

China's Adaptation to Globalization:

The People's Bank of China as a Central Bank

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Abstract: Globalization is argued to be at the core of China's economic transition. As explained by its reform, opening-up is part of targets; particularly, China has accelerated its course of globalization after obtaining WTO membership in 2001. It has nevertheless generated its own problems, lately compounded by the Global Financial Crisis (the GFC). China's response to this crisis has raised fresh questions about the future of globalization. Using a case study of the People's Bank of China (the PBC), this paper will explore what China's response could imply.

In the last three decades, China's financial markets have been liberalized on the basis that globalization and domestic reform reinforce each other. The way the PBC was designated a state central bank by the 2003 PBC Law and formally assigned functions similar to the Fed and the Bank of England itself reflected how China intended to adapt to globalization. To say the least, China's adaptation to globalization has promoted the PBC as a central bank.

From the perspective of risk management, the GFC has tested the ability of central banks in different countries to make quick and effective responses. China has since proved especially resilient in no small measures due to how the PBC has acted. It has achieved this outcome through basic and conventional monetary policy instruments between 2008 and 2009 in particular. But its continued success is not assured: while it has limited China's exposure to external shocks, current monetary policy still rests upon a purpose-specific fiscal stimulus orchestrated by the state. Whatever the relevant legislation might imply, the PBC is still largely state-oriented and only has limited independence regarding both the formulation and implementation of monetary instruments. China therefore displays some distinctive features in relation to the role and success of central banks in maintaining financial stability amid the GFC.

Although central banks in advanced countries are more than just victims of the GFC, there are rising debates about their structure and operation, with further reforms in prospect. As the effects of the GFC continue to reverberate, not least in the European Union, it would be premature to draw too many conclusions, but some would argue that China has balanced state intervention with market-led reform better than most.

Key Words: Globalization, People's Bank of China, Economic Transition & Liberalization, Central Bank, Financial Stability