

Hinrich Foundation Sustainable Trade Index

China Highlights

Introduction

The Hinrich Foundation commissioned the Economist Intelligence Unit to build the Sustainable Trade Index using 24 indicators to measure 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: **economic growth, social capital and environmental protection.**







The Index measures the readiness of each economy to participate in global trade in a way that creates sustainable growth, encourages foreign direct investment, and attracts funding and support from multilateral development agencies.

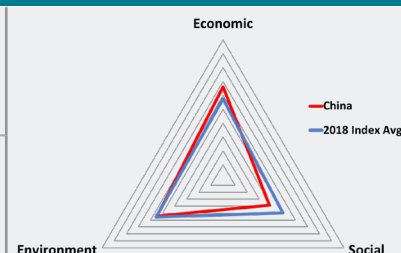
The Index was created for the purpose of stimulating meaningful discussion of the full range of considerations for policy makers, business and civil society when engaging in international trade.



The Hinrich Foundation launched the inaugural Sustainable Trade Index in 2016. Visit www.hinrichfoundation.com to download the 2018 and 2016 Index.

China Overview

GDP per capita  US \$8,123	Population  1.38 billion	Exports % of GDP  16.6% of GDP
GDP growth  8.1% growth <small>(average since 2010)</small>	Labour Force  785.4 million	FDI net inflow  US\$170 billion



SOURCE: World Bank, 2016 and Hinrich Foundation Sustainable Trade Index 2018

Overall performance

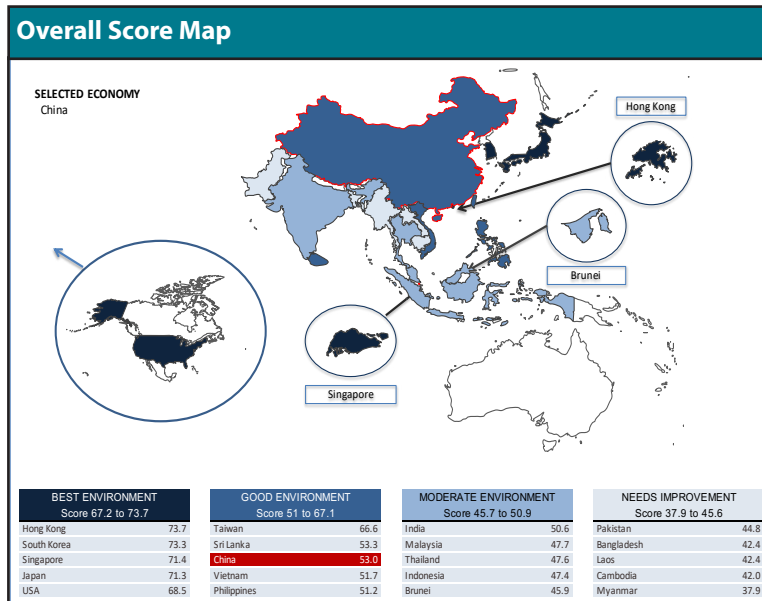
China ranks eighth in the 2018 Hinrich Foundation Sustainable Trade Index, an improvement of four spots from 12th place on the 2016 Index. China, the world's second largest economy, continues to reflect the complex social and environmental issues that accompany rapid economic growth.

- **Economic:** When comparing China's performance on the 2018 Index relative to its GDP ranking among other countries, the country over performs its income ranking by one place.
- **Social:** China outperformed all other middle-income countries on the social pillar, recording increases in addressing inequality and labour standards, but also witnessing a drop in political stability.
- **Environmental:** China's environmental performance is a mix of two extremes: scoring first in environmental standards of trade and also scoring last in transfer emissions. While China demonstrates a national commitment to improving environmental sustainability, there is still room for improvement on its actual performance.

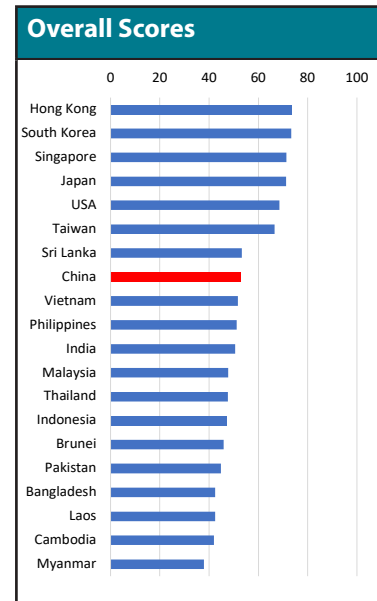
Overall Index Performance

Pillar	2018 Rank	2016 Rank	Change
Economic	4	8	+4 ▲
Social	13	12	-1 ▼
Environmental	8	15	+7 ▲
Overall	8	12	+4 ▲

China's score on each pillar compared with 2016 Sustainable Trade Index results.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Areas of top performance and improvement

- **Top performance:** Growth in per capita GDP. China topped the 2018 Index with the highest score in growth in per capita GDP. This indicator measures year-on-year growth of real GDP per head. Growing personal income reflects consumers' growing ability to spend on imported goods.
- **Worst performance:** Transfer emissions. China scored last on the transfer emissions indicator, which measures transfer emissions as a share of a country's total territorial emissions (MtCO₂).
- **Most improved:** Educational attainment. This indicator measures total enrollment within a country for tertiary education as a share of the percentage of the population of the corresponding age group. In the 2018 Index, China climbed three spots to eighth place in this indicator, which provides a proxy for the level of educational attainment in a population. Educational attainment and skill acquisition are key indicators for trade and economic competitiveness.

Top & Bottom Indicators		
Indicator	Index Avg.	2018 Score
Growth in per capita GDP	66.7	100
Gross fixed capital formation	42.2	100
Environmental standards in trade	66.7	100
Export product concentration	84.6	99
Air pollution	67.2	31
Growth in labour force	64.0	28
Inequality (Gini coefficient)	62.3	31
Transfer emissions	22.6	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Economic pillar

China's strongest performance in the 2018 Index was in the economic pillar, where the country scored fourth overall—an improvement from the eighth spot on the 2016 Index. This is unsurprising given China's continued focus on improving the strength and quality of its economic growth, which can sometimes come at the expense of some social and environmental areas.

KEY TAKEAWAYS:

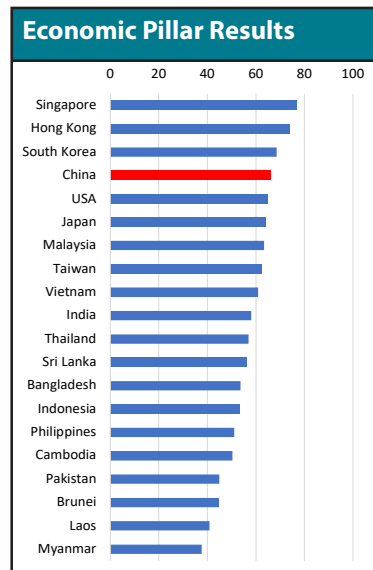
- China placed fourth overall in the economic pillar, an increase of four spots from the 2016 Index.
- China topped the economic pillar in growth in per capita GDP and gross fixed capital investment.
- The country's aging workforce and decreased levels of foreign direct investment (FDI) could hinder its trade performance in the future.

China tops the Index in growth in per capita GDP and gross fixed capital formation. It also places in the top five economies for export product concentration and financial sector depth—all important factors in a top trading nation.

However, China still places in the bottom half of economies based on trade costs. The trade costs indicator uses a composite of four factors – infrastructure, logistics, corruption and legal system—to capture the extra burden to trade created by inefficiencies in the trading system. China's best performing trade cost indicator was logistics performance (7) and worst was legal system (17). While China continues to upgrade its economic growth and performance, it will also need to seek to improve these areas to make trading infrastructure in the country more efficient.

China's largest decrease came from the foreign direct investment (FDI) indicator, where the country fell seven spots from sixth place in 2016 to 13th in 2018. FDI as a share of GDP appears to be on a downward trend across Asia in the 2018 Index. This could be reflective of the broader retreat from globalisation witnessed over the past few years or the fact that as Asian countries have recorded impressive economic growth, FDI's share has waned. For instance, even though China's FDI in 2017 rose to a record US\$135bn, its rate of growth in recent years has been lagging GDP growth. Meanwhile, there are also signs that foreign investors' selection criteria is becoming more stringent as the notion of sustainability is growing in importance to their shareholders and other constituents.¹

China's lowest economic pillar performance was in growth in the labour force indicator, which measures the year-on-year change in a country's labour force. China scored 19th out of 20 economies in this indicator, outscoring only the Philippines. A growing labour force supports economic growth, and China faces the prospect of a shrinking labour force as its population ages.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Growth in per capita GDP	66.7	100
Gross fixed capital formation	42.2	100
Export product concentration	84.6	99
Financial sector depth	43.5	75
Technological innovation	26.2	47
Export market concentration	68.3	86
Foreign trade and payments risk	65.3	65
Exchange rate volatility	66.7	74
Trade costs	51.2	44
Technological infrastructure	62.5	50
Tariffs & non-tariff barrier to trade	59.4	65
Foreign direct investment	13.0	2
Current account liberalization	90.7	90
Growth in labour force	64.0	28

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

¹ Hinrich Foundation Sustainable Trade Index 2018

Social pillar

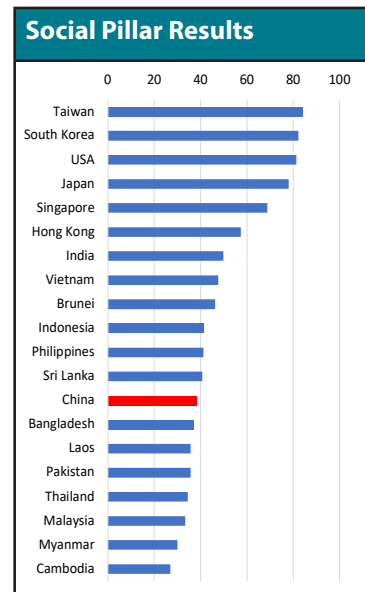
In the 2018 Index, there was an overall stagnation across all economies in the social pillar. Inequality and political instability are on the rise across the region, a trend that transcends wealth and development status. China scored 13th in the social pillar—a slight decrease from the 2016 Index. It outperformed other middle-income countries Thailand and Malaysia on the social pillar but scored below all upper-income economies.

KEY TAKEAWAYS:

- China’s lowest performance on the 2018 Index was in the social pillar, where the country scored 13th out of 20 economies.
- China scored best in terms of educational attainment and worst in inequality.

Two areas where China improved on the social pillar were educational attainment and labour standards. For educational attainment, China advanced three spots to the eighth ranking in the 2018 Index, reflecting increasing education levels among the Chinese population. For labour standards—which is measured based on three categories: forced labour, child labour, and labour rights—China outscored all other middle-income countries, moving up one spot from 2016 to secure ninth place on this indicator in 2018.

China’s lowest performance on the social pillar was due to high levels of inequality. The inequality indicator uses the Gini coefficient to capture the inequality level in a country between the upper and lower income brackets. China scored 19th out of 20 on this indicator, outscoring only Hong Kong. Countries should be wary that trade can impact inequality, and similarly, high levels of inequality can result in societal tensions that can become an obstacle to further trade growth. Inequality remains an important issue for a number of economies in the region, including China.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Educational attainment	38.4	40
Labour standards	39.7	35
Political stability	57.6	47
Inequality (Gini coefficient)	62.3	31

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Environmental pillar

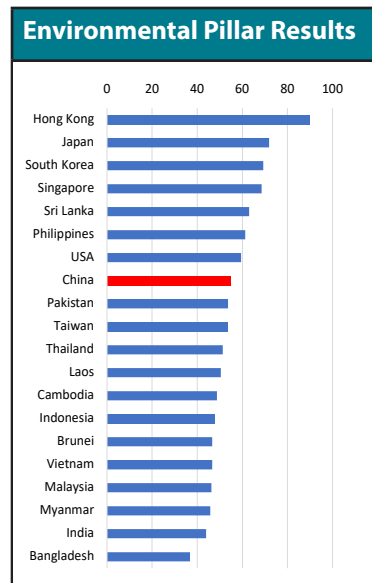
China saw the largest overall increase in the environmental pillar, where the country improved from 15th place in 2016 to eighth place in 2018. China, Laos and Pakistan were the only economies to record increases in scores on the environmental pillar in 2018.

KEY TAKEAWAYS:

- China was one of only three countries to improve its environmental pillar score for the 2018 Index.
- China has dramatically improved its air pollution score in the 2018 Index and in doing so has gone from ecological pariah to a poster boy for environmental change.

China's air pollution score for the 2018 Index rose by 30.6 points—the only double-digit rise for this indicator—contributing to an overall environmental improvement. Over the past few years, a mammoth effort to improve air quality in the Beijing-Tianjin-Hebei greater metropolis area has seen massive decreases in PM10 and other pollutants. Beijing, a city once synonymous with the smog apocalypse, now has residents making plans for blue-sky days.²

China also performed well in the environmental standards in trade indicator, which measures membership in or ratification of international environmental compacts. China and Hong Kong are the only two economies on the 2018 Index that are signatories to all seven of the international environmental agreements used to measure this indicator, demonstrating a commitment to environmental sustainability at the national level.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Environmental standards in trade	66.7	100
Share of natural resources in trade	85.3	98
Deforestation	66.8	83
Water pollution	24.3	16
Air pollution	67.2	31
Transfer emissions	22.6	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

CASE STUDY: CHINA AS ASIA'S NEW ENVIRONMENTAL POSTER CHILD

The Beijing-Tianjin-Hebei clean-up was driven by many policy decisions, says Stephen Groff, vice-president for East Asia, South-east Asia, and the Pacific at the Asian Development Bank. These include the shift of polluting enterprises and industries (including coal-fired plants, steel and other manufacturing); the establishment of acceptable levels of pollution; and the necessary enforcement around those guidelines. "You've seen a real change on the part of the government, obviously their commitment to the Paris Agreement, but also more generally around issues of environmental sustainability that have arisen out of the challenges around air pollution in major urban areas, but also many concerns about water pollution, about soil pollution and degradation," says Mr Groff. China, which until recently was seen by many as an ecological pariah, is now a poster child for change. "The scale of the challenge in China and the fact that there are very strong efforts under way to address it shows other countries that seemingly insurmountable problems can actually be addressed and progress can be made," says Mr Groff.³

² Hinrich Foundation Sustainable Trade Index 2018

³ Hinrich Foundation Sustainable Trade Index 2018

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Additional resources

The Hinrich Foundation commissioned The Economist Intelligence Unit (EIU) to build the Sustainable Trade Index. The Index uses 24 indicators to measure the trade impacts of 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: economic growth, social capital, and environmental protection.

Visit our website at: www.hinrichfoundation.com/trade-research/sustainable-trade-index to download additional Sustainable Trade Index resources including:

- **2018 Sustainable Trade Index white paper**- Prepared by the EIU, it presents and analyzes the 2018 Index findings for all 20 economies.
- **Index interactive data set and KPIs**- The comprehensive Index database allows users to directly interact with the Sustainable Trade Index data. For each economy, compare indicators, adjust score weights and visualize data in custom charts and graphs. It's a useful tool for regional comparisons or reviewing the performance of a particular economy.
- **Additional highlight reports for other economies**- Looking for information on other economies in the Sustainable Trade Index? Visit our website to download special reports on all 20 economies featured in the 2018 Index.
- **Index infographics, fact sheets and more!**

About the Hinrich Foundation

The Hinrich Foundation is a nonprofit organization that undertakes trade-related policy research and development work in Asia. It focuses on creating opportunities, choice and engagement through sustainable and mutually beneficial global trade. The Sustainable Trade Index aims to stimulate positive thinking about global trade and promote behaviors that will lead to better developmental outcomes, engagement and stability.

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Economic Pillar		Social Pillar		Environmental Pillar	
Australia	82.4	U.S.	82.4	U.S.	82.4
Canada	82.4	U.S.	82.4	U.S.	82.4
China	82.4	U.S.	82.4	U.S.	82.4
India	82.4	U.S.	82.4	U.S.	82.4
Japan	82.4	U.S.	82.4	U.S.	82.4
South Korea	82.4	U.S.	82.4	U.S.	82.4
U.S.	82.4	U.S.	82.4	U.S.	82.4
Average (all economies)	82.4	Average (all economies)	82.4	Average (all economies)	82.4
Best Trade 2018		Best Trade 2018		Best Trade 2018	

