Therefore, this paper hopes to build on the previous studies. The paper expounds the impact of reverse globalization on international trade and multilateral trading system, macroeconomic policy and investment risk in the financial market in multiple dimensions, and finds the opportunities that China may grasp in this trend of thought in the existing literature, aims to help readers deepening their understanding of the

interaction between economic globalization and financial markets. Also, the paper wants to provide valuable insights and suggestions for individual or corporate investment, national macro-policy formulation and independent academic research.

2. The Chinese Market under Reverse Globalization

2.1. The Impact of Bilateral Investment and Trade

The date of the emergence of the ideological trend of reverse globalization is still controversial, but if the actual impact of reverse globalization is traced to the source, Trump's victory in the election and his policy shift to giving priority to domestic development and Brexit, roughly from 2016 to 2019, may be the origin of the trend's explosion [5]. Therefore, to understand the impact of reverse globalization, it must start from the economic exchanges between countries. In bilateral trade, the section will select three special data, that are China and the United States, China and ASEAN, China and the Belt and Road. These three parts respectively representing the impact of bilateral trade in three aspects: major international trade, general international trade, and trade with strategic partners.

2.1.1 China and the United States

According to Figure 1, the bilateral trade volume between China and the United States reached to 759.427 billion US dollars at that time, of which China's exports to the United States boosted to 581.783 billion US dollars. However, for the data analysis from 2016-2023, approximately on March 8, 2018, after the United States imposed tariffs on steel and aluminum products, negative trade sentiment appeared in 2019, but then there was still a rebound in 2020.

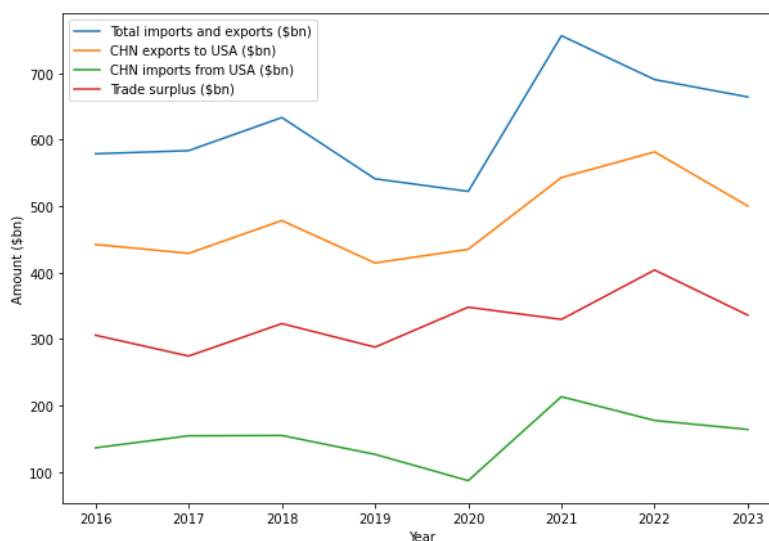


Fig. 1 China-USA Trade Data (2016-2023)

(Source: Economic and Commercial Office, Embassy of the People's Republic of China in the United States of America)

The essence of the decline in trade volume and the trade war is the United States' dissatisfaction with China's trade practices, particularly the perception that China has created unfair trade terms against the United States by subsidizing exports and restricting imports [5]. This period is also the starting point of the current internationally recognized trade war between China and the United States. According to the calculation of degree of dependence upon foreign trade in Table 1 (degree of dependence upon foreign trade = (import + export)/GDP), even if the dependence of both sides is declining, China and the United States still cannot completely get rid of each other in the short term, China will still be the most important trading partner of the United States in the future.

Table 1. GDP ratio and degree of dependence upon foreign trade between China and the US

Year	GDP ratio between China and the US (%)	degree of dependence upon foreign trade (CHN on USA) (%)	degree of dependence upon foreign trade (USA on CHN) (%)
2016	53.74	30.32	8.35
2017	57.45	29.21	8.17
2018	60.78	27.32	7.31
2019	63.57	25.81	6.98
2020	68.32	24.77	6.49
2021	75.50	21.70	6.12
2022	72.00	19.89	5.59
2023	65.40	17.98	5.00

2.1.2 China and ASEAN

Overall, ASEAN still remained as China's largest trading partner in 2023. Bilateral trade reached to 3.36 trillion yuan, increased 10.5 percent year on year, accounting for 15.9 percent of China's total foreign trade. In terms of exports, China's exports to ASEAN were 2.03 trillion yuan, saw an increase of 14.2 percent, while imports from ASEAN were 1.33 trillion yuan, witnessed an increase of 5.2 percent. However, change the sight to the certain countries, Indonesia, one of the ASEAN members that more politically related to the United States, the goods imports and exports in January-September 2019 reached to \$249.46 billion, saw a 8.6% decrease from the same period last year. In fact, historically, China's actions to reduce the uncertainty of regional trade policy in the early 21st century significantly promoted the development of China's exports to ASEAN [6]. Therefore, it can be seen that even if the trade trend between general countries and China is better than that between China and the US, it is also closely related to the political environment and national policies.

2.1.3 China and the Belt and Road

The scale of Chinese investment in countries along the Belt and Road has shown a significant growth trend. In 2013, the figure was \$12.63 billion, and by 2021 it had boosted to \$24.15 billion. By the end of 2023, the total amount of direct investment achieved by Chinese enterprises was 25.98 billion US dollars, showed an increase of 7.6% compared with the previous year, accounted for 14.2% of the Chinese investment overseas in 2023.

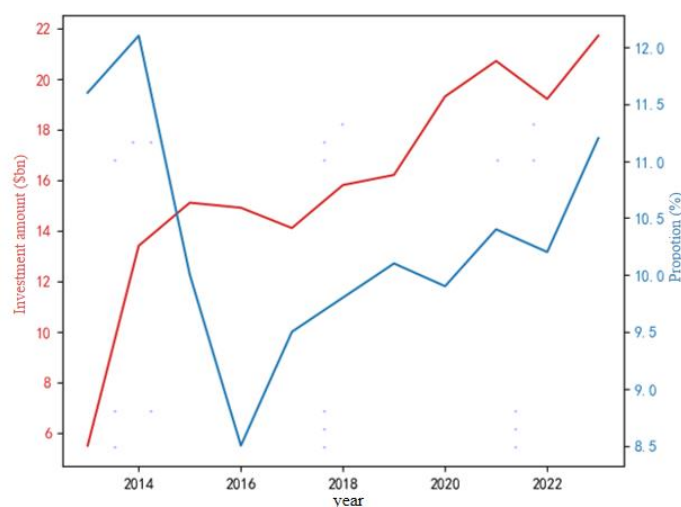


Fig. 2 China's investment in countries along the Belt and Road

(Source: Statistical Bulletin of China's outward Foreign Direct Investment)

According to the data in Figure 2, it is not difficult to find that the trade and investment situation between China and the Belt and Road's countries is still rising in a wave like way, even in the 2018-2019 period of the serious Sino-US friction. Chinese enterprises' investment in the Belt and Road is

characterized by a combination of infrastructure improvements and trade policy's reform to improve export efficiency. Especially for low-income countries and low middle-income countries, reducing tariffs and border barricade further promotes trade, and has created economic opportunities for countries along the route that are less affected by the political environment [7]. It also inversely proves that the reverse globalization trend of thought seems to have little impact on the trade between China and the belt and road compared with the trade between China and the United States and that between China and ASEAN as an obvious globalization strategy. However, because of the small national size of the countries in Central Asia, West Asia and the Belt and Road, their relative invest volume is fewer compared with major international trade routes such as China and the United States.

2.2. Chinese Economic Data under Reverse Globalization

In this section, two representative data are selected to respectively represent the operation of China's international trade and cross-border capital flow, and domestic credit business. The two data are the RMB/USD and the Shanghai Interbank Offered Rate.

2.2.1 RMB exchange rate under reverse globalization

The change of exchange rate will directly affect a country's export competitiveness, import cost, capital flow, inflation and other economic indicators, and then further to the country's economic growth and social welfare. According to Figure 3, in the global economic environment under reverse globalization, compared with the US dollar, the trend of RMB has continued to depreciate in recent years. Economic growth rate, inflation rate and interest rate differentials are the key economic fundamentals affecting the RMB exchange rate. According to the previous multilateral trade and investment between China and the United States, and that of China and ASEAN, it is predictable that the RMB exchange rate will face greater fluctuation amplitude and frequency under the new situation of reverse globalization.



Fig. 3 The currency exchange between RMB and USD
(Source: The People's Bank of China)

2.2.2 The Shanghai Interbank Offered Rate

The Shanghai Interbank Offered Rate (Shibor) reflects the changes in the supply and demand of funds between banks as the rate of short-term funds in the interbank market. It is an important reference index to observe the situation of inter-bank borrowing.

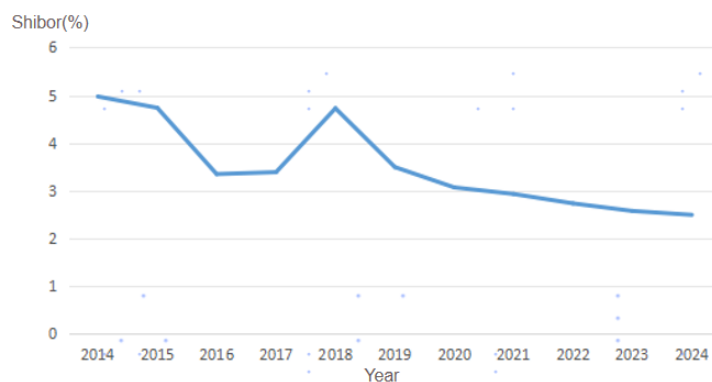


Fig. 4 One-year Shibor's trend (Source: The Shanghai Interbank Offered Rate)

By observing Figure 4, the change rate of one-day interbank offered rates in China has shown a dangerous continuous decline between 2019 and the current mid-2024, basically consistent with the impact of the 2019 trade war series, the Russia-Ukraine crisis in 2022, and the Palestine-Israel crisis in 2024. A reasonable explanation is that in the economic recession, both individuals and enterprises are facing the danger of bankruptcy, and large banks try to save the market through various easing policies. In fact, reducing financing costs can reduce the burden on enterprises and prevent credit masking effect, which is indeed the most basic and important means to protect various domestic industries [8]. It is proposed to introduce market-based interest rates and a more flexible exchange rate regime, which would enable the financial system to better meet the needs of the private sector [9], thereby supporting China's economic growth.

3. Countermeasures to Reverse Globalization

3.1. China's Path of Opening up under Reverse Globalization

From the perspective of market access of foreign banks, insurance companies and other financial institutions, although the stock market and other directions have not yet developed a relatively high level of capital flow [10], the degree of openness of China's financial market is still improving. However, it is certain that the introduction and implementation of the policy of opening up the financial market has changed rapidly in recent years, and the pace of opening up has been accelerating. China's financial development has only existed for roughly 40 years, and its core competitiveness cannot be compared with the mature financial mechanism of the United States. Especially in terms of business capabilities and risk management capabilities, China cannot be called advanced in the whole world.

Due to the need to resist reverse globalization, the opening up of the financial industry will be a complex and long-term process, which requires China to ensure the stability and healthy development of the financial market while promoting the opening up of the financial market. In China's globalization behavior, the two strategic policies with distinctive characteristics and widely known by the academic community are "The Belt and Road" and "Five Major Articles in Financial Development". As mentioned before, China's opening up is far less dynamic than the current development, and China's financial market needs the promotion of state-led projects to further explore the path of opening up.

3.2. The Belt and Road under Reverse Globalization

The Belt and Road Initiative, in the international financial environment created by the Belt and Road, promotes the innovation capacity, efficiency and accessibility of financial services through green finance and environmental protection projects, financial technology (FINTECH) projects, etc. Bilateral investment risk sharing mechanism and the development of insurance products have successfully reduced exchange rate and credit risks in recent years [11]. From the perspective of the

connection between the real economy and finance, the "Belt and Road" initiative also involves the construction of financial infrastructure, such as the interconnection of payment systems, providing more advanced methods and processes for cross-border trade and investment. However, we should also realize that the current trend of green finance and the Belt and Road is contradictory, because green investment risks and uncertainties, coupled with the externality of ecological resources, usually do not directly produce economic benefits. In the Belt and Road Initiative, China's financial transactions mainly focus on infrastructure and urban construction, which may weaken the willingness of Chinese enterprises to make green investment [12].

Overall, the financial markets of China and countries along the Belt and Road are ushering in new development opportunities. The decisive influence of European and American markets on the financial markets of small countries is gradually weakening. In the process of subsequent capital exchanges between the "Belt and Road" and the development pilot areas of various countries and regions, on the one hand, it is necessary to effectively linkage, strengthen cooperation along the border and inland, improve the opening-up degree of countries and regions along the route, and drive industrial transformation; On the other hand, we should strengthen policy linkage and political union within the region, accelerate the cooperation process, give full play to their respective advantages in regulatory measures, trading standards and other aspects, and lay a solid foundation for economic cooperation. At present, there are similar practices, such as the mBridge project initiated by central banks of many countries, which promotes the international application of digital RMB through multilateral cooperation. The progress of technology and the deepening of international cooperation make it expected to further promote the opening and integration of China's financial market and strengthen the connection with the global financial system [13].

3.3. China's Solution to Counter Reverse Globalization

The "Five Major Articles in Financial Development" is an important Chinese government document issued to against the background of the rising trend of reverse globalization. The core idea is to do a good job in the five key financial directions of science and technology finance, green finance, inclusive finance, pension finance and digital finance. According to existed research on green technology innovation in China, promoting multi-directional fintech does increase the quantity and quality of green technology innovation, and this result is robust across different regions and models tested [14]. Under the trend of reverse globalization, the implementation of this guideline is of great significance for maintaining the stability of China's financial market and strengthening financial competitiveness through science and technology. It will not only help build a more open and inclusive financial environment, but also hedge against the adverse effects of counter-globalization through fintech innovation and international cooperation.

For the future application of "Five big articles", according to the current situation of economic and financial data, Chinese can proceed from the following aspects: by improving bank financing and other means, continue to increase financial support for emerging industries and small companies, and promote economic restructuring and upgrading; Use big data, cloud computing and other technologies to improve the efficiency and quality of financial services; Actively deploy in the international financial market, build on the current economic and trade achievements such as the Belt and Road Initiative, and increase cooperation input in the financial direction; Finally, continue in promoting education and the training of international financial talents to enhance the international competitiveness of China's financial industry . With the in-depth implementation of these measures, China's banking and insurance industries will become more robust, the coverage and depth of financial services will increase surprisingly, then provide a stronger financial support for China's sustained and healthy development.

4. Conclusion

This paper focuses on the impact of the reverse globalization trend on China's financial market and have put forward some possible countermeasures. Through the analysis of China's economic and financial data, trade situation and other factors, we can understand the impact of reverse globalization trends on China's economic and financial markets caused by economic policies, political conflict between China and the United States. In conclusion, anti-globalization mainly brings uncertainty to China's financial market in terms of foreign trade and investment. In the future, China should continue to pay attention to the stability of the foreign exchange market and actively develop ways to promote the opening up of China's financial markets. However, there are still some shortcomings in this paper. For example, the actual correlation mechanism between anti-globalization and political factors is not deeply studied in this paper. Future research in this orientation can use data models to further focus on the economic facts of countries such as China and the United States, as well as their role and position in the global market under the tide of reverse globalization.

References

- [1] Yang W, Zhang B, Fang X. The Historical Evolution and Possible Trend of Anti-Globalization. *Shanghai Journal of Economics*, 2019, (01): 99-112.
- [2] Sun X. Research on the Model of Cross-Border Medical Tourism Decision-Making under the Background of Globalization. *Open Journal of Social Sciences*, 2018, 6(9): 230-246.
- [3] Qi Y, Zhu Z. A Study on the New Trend and Dynamic Mechanism of FDI in Producer Service Industry Under Global the Background of Anti-Globalization. *Business and Management Journal*, 2020, 42(07): 56-74.
- [4] Wang X, Meng W, Wang C, Huang B, Li Y. Export Trade Structure Transformation and Countermeasures in The Context of Reverse Globalization. *PLoS ONE*, 17(6): e0270390.
- [5] Muhammad A A. China–US Trade War and Trade Talk. *Asia Pacific Business Review*, 2024, 30(1): 193-197.
- [6] Zhou K, Yu L, Jiang X, et al. Trade Policy Uncertainty and Pollution Emissions of Export Enterprises—The Case of China-ASEAN Free Trade Area. *Review of International Economics*, 2023, 31(5): 1719-1750.
- [7] Baniya S, Rocha N, Ruta M. Trade Effects of The New Silk Road: A Gravity Analysis. *Journal of Development Economics*, 2020, 146: 102467.
- [8] Song Y, Guo K, Liu L. Targeted RRR Cut, Financing Cost of Small and Micro Enterprises and Credit Masking Effect. *Industrial Organization Review*, 2023, 17(03): 91-111.
- [9] Luo Y, Zhang C, & Zhu Y. Openness and financial development in China: The political economy of financial resources distribution. *Emerging Markets Finance and Trade*, 2016, 52(9), 2115-2127.
- [10] Zhang F. Generation Logic, Realistic Dilemmas, and Strategic Choices of Financial High-Level Openness. *Research on Financial and Economic Issues*, 2024, (6): 31-42.
- [11] Song J, Li X. The “Belt and Road” initiative and Innovation Ambidexterity of China's BRI-participating Enterprises: Insights from the Strategy Tripod Perspective. *Management Review*, 2024, 36(03): 73-85.
- [12] Cheng B, Zhang X, Qiu B, et al. Does the “Belt and Road” initiative Impact A Firm’s Green Investments? *Applied Economics*, 2023, 55(2): 155-169.
- [13] Lin B, Ma R. How Does Digital Finance Influence Green Technology Innovation in China? Evidence From the Financing Constraints Perspective. *Journal of Cleaner Production*, 2022, 320: 115833.
- [14] Xue X, Zou Y, Wang Z. A New Path for Cross Border Payments—The Construction of Multilateral Digital Currency Bridge Framework and International Cooperation of Digital RMB. *Shanghai Journal of Economics*, 2024, (02): 95-110.