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Globalization, this Time Is Different?

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Prediction of Fred Bergsten : 5 risks ahead 2005

- υ Soaring current account deficit
- υ Rising oil price
- υ Setback of globalization and trade liberalization
- υ Rise of EU
- υ Hard landing of Chinese Economy

Before and after: did learning works?

Before



After



Social distancing



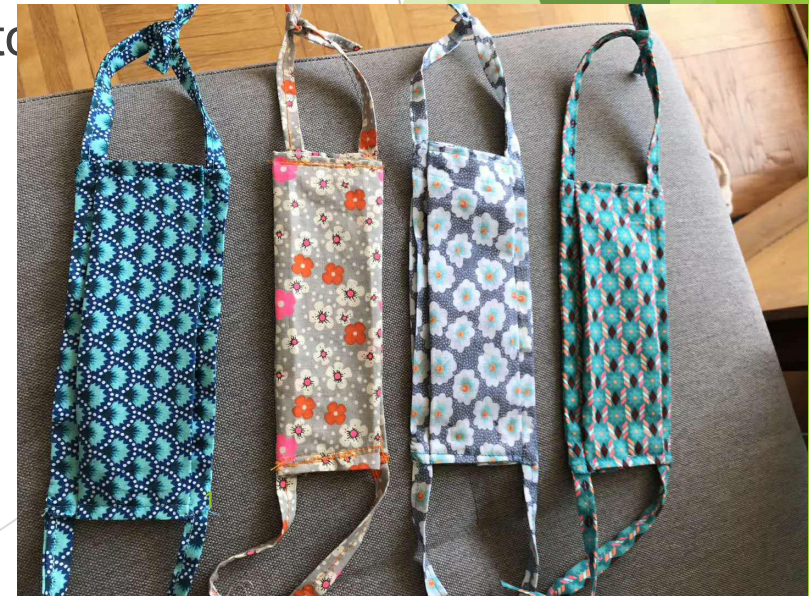
learning distancing



Divides

Confusion and inquiries?

- u Is globalization flat?
- u Is globalization bad?
- u Will Globalization disappear? And the world will return to the native?
- u Call state power back?
- u Whether we need globalization, is there any alternative approach to globalization?

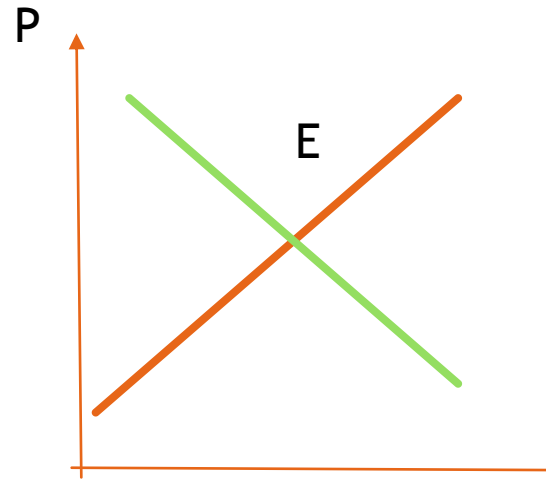


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- υ Trade globalization, comparative advantage and national interest conflict
- υ Financial globalization, invalid comparative advantage and national interest eroded
- υ Covid-19: super globalization
- υ China's story and spillover effect
- υ This world is manageable or not?

Trade globalization

- Classical model
 - Adam Smith and David Ricardo :2x2X1
 - Trade is based on natural advantage:
Wool (UK) – wine (France)
 - a win-win deal
 - unique equilibrium
 - Trade for peace
 - Invisible hand can work

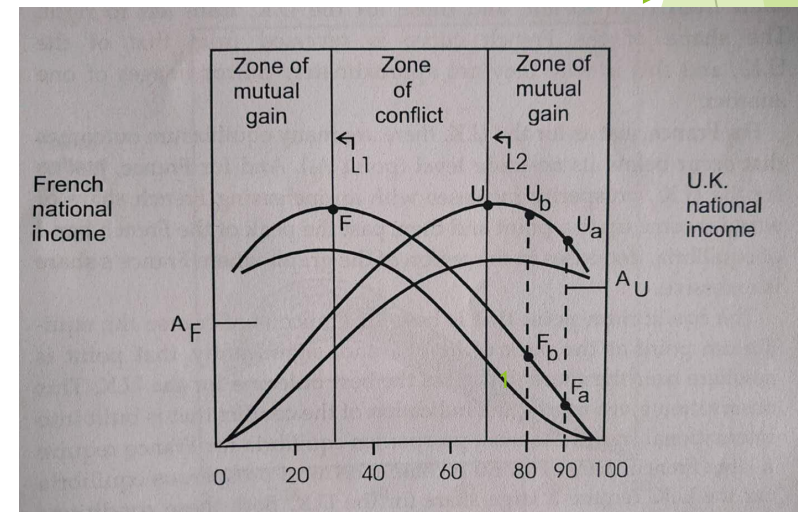
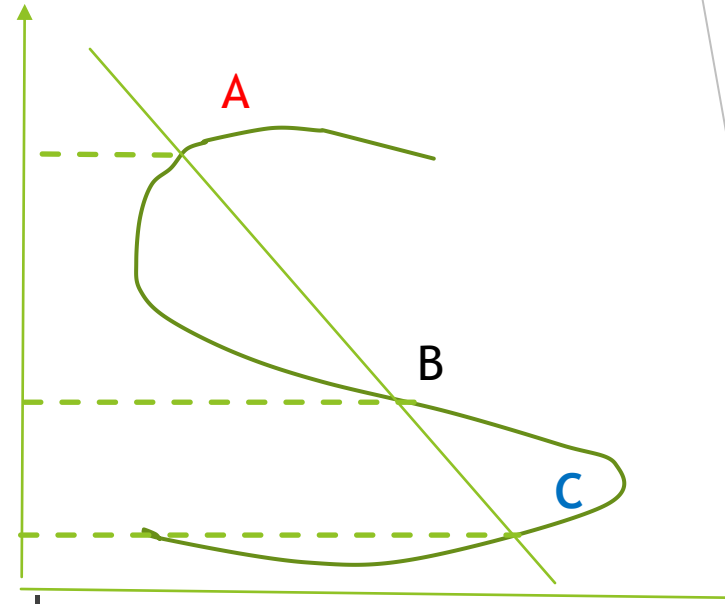


New trade globalization

- Trade model: 2X2X2—N*N*N
- Economies of scales
- High entry cost
- Changing productivity
- Retainability
- Mutual benefit area is Multiple equilibrium:

good, bad and mediocre

** modern global Economy and inherent Trade Rivalry



Who is an ideal trade partner?

- u There is no permanent ideal trade partner
- u In multiple equilibria, some point for me is good, for you is not good
- u Consequences of **Industry competition** led to **national interest** conflicting
- u Ideal trade partner, wage which is lower 50%-70% .
- u New specialization: gained advantage
 - u Advanced economy: productivity changes fast(semiconductor, chips)
 - u Developing economy: productivity changes slow(sports shoes, potato chips)
- u Any progress of your neighbor is good for her and for you (free trade is good)

Incentive policy, visible hand will work?

- It depends.
 - Japan (geese model)
 - USA (rust belt)
 - China (new industry plan)



Financial globalization, invalid comparative advantage and national interest eroded

- u Comparative advantage works? Improve resource allocation?
- u Does capital have motherland?
- u Irregular international capital movement (sudden stop)
- u Dominos effect
- u Original sin: home currency cannot be borrowed internationally
- u Currency mismatch and maturity mismatch
- u Fear of floating

Redemption

- υ Dollarization
 - υ Panama
 - υ Ecuador
 - υ Cambodia
 - υ Zimbabwe



Emerging market choice

- υ Self-insurance
- υ Contemporary packaging
- υ Capital Controls (firewall)
 - υ Administrative tools
 - υ Market tolls (Tobin tax)

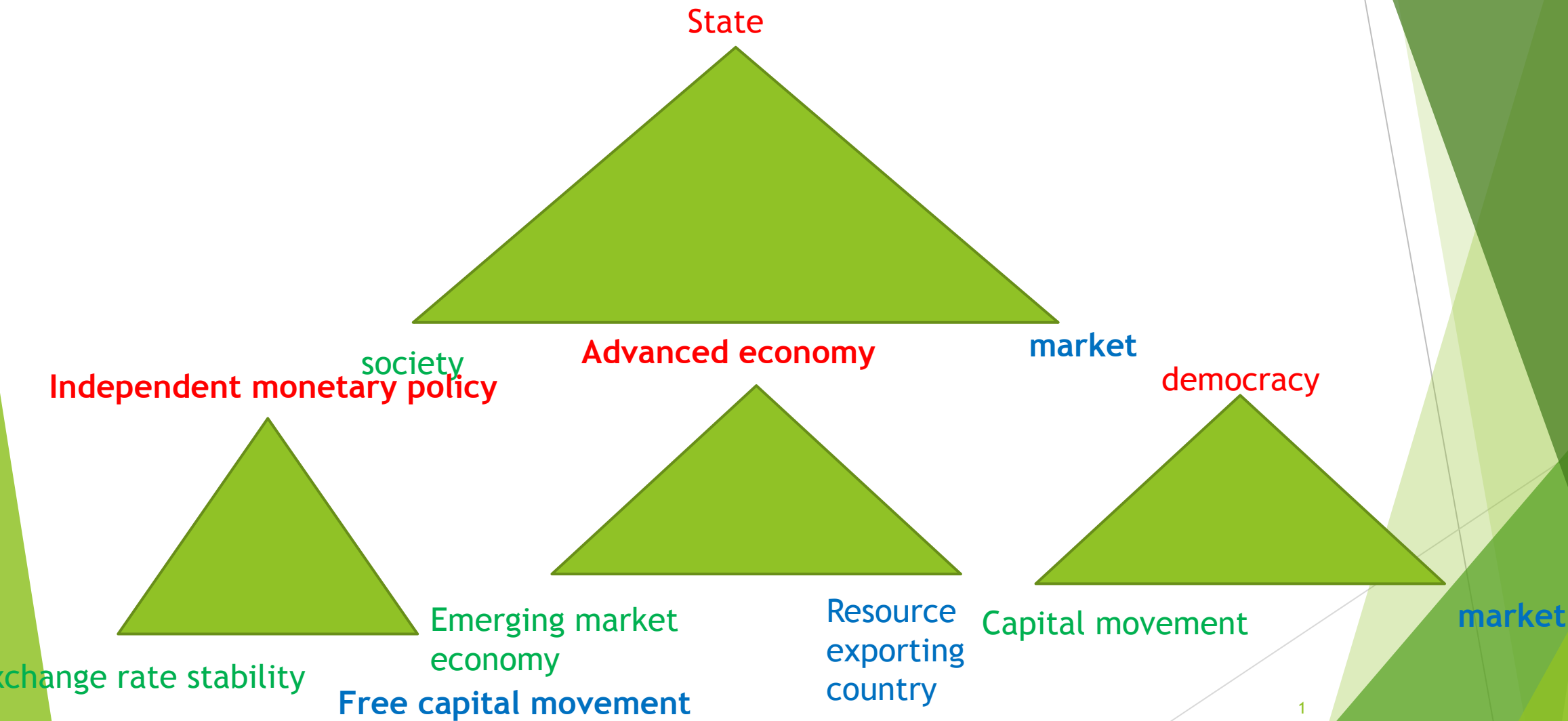
Any ideal financial partner?

- υ NO.

lessons

- u In the financial ocean, if you cannot swim, you will be drowned, although you swim well, you cannot fight the big waves.
- u Too big to fail?
- u You lose, you lost. And Cannot get your gain back, no place to suit.
- u Some country has financial power: long arm jurisdiction
 - u Cut the link of financial network
 - u Financial sanction
 - u Inequality

Impossible triangles



Covid-19: super globalization

- u Every one suffered simultaneously
- u Super dominos effect
- u Every one is fragile and weak
- u Analogy: hunter and monkeys

Proletarier aller Länder, vereinigt euch!

China's story and spillover effect

- u Wuhan model (confusion, concern, combat, contain, recovery, resumption...return..)
- u State credibility
- u Mobilizing capability
- u Public cooperation
- u Social advocacy capacity
- u Arrow's impossibility theorem did not hold, collective action is possible!
- u Chinese story can turned into wisdom and power

New deal of globalization

- u **Rule: sustainable development**
- u Attitude: cooperative+ collaborative , to Understand the world better
- u Capability building and value building
- u Public goods, supply mechanism
 - u Concept of community
 - u Young people is the future



To create bridges to solve distancing

- u Wood bridge
- u steel bridge
- u love bridge
- u culture bridge

----- Mo Yan (莫言)

- u I won't take the lead, I do not know the way
- u I won't follow, I have no intention to follow
- u Walk with me, be my friends.

—— Albert Camus



Understanding the World: sharing openness, inclusiveness



Understand the world

