Economic Globalization in Transition: New Trends and Challenges

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October, 2019

This presentation Only represents personal perspectives

Issues of concerns at the critical conjuncture

- **De-globalization or deepening economic globalization**
- **Zero-sum game or win-win solution**
- **Constructive or destructive**
- **China: a systematic rival or possible partner**
- Competition & cooperation vs. Confrontation & containment

Main Contents

I. Major changes in factors influencing economic globalization

II. New features in economic globalization

III. Accumulation of problems and

IV. Policy options forward

I. Major changes in factors influencing economic globalization

A. Fast development of a new round of tech revolution

ICT-based innovative development & digital technologies triggers new tech revolution and pushing forward global industrial transformation:

- disruptive emerging technologies: faster diffusion & shorter update iteration

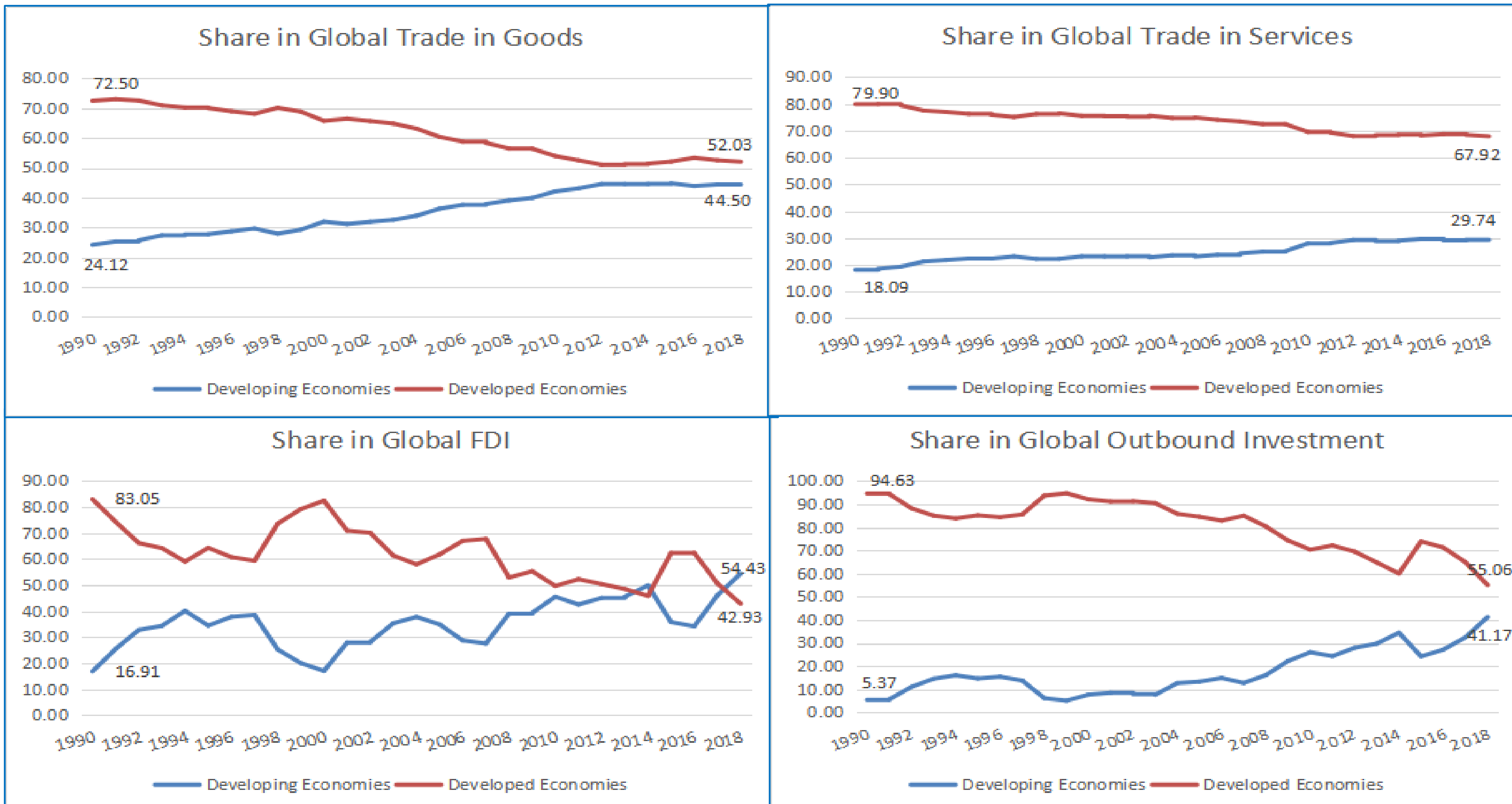
- intelligent technologies in production and services facilitate technical progress in all sectors.

- data (knowledge) has become a key production factor

Source: KPCB, May 2017. Taking 1867-2017 in the US as an example

B. In-depth changes in global economic landscape

- the "two-speed" growth leading to convergence
- The balance of power in world economy has undergone important but not fundamental changes



Source: UNCTAD Database.

C. Increased global competition and notable spillover effects of rivaley between large countries

- Competition for market, capital, talents and innovative resources continue to intensify.
- Competition for leadership in rule-making become more intense.

- Great powers and emerging ones both cooperate and compete with each other. As their rivaley intensify, the international landscape will become more complex and unstable.
- 1） hope the emerging economies to share development opportunities & responsibilities
- 2） take measures to suppress and restrain fast speed of catching up

D. New challenges of de-globalization

- According to the research by the McKinsey Global Institute, in the past ten years, the flow of goods, services, finance, people and data has at least increased the global GDP by about 10%.

- the rising “de-globalization” .

  - Some attribute the widening gap between rich and poor to economic globalization.

  - violation of international rules by unfair competition.

- Mistrust in globalization and the fairness of rules will lead to serious consequences, magnified negative effects and posed new challenges

E. Strategic changes and new challenges of major countries

US:

- “America First” + “creative destruction”

EU and Japan:

- greater willingness to play a greater role in global governance.
- own sluggish economic growth and multiple challenges to the EU integration, including Brexit and huge discrepancies in its internal development.

emerging economies:

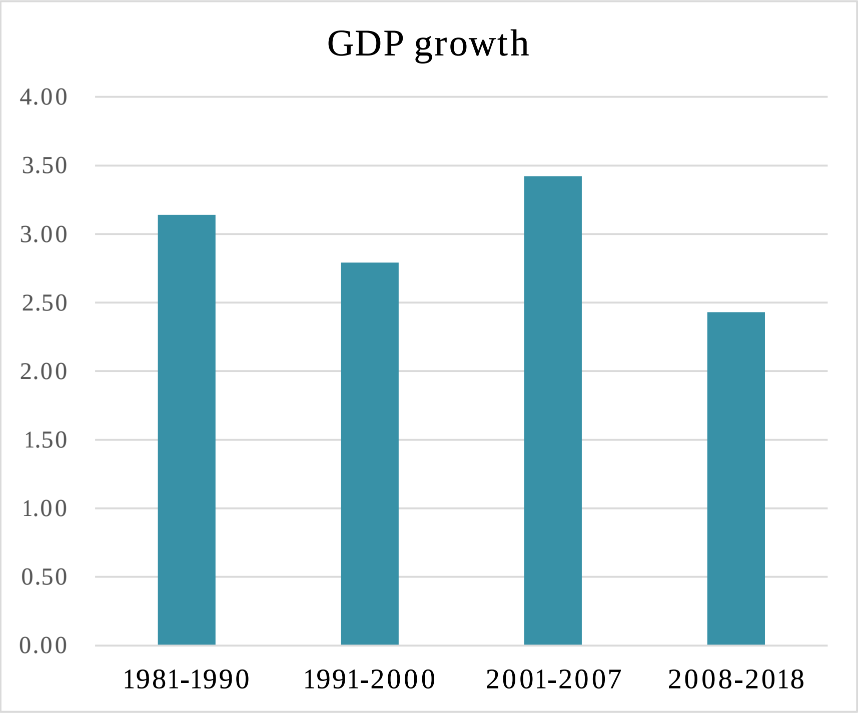
- Emerging economies : rising as an important force in providing solutions to global issues.
- gaps still remain to be filled in their economic strength and there is much deficiency in their abilities of agenda-setting and coordination.
- The international regime still fails to objectively reflect changes in the economic landscape.

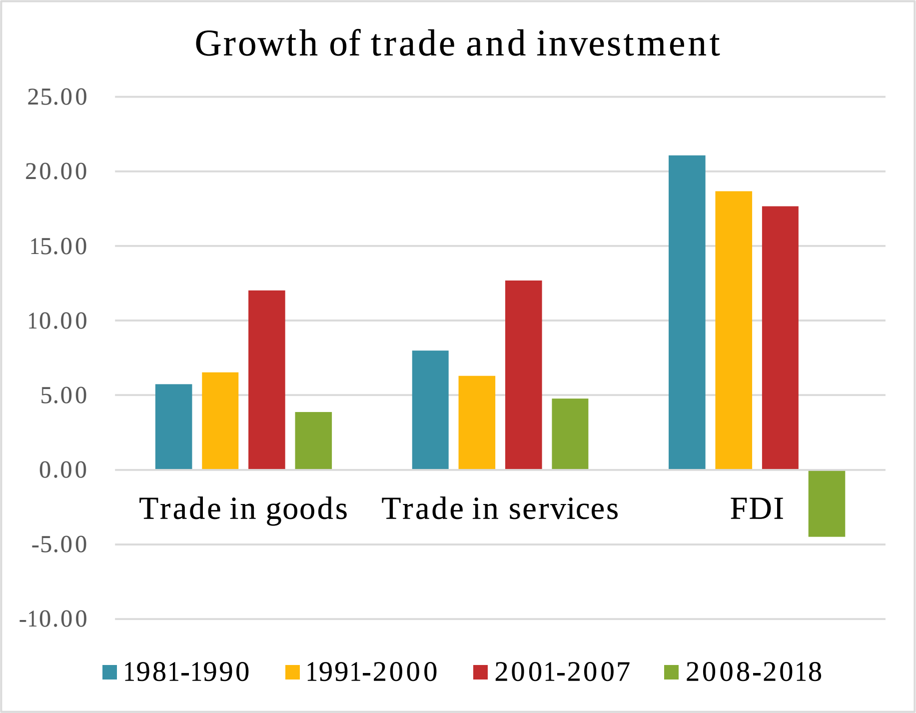
II. New trends

in economic globalization

De-globalization trend?

A comparison of global economic growth by period





- Source: UNCTAD database.

➢ In recent years, the slower global economic growth, rising inequality within many countries and protectionism :

- aroused people's suspicion for the outlook of economic globalization.

- trigger reversal of globalization: anti- or de- globalization

However, the trend of deepening economic globalization has not fundamentally changed.

•

01

New round of technological revolution and application creates closer ties in the global economy and promoted the integration of interests.

02

New technological development and production elements and conditions have helped the global value chains deepen and evolve and reduce the costs of time and space in trade.

03

the Multinationals have accelerated their adjustment to the layout of global production and supply chains, with strengthened trends of openness and innovation and deepened international and professional division of work and cooperation.

Under the influence of many factors, the drivers, contents and approaches of economic globalization have changed and shown different new trends.


Lower growth
New rules
New industrial revolution & landscape
New trends
New governance
New dynamics

A. The global economy will be at a stage of lower growth

- the average growth rate will be significantly lower than the level in the first 20 years of this century.

The estimates of world economic growth by major international organizations

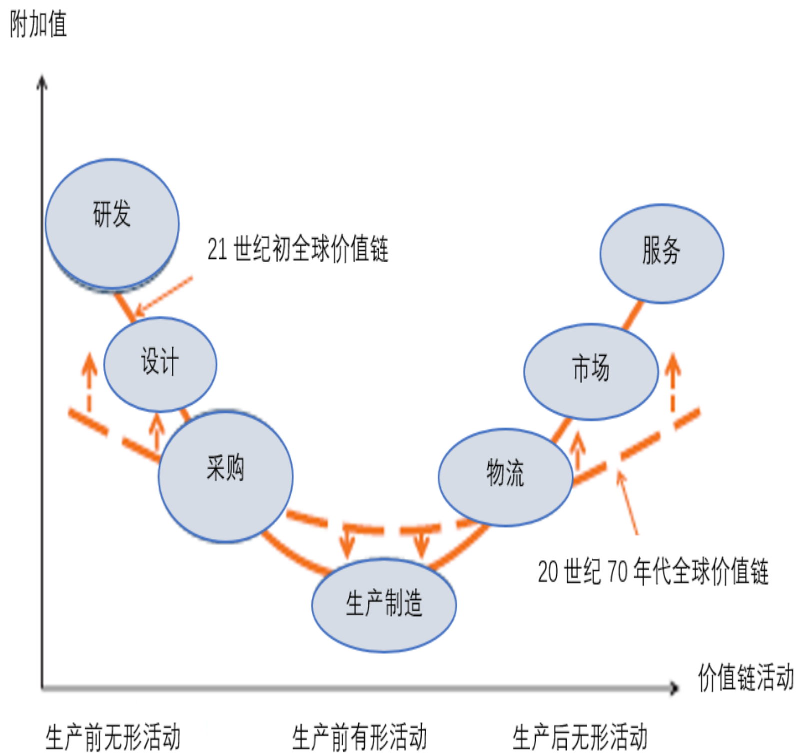
Source	Period	**GDP** growth
PWC（2017）	2021-2030	2.70%
	2031-2040	2.50%
OECD（2014）	2011-2030	2.80%
Conference Board（2018）	2018-2022	3.00%
	2023-2027	2.80%
IMF（2016）	2016-2020	3.19%
DRC（2018）	**2020-2035**	**2.60%**

C. New dynamics: integration of services with manufacturing

- Trade in services: new driver to global trade & economic growth
- Higher growth rate of service trade than GDP and trade in goods (60%*)

Source: UNCTAD database.

A new round of tech revolution created new space for trade in services and there are many new changes in the impetus, models and main players for global trade in services.

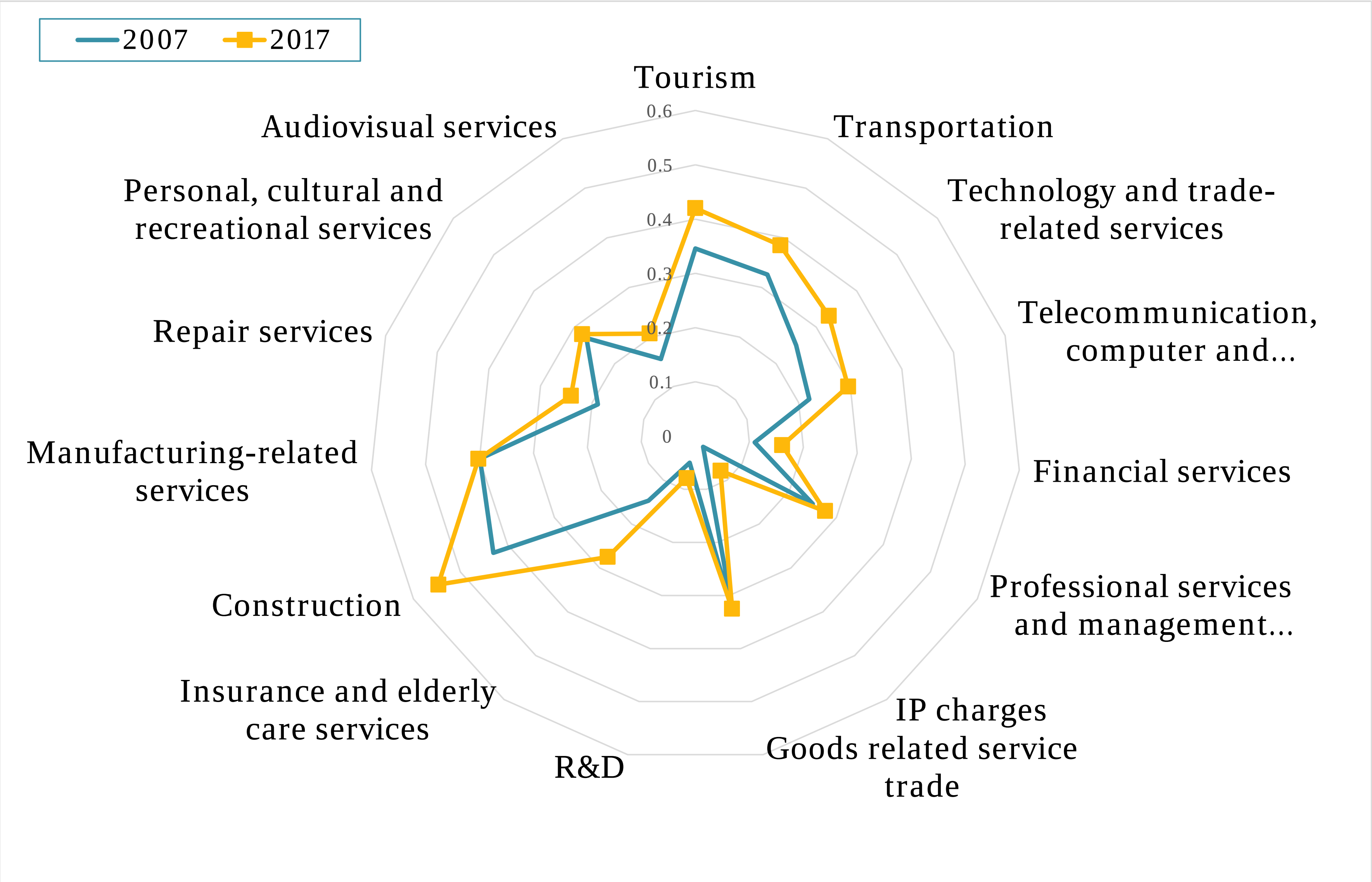


1)the cross-border and remote delivery of traditional service products and make services significantly more tradable, quickly expanding the scale of trade in services.

2) Stimulating new modes of trade and forms of services which result in rapidly expanding the space and scale of trade in services.

3) SME service-providers and developing countries have more opportunities and access to participate in international production, expand space for industrial development and integrate into economic globalization.

Share in global service export by industries dramatic improvement for developing countries



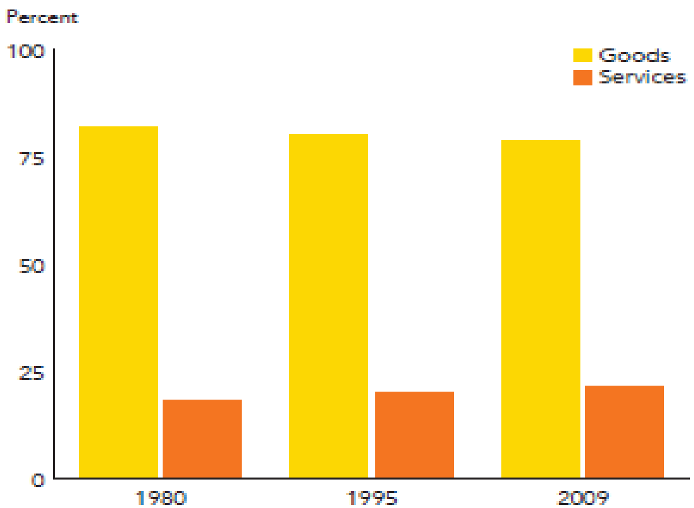
Source: UNCTAD database.

➢Trade in services: 1) more important to the global value chain. 2) an important source of income and: a key for manufacturers to safeguard their competitive edge.

➢According to WB report on “The future of manufacturing-led development” in 2017, the service value added accounts for around 60% in the final price of products in developed countries; nearly 70% of global effective demand for productive services comes from manufacturing.

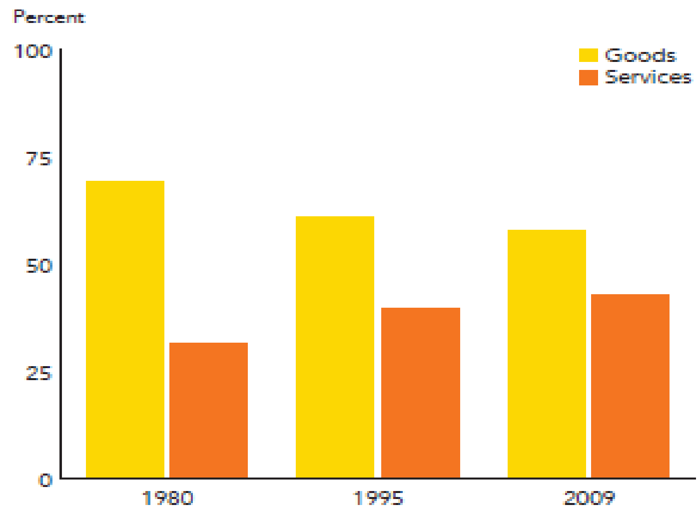
➢ calculated by added value: share for trade in services in the global trade increase from 24% under traditional methods to 46%.

FIGURE 6.2 Gross exports of goods and services as a percentage of total world gross exports, 1980, 1995, and 2009



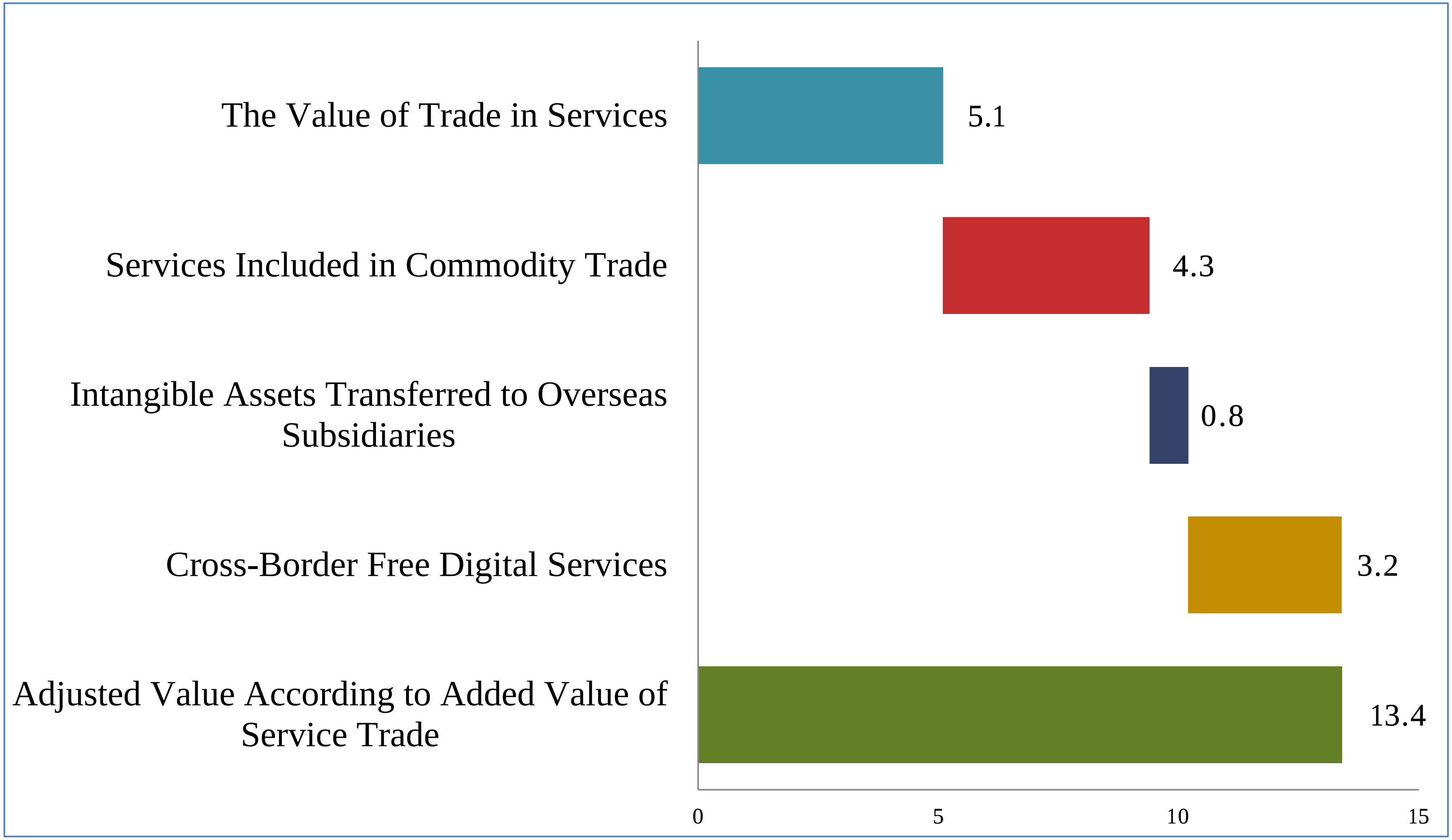
Source: Authors' calculations based on Johnson and Noguera 2016.

FIGURE 6.3 Value-added exports of goods and services as a percentage of total world value-added exports, 1980, 1995, and 2009



Source: Authors' calculations based on Johnson and Noguera 2016.

Estimation of the real scale of global trade in services (USD 1 trillion, 2017)



Source: *Globalization in Transition: The Future of Trade and Value Chains*, McKinsey Global Institute.
Note: 1 is the upper limit in predictions.

D. New governance: three factors explain the changes

First

- subtle changes in theories and ideas.

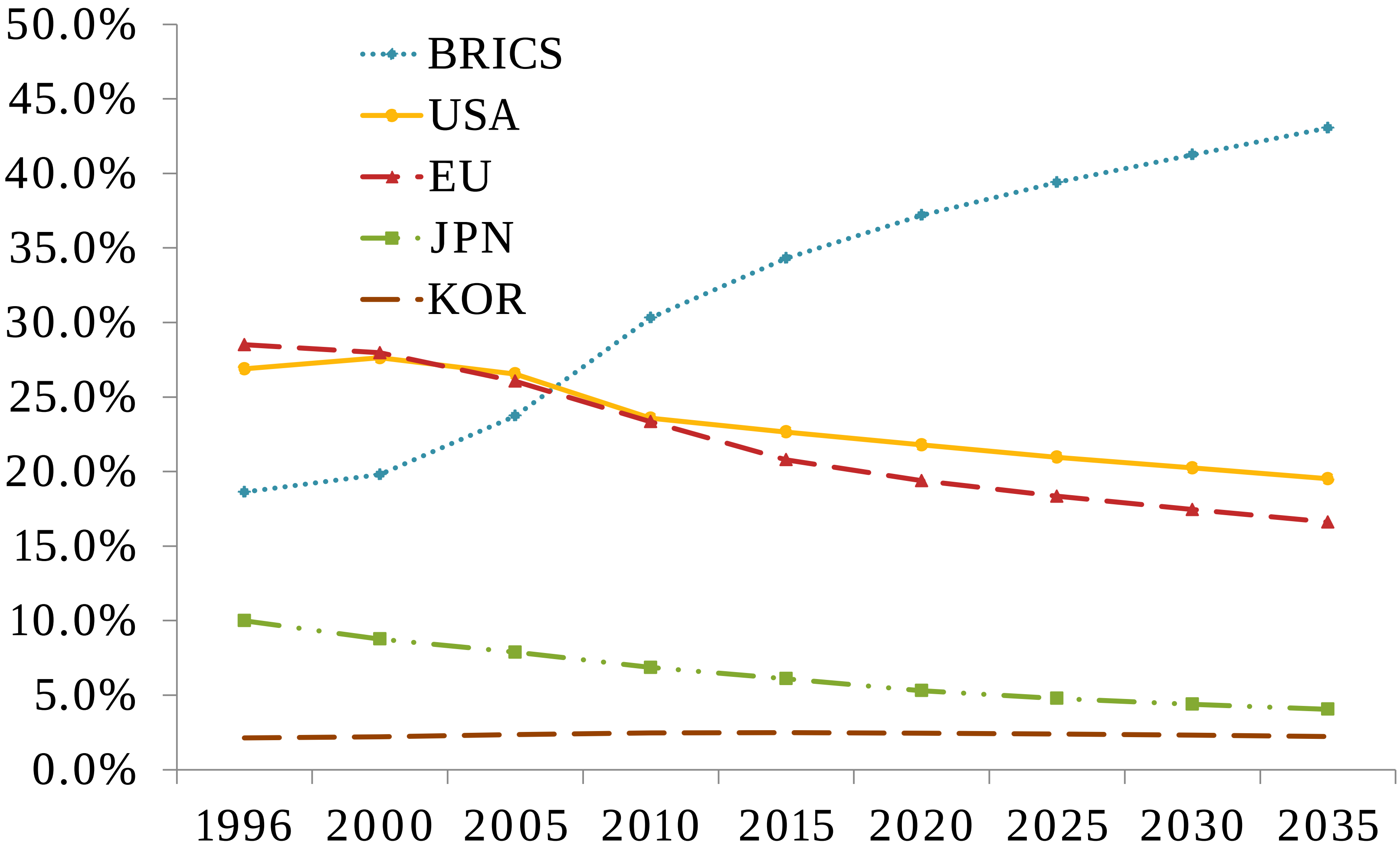
Second

- the diversified players under governance are moving towards multi-polarization.
- by 2035, the GDP of developing countries will exceed that of developed economies and reach around 60% of global economy and investment.

Third

- Global issues & challenges significantly increased
- diverse governance mechanisms and platforms emerge and coexist.

Changes in international economic landscape (the share of economies in the world economy)



Source: OECD database.

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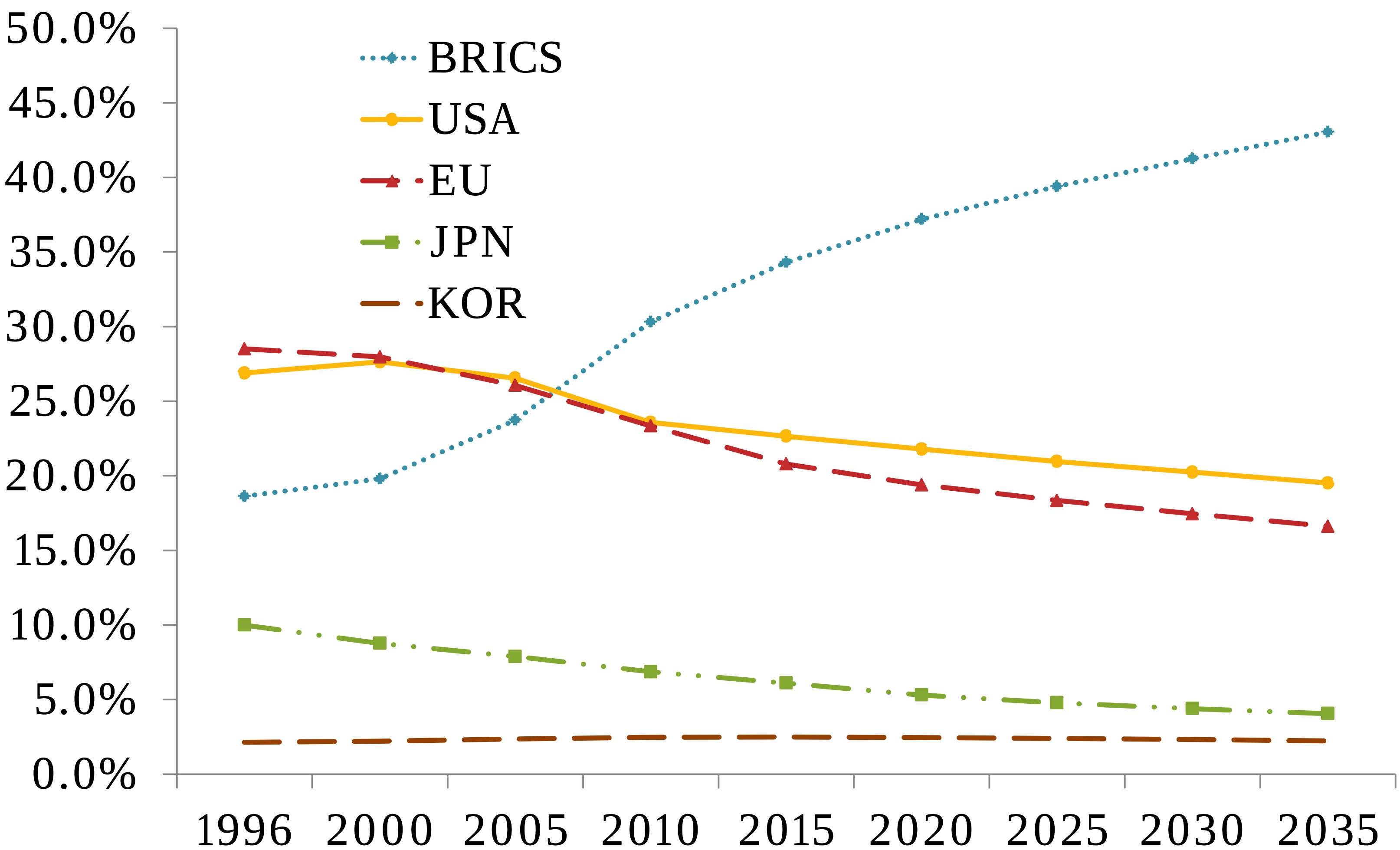


Source: OECD database.

E. New rules: reconstruction for international trade & investment regime has sped up

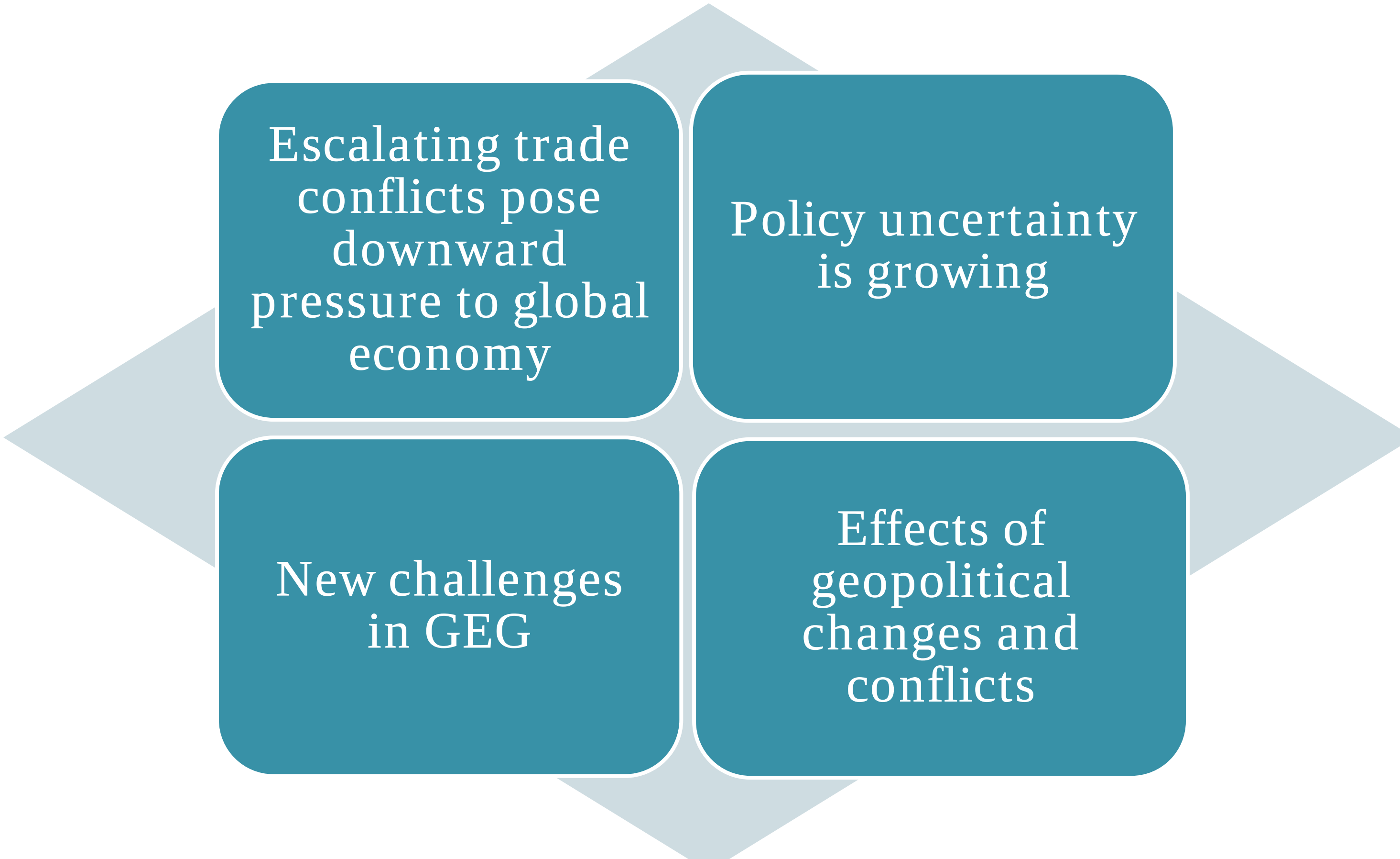
First, high standards of trade & investment liberalization
- on issues beyond borders
- regulatory coherence.

Second, making world-wide IIA
- how to balance the interests of different groups
- "reciprocal opening up"
- developed countries extend domestic laws

Third, new development requires new rule-making.
- global value chain ➔ regulatory coherence
- business models and new transaction
- green development orientation and new focus

Fourth, soaring to groups of like-minded—pluraliteral

III. Problems & accumulation of risks in economic globalization


Escalating trade conflicts pose downward pressure to global economy
Policy uncertainty is growing
New challenges in GEG
Effects of geopolitical changes and conflicts

First, dragging down the world economy.

- lower prejections

- warning by new IMF governor: trade disputes caused significant damage to global economic growth, as by 2020, the global economy may lose USD 700 billion, or 0.8% decrease of global GDP.

OECD Interim Economic Outlook projections

%, year-on-year. Arrows indicate the direction of revisions since May 2019.

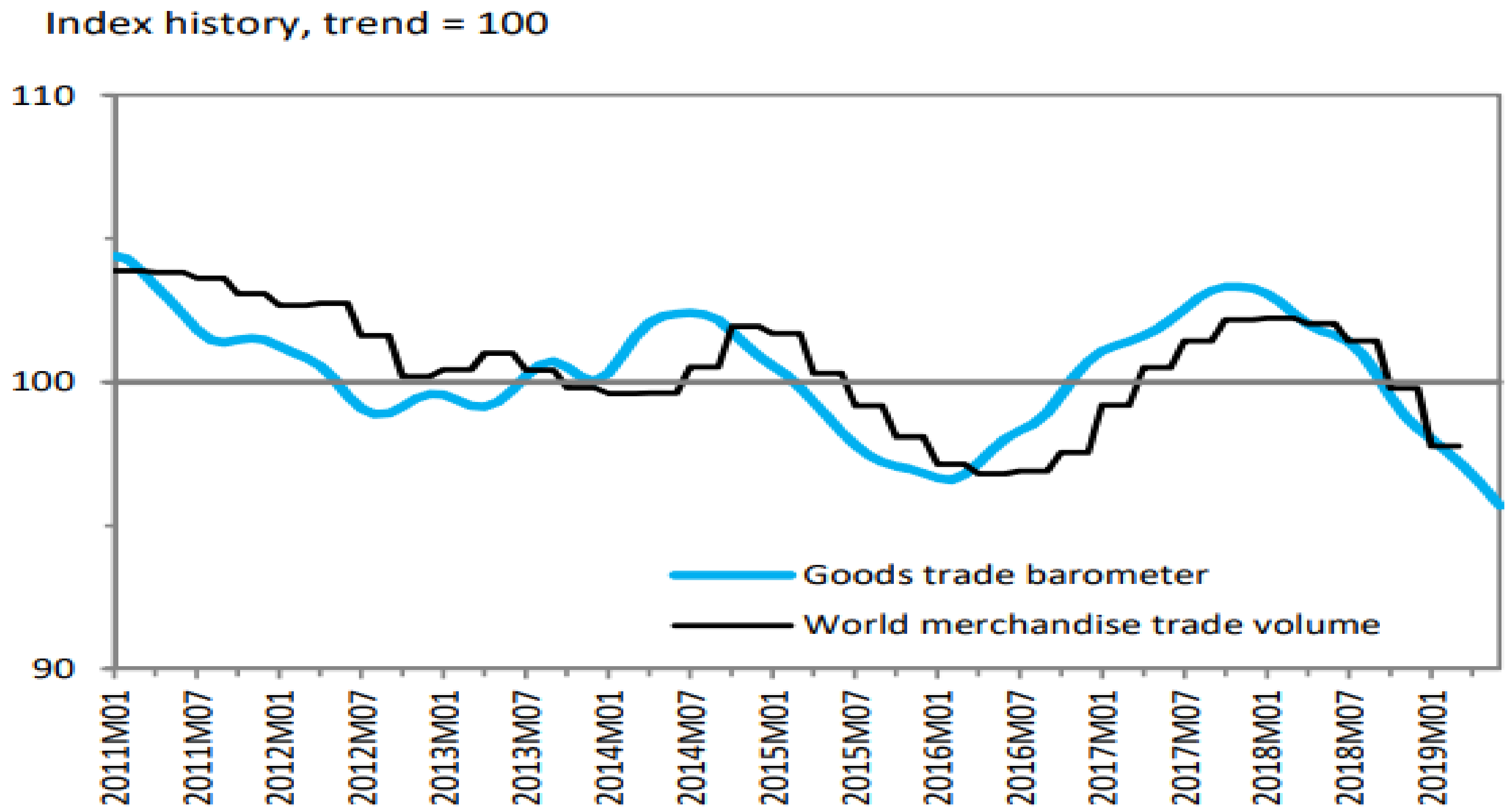
downward by 0.6 pp and more — downward by 0.3 to 0.6 pp — downward by less than 0.3 pp — no revision — upward

	2018	2019	2020		2018	2019	2020
World	3.6	2.9	3.0	G20	3.8	3.1	3.2
Australia	2.7	1.7	2.0	Argentina	-2.5	-2.7	-1.8
Canada	1.9	1.5	1.6	Brazil	1.1	0.8	1.7
Euro area	1.9	1.1	1.0	China	6.6	6.1	5.7
Germany	1.5	0.5	0.6	India[1]	6.8	5.9	6.3
France	1.7	1.3	1.2	Indonesia	5.2	5.0	5.0
Italy	0.7	0.0	0.4	Mexico	2.0	0.5	1.5
Japan	0.8	1.0	0.6	Russia	2.3	0.9	1.6
Korea	2.7	2.1	2.3	Saudi Arabia	2.2	1.5	1.5
United Kingdom	1.4	1.0	0.9	South Africa	0.8	0.5	1.1
United States	2.9	2.4	2.0	Turkey	2.8	-0.3	1.6

Source: OECD.

Second, global trade & investment significantly less active.

- IMF's forecast of 2.6% and the WTO's forecast even falling to 1.2%, significantly lower than 4.7% in 2017 and 3.8% in 2018.



Source: WTO.

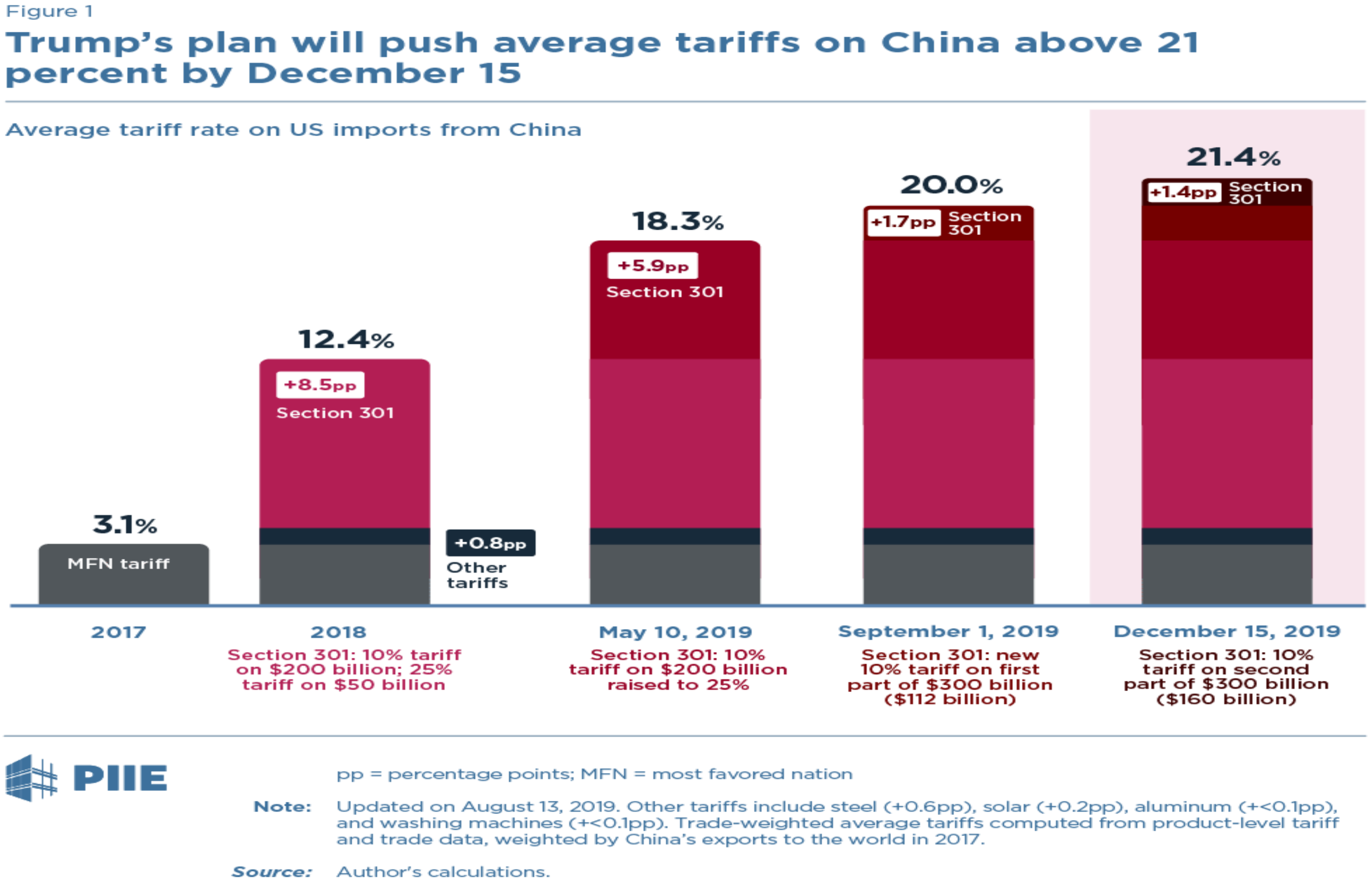
Third, China and the US both suffered losses which could have been avoided.

- 1) PMI: at 47.8 in September, substantially lower than expected and also the lowest since the financial crisis;

- 2) Export: in the first seven months of this year, the US export to China decreased by 24%, lowering the growth of the total US export to the world (-0.9%) and new export orders index dropped sharply to 41, the lowest since March 2009.

- 3) trade deficit: contrary to their hope, since 2017, the trade deficit of the US with the world not only have not decreased, but increased by USD 119 billion, including a growth of 12.5% in 2018, a record high in ten years (reaching USD 621 billion).

Large scale of higher tariffs on China by the US: The tariff level on Chinese products increased by a large margin

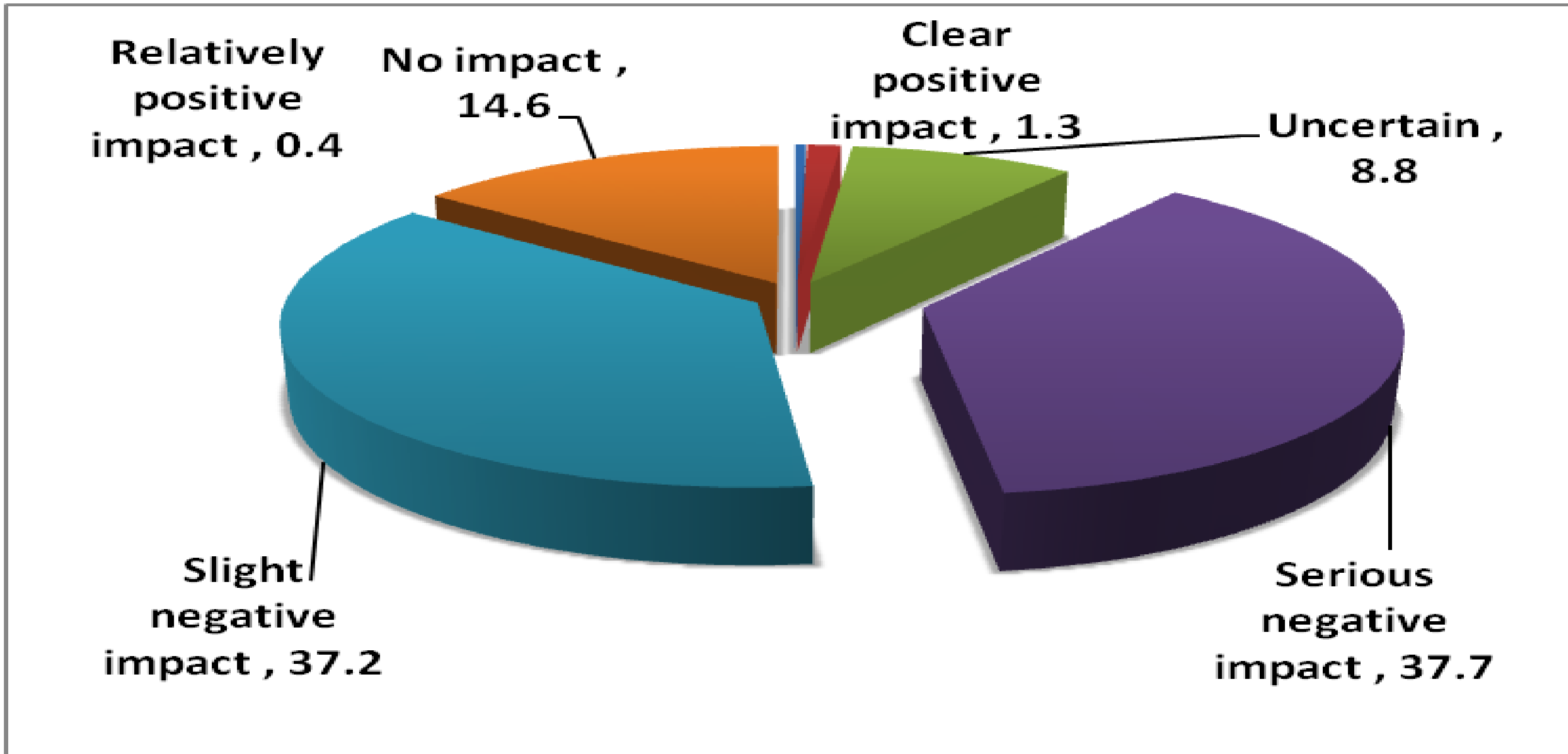


Fourth, the escalation of trade frictions influenced the stable operation of global supply chains and value chains.

The impact of US tariff hike on Multinationals in China

(Tariff hike from 10% to 25%)

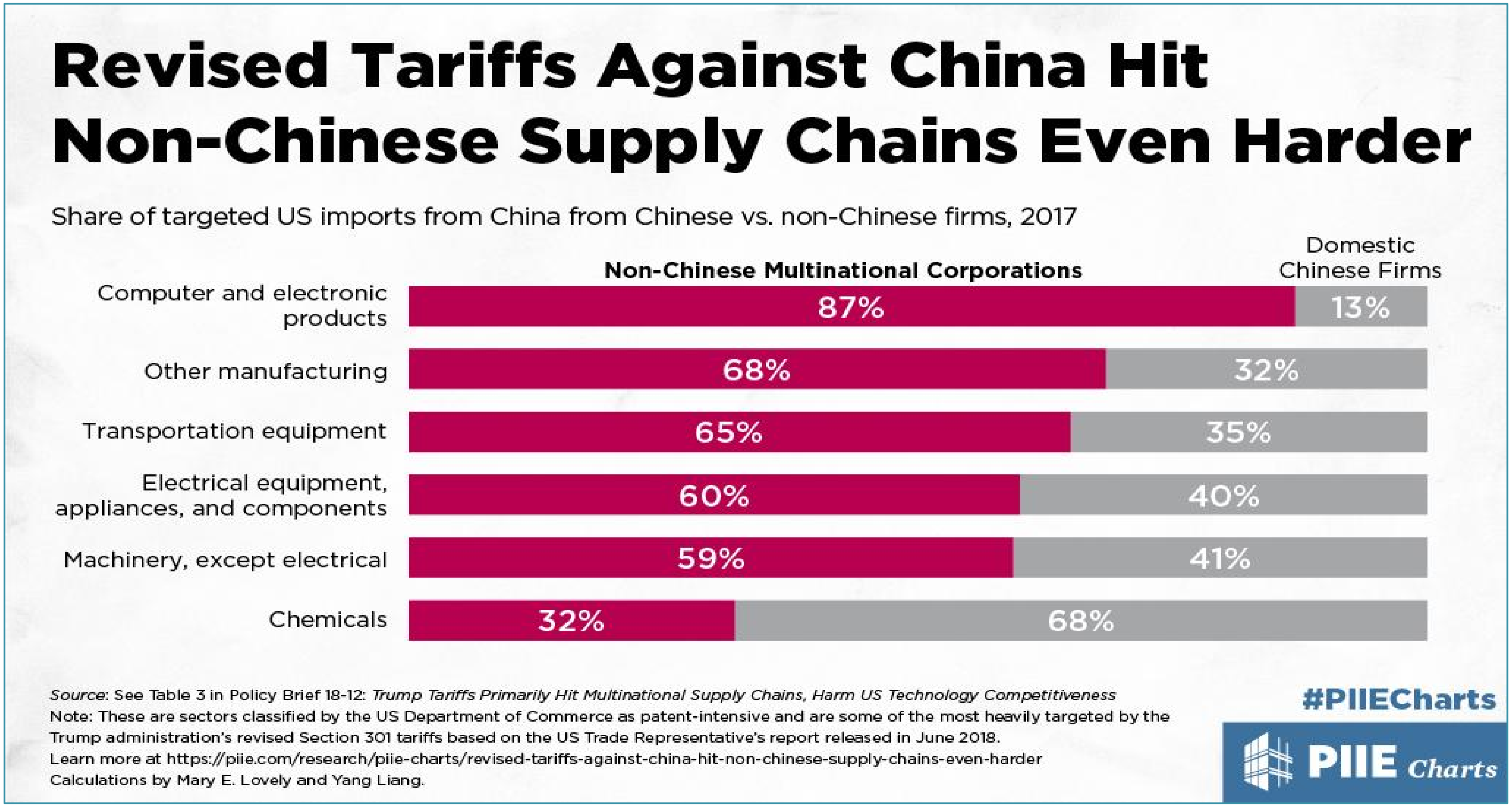
More than 500 companies and 140 groups pleading not to impose additional tariffs



Source: 2019 Survey on the impact of tariffs imposed by the US by AmCham.

Who is hurt by US additional tariffs against China

- Taking the high- and new-tech sector as an example, famous US tech companies all have important business in China. In particular, tech companies often need global market for their huge R&D costs, thus the Chinese market is crucial to them.



Source: PIIE "Trump's Fall 2019 China Tariff Plan: Five Things You Need to Know".

If cross-border trade in goods and services, and the sales in the other country's domestic market TNCs of the two countries are all considered, the benefits for China and the US are balanced comparing the opportunities from the other country's market.

US and China's gains from each other's market (hundred million $)

Source: Author's calculation on trade statistics of China and the US based on UNCTAD and BEA data.

- **Benefits of US multinationals in China continues growing.**

In 2016, an impressive sales-to-FDI ratio of 355% in China, much higher than that of Europe (85%) or APEC region (180%).

The sales and FDI of US multinationals in different regions （2016）

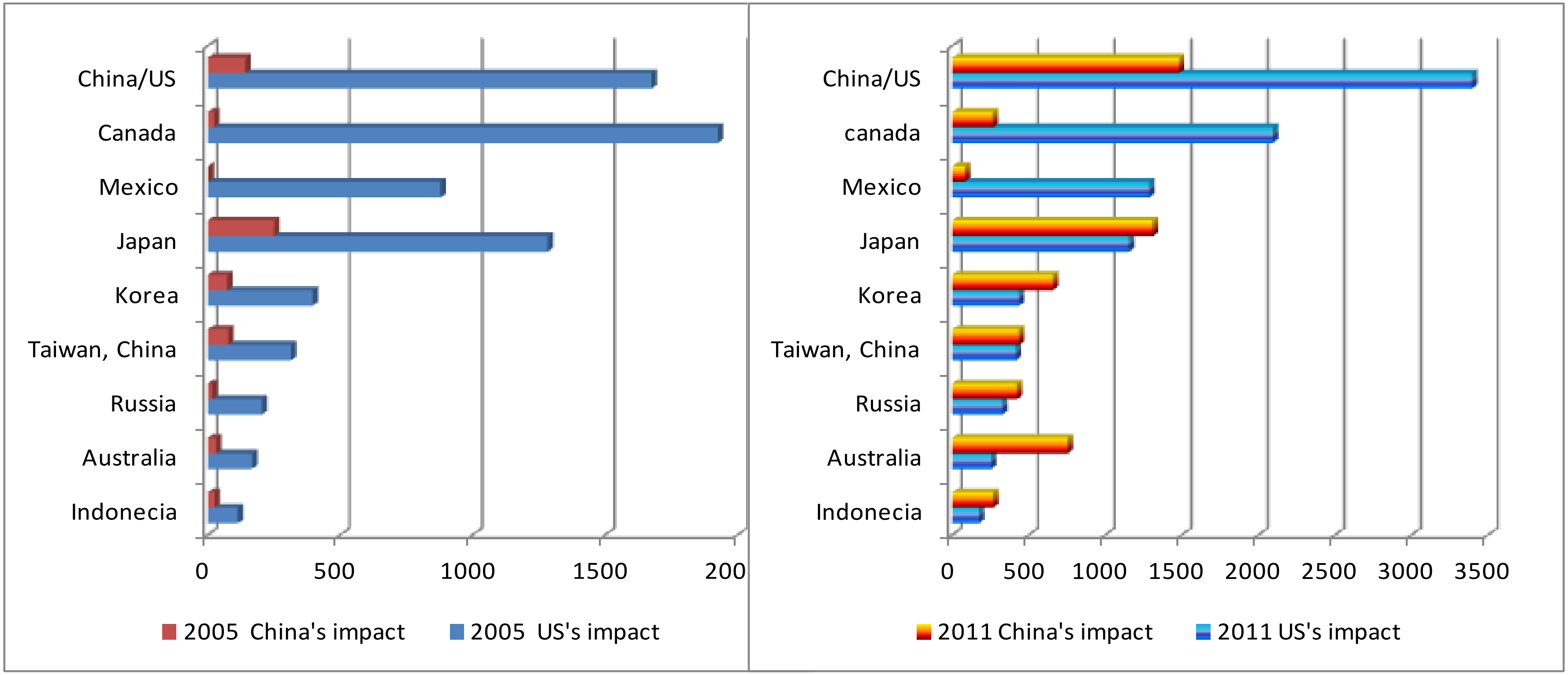
Region	**Sales($ billion)**	**FDI($ billion）**	**Sales-to-FDI ratio**
Europe	2800	3300	84.8%
APEC	1580	881	179.3%
China	345.3	97.3	354.9%

The geo-economic rivalry between the world's two largest economies would likely lead to increased frictions and tensions throughout the world trade, and cause adverse impact on related enterprises and countries in the supply chain → **critical to both and the world**

Contribution of demand from the US and China to major APEC economies (Value added, 2005～2011)

1)China' s impact increased greatly in the past 10 years

2)For most APEC economies, the contribution of China's demand > that of US



2. Policy uncertainty is growing

First

- The global trade and investment environment has become more complex, leading to significantly higher economic downside risks and policy uncertainty.

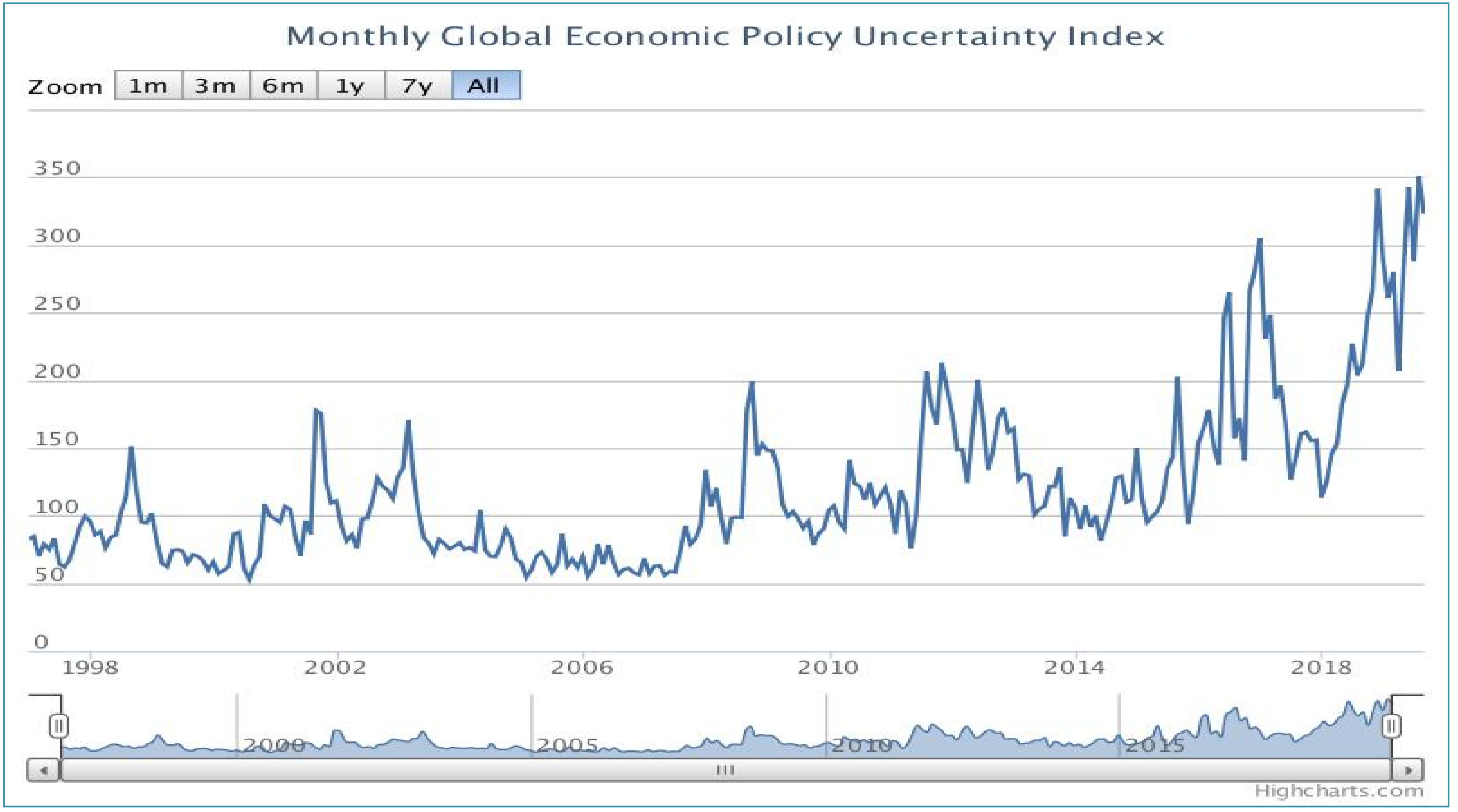
Second

- divergence in the macroeconomic policy orientations of countries makes coordination more difficult.

Third

- Companies: lower confidence in making investment decisions.

Global Economic Policy Uncertainty Index (By August 2019)



Source: Compiled by Scott R. Baker, Nicholas Bloom and Steven J. Davis, three scholars from Stanford University and the University of Chicago.

3. New challenges for global economic governance

First, for a relatively long time in the future, if the reform of GEG system is not promptly and properly implemented, it would not be able to adapt to the in-depth changes in international economic landscape.

Key contradictions:

- 1) The system lacks representativeness and fairness.
- 2) The international rules could not keep up with new requirements.
- 3) A high-level liberalization does not fit a landscape of greatly different development levels and complicated interests.

Second, the WTO is under unprecedented shocks and its authority and effectiveness need to be strengthened.

1) WTO has deficiencies in its own system.

- trade dispute settlement
- multilateral negotiations
- trade policy review and monitoring

2) Prevalent protectionism and unilateralism pose a great challenge to the authority and effective governance of the WTO.

Third, plurilateral negotiation and RTAs are rising as new path for formulating international trade & investment rules

- Traditional players in GEG: suffering relative decline or weakening of power
- G20, BRICS and other new governance platforms play an active role in coping with crisis. However, they lacks a binding system for compulsory enforcement
- While WTO DDA has been at a standstill, RTAs have grown fast. By September 1, 2019, 481 RTAs have been notified to the WTO, with 302 in effect.
- Plurilateral negotiations (TISA or ITA):

  countries are sorting into small groups of the like-minded to pursue own profits aiming at making rules multilateralized in the end.

4. Effects of geopolitical changes and conflicts

The Brexit

For more than three years, the uncertain outlook dampens the enthusiasm of investing in or exporting to the UK.

- out of concerns for a “no deal” Brexit, particularly over concerns that additional tariffs and the new political landscape would curb the output of automobiles, the investment in British automobile sector in the first half of 2019 slumped by over 70%.

In the first seven months of this year, goods exported to and imported from the UK by Germany decreased by 4.6% and 3.7% year-on-year respectively.

Japan- Korea trade tension

Under the sustained slow down of global trade, particularly influenced by trade and economic frictions between Japan and the ROK, the trade of relevant products between Japan and the ROK has been badly hurt.

- The export by the ROK in August decreased by 13.6%

- The export by Japan in September dropped by 5.2%.

IV. Policy options at the critical moment

The global economy：

at an important turning point

- whether to safeguard and build an open world economy and jointly address challenges for sustainable development？
- or work in a fragmented manner and let risk factors develop and further endanger the recovery process and market confidence？ Or even lead to a new crisis?

➔ Critical challenge and strategic choice for countries.

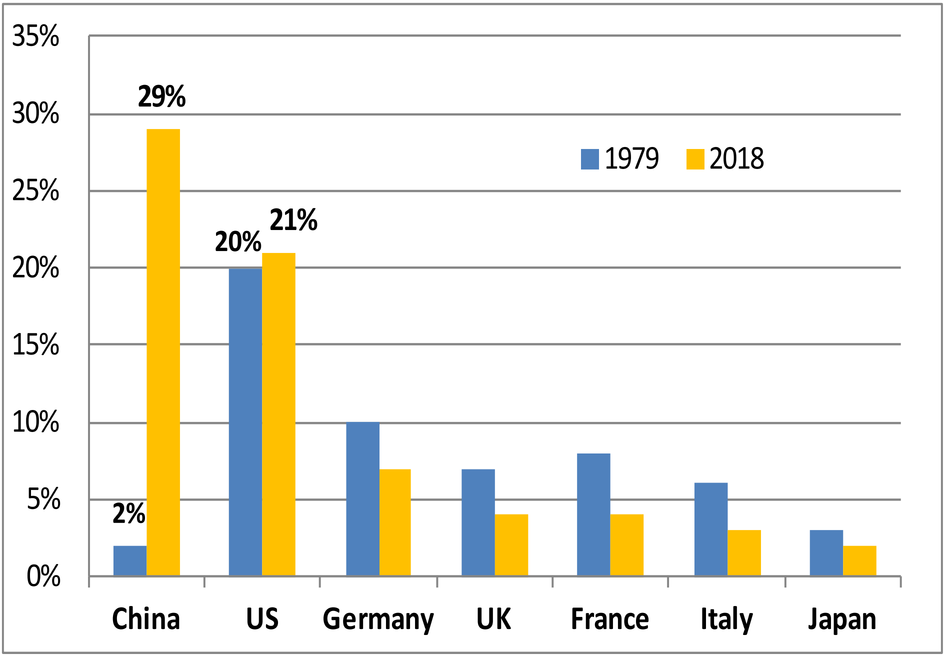
◆ opening up and cooperation is a strong momentum for world economic growth and the only right option.

China is deeply embedded into the world economy

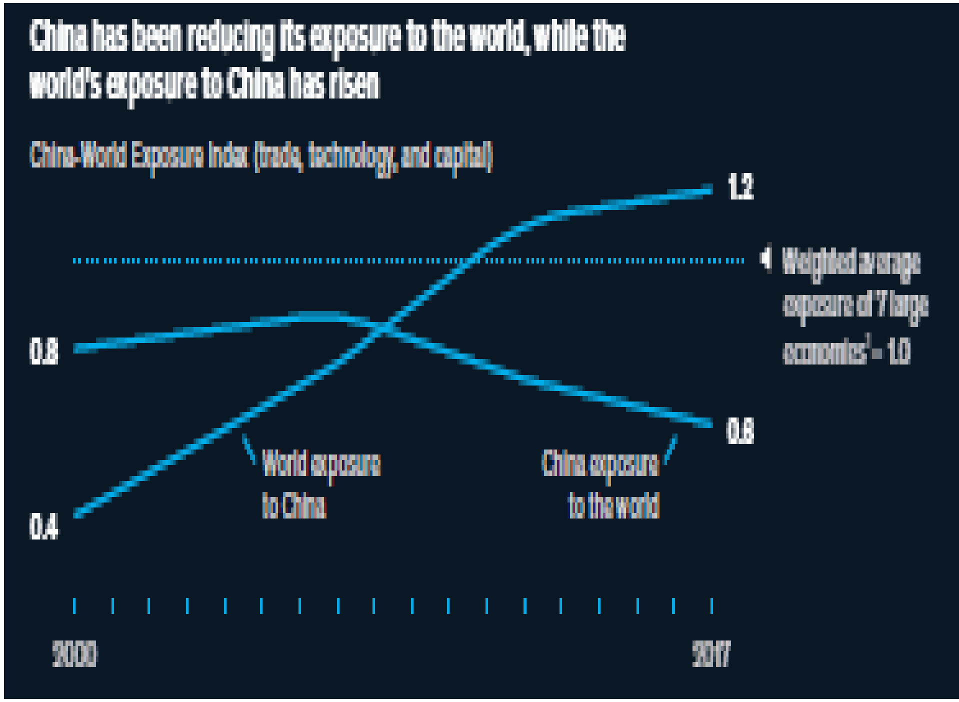
As China grows: relationship with the world is changing

- Changed from passively accepting external influence to actively shaping external environment and made greater contribution to world economic growth
- Mckinsey report "China & the world: inside the dynamics of a changing relations"
- China's sustainable growth closely related to the future of economic globalization

A comparison of contribution to world economic growth by key economies

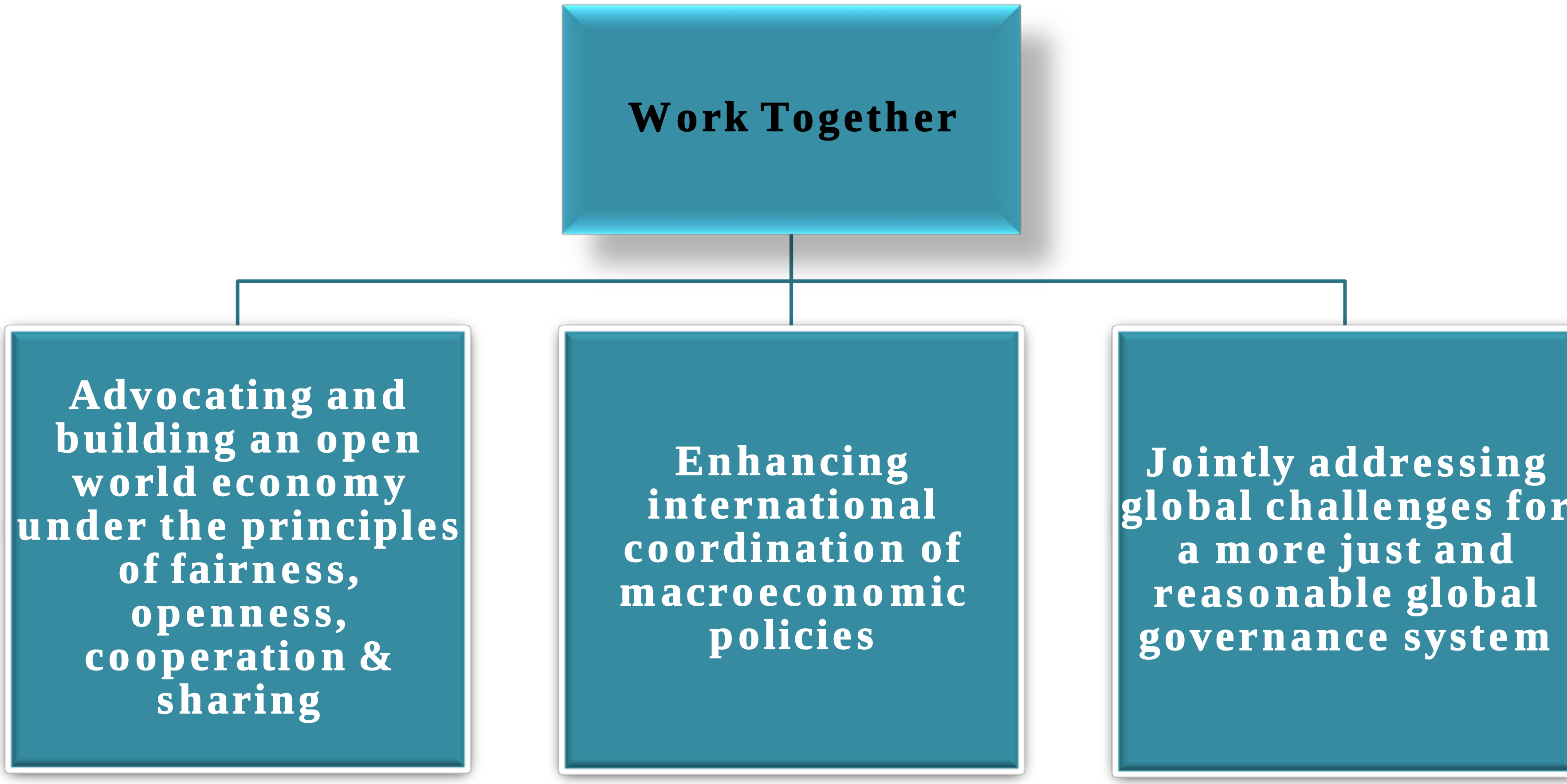


The world's exposure to China is increasing



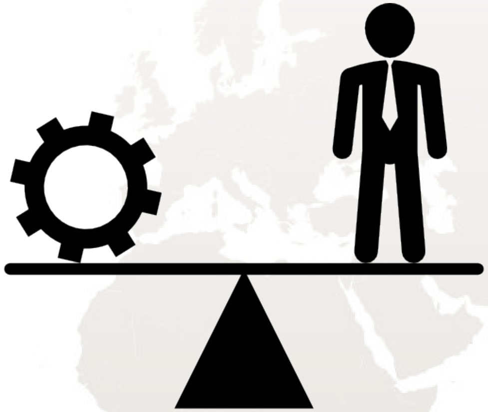
Source: Analysis based on WB statistics.

IV. Policy options in a new landscape



In the future

positive factors and driving forces
in economic globalization



multiple uncertain and risks

Improving bilateral economic relations and well addressing contradictions & differences.

Comprehensive perspective

We should take a comprehensive and reasonable view on bilateral trade imbalances and cherish the close ties between the two economies and their intertwining interests.

spillover effects

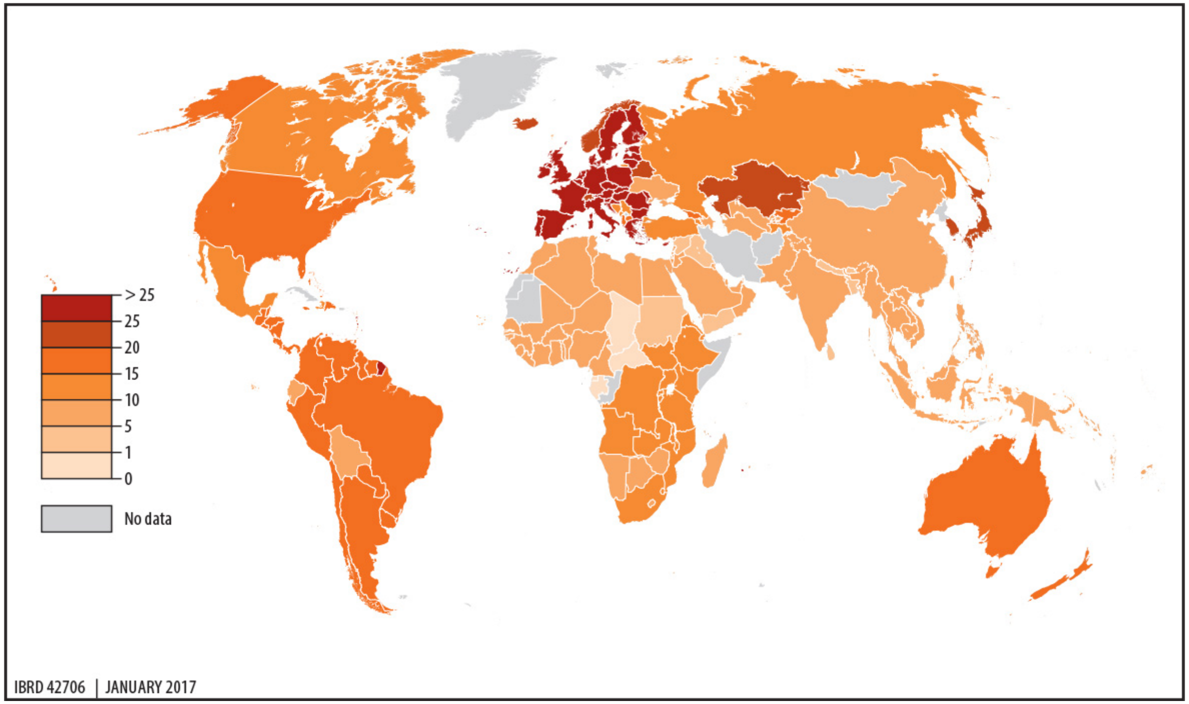
In particular, the economic and trade ties between China and the US have strong spillover effects and influence, concerning not only the two countries, but also the world.

mutually-beneficial win-win track

Further deepen the integration of interests from an innovative perspective and tap the potential of win-win cooperation for return to a mutually-beneficial and win-win track and play a positive role in safeguarding the stable growth of the world economy.

Reshaping economic geography

- Economic distance and divisions between countries have been impediments to economic growth, especially in developing countries
- **Trade costs also depend on tariff and non-tariff barriers. "Deep" trade agreements lower tariffs and, increasingly, regulate border and behind-the-border policies, lowering non-tariff barriers.**



Average depth of trade agreements across countries

Trade agreements among BRI economies are fragmented and relatively shallow.

Source: Hofmann, Osnago and Ruta (2017).
Note: Darker colors represent higher numbers of policy areas covered by the trade agreements signed by each county

Constructive solutions to global issues based on regional arrangements. (such as backward infrastructure and impeded connectivity pestering developing countries for a long time)

Regional integration is a mechanism to overcome divisions and shorten economic distance (WDR, 2009)

- emerging economies could advance regional integration and jointly address external challenges by actively participating RTAs .

- pushing forward new types of regional economic cooperation (BRI)

- Under the principles of “extensive consultations, joint development and shared benefits” and “openness and inclusiveness”, the BRI is a beneficial attempt at playing a constructive role in international cooperation and global economic governance.

- It should enhance coordination and interaction with the existing mechanism and platforms to achieve a mutually-reinforcing effect and offer new momentum for sustained regional and global development.

Jointly safeguarding the global trade & investment regime

further unleashing dynamics for growth through reform and opening up.

As a large country in the world, China is bound with such obligations and as good as its words.

participating in necessary WTO reforms to safeguard the authority and effectiveness of multilateral system

- safeguarding the core values of multilateral trading system, such as non-discrimination and openness;

- safeguarding the development interests of developing members

- firmly opposing unilateralism and protectionism.

make right decisions and take tangible steps for the new era

- **De-globalization or deepening globalization**
- **Zero-sum game or win-win solution**
- **Constructive or destructive**

How to make a better world

Thank you