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Summary and Conclusions of the Paper

- Factors favoring globalization
  - A new round of technology innovation
  - In-depth changes in the global landscape centered on the rise of China
  - Increased global competition
  - Rising trade in services resulting from the integration of services with manufacturing

- Factors favoring de-globalization
  - A widening gap between the rich and the poor
  - Violation of international rules by unfair competition
  - Escalating trade conflicts as symbolized by the trade war between the U.S. and China
  - Growing policy uncertainty
  - New challenges in global economic governance
  - Growing emphasis on geopolitical over economic considerations in policy making

- Policy options
  - Improving bilateral economic relations
  - Promoting regional integration (for example, China’s Belt and Road Initiative)
  - Advocating and building an open world economy under the principles of fairness, openness, cooperation and sharing
Globalization Versus De-globalization

The Globalization Trilemma - The stance of major economies -

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<th>Hyper-globalization</th>
<th>National sovereignty</th>
<th>Democratic politics</th>
<th>Examples</th>
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<td>Golden straitjacket</td>
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<td>China</td>
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<td>Global governance</td>
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Can China Globalize While the Others Are De-globalizing?

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<th>Host Country (China)</th>
<th>Pro-globalization</th>
<th>Anti-globalization</th>
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<td>Pro-globalization</td>
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<td>Anti-globalization</td>
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Source: Compiled by Nomura Institute of Capital Markets Research.
As China has emerged as a major economic power while maintaining different political and economic systems from the West, the United States’ policy toward China has shifted from “engagement” to “decoupling”.

Under the engagement policy, the U.S. supported economic development in China, hoping that its political system would change as a result (peaceful evolution).

Under the decoupling policy, the U.S. aims to cut its links with China by restricting the flows of trade and investment, as well as technology and people between the two countries. Curbing technology transfer to China has become an important policy to deter the rise of China.

Three Major Factors

- Trade imbalance
- Differences in ideology and political and economic systems
- The rise of China as a threat to U.S. hegemony

From Engagement to Decoupling

Why Has the U.S. Launched a Trade War Against China?

Source: Compiled by Nomura Institute of Capital Markets Research.
The latest round of U.S.-China trade friction was triggered by the U.S. decision on March 22, 2018 to impose sanctions on China under Section 301 of the Trade Act of 1974. As symbolized by the tit-for-tat tariff hikes implemented by the two countries, the trade friction has developed into a trade war.

Source: Compiled by Nomura Institute of Capital Markets Research based on trade statistics published by the U.S. Commerce Department and the General Administration of Customs of China, and various reference materials.
The Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018 strengthens the authority of CFIUS.
- The scope of transactions under CFIUS review has been broadened to include non-passive (but non-controlling) investments in U.S. businesses owning critical technology, critical infrastructure or the personal data of U.S. citizens.
- Consequently, it will become more difficult for Chinese companies and investment funds to acquire or invest in U.S. companies, particularly in the high-tech sector.

The Export Control Reform Act of 2018 (ECRA) authorizes the Department of Commerce to establish appropriate controls on the export, re-export, or transfer (in country) of emerging and foundational technologies essential to the national security of the United States.

Restrictions are imposed on government use of products manufactured by a number of China-based technology firms, including telecommunications equipment makers Huawei and ZTE, and a number of video surveillance manufacturers such as Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, and Dahua Technology Company.
In its attempt to cut its links with China’s high tech sector, the U.S. has taken a particularly tough stance toward Huawei, the world's largest supplier of telecommunications networks and the leader in 5G technology.

Huawei's chief financial officer Meng Wanzhou was arrested in Vancouver, Canada on 1 December 2018 at the United States' behest, for conduct relating to U.S. trade sanctions against Iran.

On 15 May 2019, the U.S. Commerce Department added Huawei and 68 affiliates to its Entity List, which comprises individuals and entities subject to specific license requirements for the export, re-export and/or in-country transfer of specified items.

- This move in effect bans Huawei from buying parts and components from U.S. companies without U.S. government approval.

On the same day, President Trump signed an executive order barring U.S. companies from using telecommunications equipment made by firms posing a national security risk, paving the way for a ban on doing business with Huawei.
In addition to Huawei, more and more Chinese companies in high-tech sectors have been added to the Entity List that bars them from buying U.S. parts and components without U.S. government approval.

- Most of the Chinese entities found on this list are involved in high-tech areas such as electronics, aviation, semiconductors, engineering, and materials used for hi-tech components, including China’s leading supercomputer maker Sugon.

The U.S. government is seeking the cooperation of its allies to ban Huawei and other Chinese high-tech companies.

- So far it has gained support from Japan, Australia and New Zealand.
- Japan effectively banned Huawei and other Chinese companies from public procurement involving 5G technology in December 2018, amid heightening pressure from the U.S.
- Japan also announced in May 2019 that 20 sectors in information and communications industries will be added to a list of businesses for which foreign ownership of Japanese firms is restricted, effective 1 August 2019.

In U.S. policy circles, suspicion of China is starting to resemble a new “Red Scare”

- Universities in the U.S. are heightening scrutiny of research proposals from China and, in some cases, restricting collaboration.
- Visas for Chinese graduate students studying topics such as robotics or advanced manufacturing have been shortened to one year from five.
While in the short term, the U.S.-China trade war is dampening the Chinese economy, mainly through a decline in demand, over the medium to long term, it could depress China's potential economic growth rate through supply-side factors.

- The U.S. government's move to strengthen restrictions on acquisitions of U.S. high-tech companies by Chinese companies has made it more and more difficult for China to acquire technology from the U.S. through this route.

For China, which is catching up with the industrial countries from behind, importing technology from abroad has been one major factor contributing to its high economic growth. If the trade war with the United States means that China can no longer rely on this latecomer advantage to raise productivity, its potential growth rate, which has already been falling on the back of aging population and the drying up of rural surplus labor, may decline further.
Top Trading Partners of the United States - Share of Total U.S. Exports and Imports

Note: *The first 8 months only for 2019.
Source: Compiled by Nomura Institute of Capital Markets Research based on U.S. Census Bureau statistics.
Foreign Direct Investment by China in North America and Europe Falling

(Billion dollars)

The United States’ efforts to decouple itself as well as its allies from China may lead to the disintegration of the global economy into two major economic blocs centered on the U.S. and China.

With flows of capital, goods, technology, people, and information between them tightly regulated, multinationals could no longer optimize the allocation of resources by investing globally, and supply chains would have to be reshaped to adapt to this new environment.

The negative impact on global trade and investment, as well as on economic growth, may far exceed that of the withdrawal of the United Kingdom from the European Union.
Charles Kindleberger, an intellectual architect of the Marshall Plan, argued that the disastrous decade of the 1930s was a result of the United States' failure to provide international public goods after it had replaced Britain as the leading power (The World in Depression 1929-1939, University of California Press, 1973).

Under Trump’s Presidency, in addition to launching a trade war against China, the U.S has withdrawn from the Trans-Pacific Partnership (TPP), the Paris Agreement on Climate Change, the International Criminal Court, UNESCO and the Intermediate-Range Nuclear Forces (INF) Treaty. Donald Trump has also fueled the rising trend of protectionism in global trade and made the immigration laws more stringent.

There remains doubt as to whether China is capable of replacing the United States as the key provider of international public goods needed to support a stable global system and to reverse the trend toward de-globalization.

The current situation of the world shares some similarity with the 1930s, and is raising the risk of the world economy falling into the “Kindleberger Trap.”
Questions Related to the Policy Options Discussed in the Paper

- At the bilateral level
  - What are the prospects for trade negotiation between China and the United States?
  - What are the remaining issues that need to be addressed?

- At the regional level
  - What are the prospects for the Belt and Road Initiative?
  - Is it going to be a success like the Marshall Plan, or would China suffer “imperial overstretch”?

- At the global level
  - Is China ready to replace the U.S. as the major supplier of international public goods?
  - What specific roles would China play in improving global economic governance?
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Books in English
Economic Interdependence in the Asia-Pacific Region: Towards a Yen Bloc, London: Routledge, 1994

Books in Japanese
The New Normal of the Chinese Economy, Nikkei Publishing Inc. 2015.
China as Number 1, Toyo-keizai Shimposha, 2009.
Dilemma Facing the Chinese Economy, Chikuma Shobo, 2005.

Japanese Government Committee
1996 - 97: Economic Council (Advisory Council to the Prime Minister)
1997 - 99 and 2003 -2010 : Foreign Exchange Committee (MOF)

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