The Great Shift of Globalization*

From the Transatlantic Axis
towards China and Emerging Asia

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Abstract: Since the mid-2010s, global economic integration, as measured by world trade, investment and migration, has come to a standstill. During the global crisis of 2008–2009, the negative demand shock in the advanced West and the drastic trade plunge in the emerging East highlighted the increasing inter-dependency in the global economy. Nevertheless, in the past few years, world trade has been falling; world investment continues to stagnate while slower migration has given rise to elevated global displacement and refugee crises, despite peace time conditions. In the Trump era, the eclipse of the U.S. postwar trading regime is accompanied with the rise of new protectionism that has a historical precedent. While China seeks to promote globalization, the White House is moving from multilateral free trade toward bilateral deficit targeting, despite its ongoing secular rebalancing and associated cyclical fluctuations. Although the first Trump-Xi Summit suggests that there may be more room for policy compromises than initially

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anticipated, the eclipse of U.S. globalism will make any reconciliation difficult. Nevertheless, the global economy is now amid a secular transition that is characterized by increasing South-to-South trade, investment and migration. In this new era, globalization, responsibility and accountability in the international community can no longer be subject mainly to the interests of major advanced economies. While global economic integration was initiated by advanced economies in the 20th century, it will be completed by emerging economies in the 21st century. The drivers of globalization are moving from the transatlantic axis to China and emerging Asia.

Keywords: Globalization; China; the United States; Group of Twenty (G20); south-south cooperation.

During his visit to Switzerland in January 2017, Chinese President Xi Jinping sought to inject a positive impetus for global recovery at the World Economic Forum (WEF). Amid economic uncertainty, President Xi offered China's vision on economic growth in a global economy overshadowed by protectionism. As he argued, building up barriers against global cooperation was dangerous. He likened protectionism to "locking oneself in a dark room" in the hopes of protecting oneself from danger, yet in so doing, cutting off all "light and air." The result is a trade war in which "no one will emerge as a winner."¹ Only two months later, the Group of Twenty (G20) Finance Ministers met in Baden-Baden, Germany. Historically, Baden-Baden's spas are famous for their healing waters, which have cured ancient Romans' arthritic aches, Prussian queens' rheumatism and European aristocrats' paralyses. Nevertheless, location notwithstanding, the outcomes from the G20 meeting evidenced that there was no miracle to be expected for the ills facing the global economy. Due to the opposition from U.S. Treasury Secretary Steve Mnuchin, the meeting backtracked from a joint position that would have renewed a longstanding pledge to free trade. According to Secretary Mnuchin, Americans "believe in free trade," while they "want to re-examine certain agreements."²

¹Noah Barkin and Elizabeth Piper, "In Davos, Xi Makes Case for Chinese Leadership Role," Reuters January 18, 2017, <http://www.dailymail.co.uk/wires/reuters/article-4128730/In-Davos-Xi-makes-case-Chinese-leadership-role.html>.

²Balazs Koranyi and David Lawder, "U.S. Wants Free but Fair and Balanced Trade: Mnuchin," Reuters, March 20, 2017, <https://www.usnews.com/news/world/articles/2017-03-18/us-favors-free-but-fair-and-balanced-trade-mnuchin>.

The path from Davos to Baden-Baden led from hope to disillusion. For the first time since 2008, the G20 Finance Ministers dropped the commitment to free trade. In turn, the United States rejected the trading principle that had guided America's global engagements and those of the international community since World War II.

The timing of this shift of the international trading community could not have been worse. In the past decade, globalization has decreased drastically, world trade has plateaued and world investment continues to stagnate. Migration flows have diminished, remittances are decreasing, but the number of globally displaced people is soaring, along with refugee crises. America's turn inward and the rise of new protectionism is likely to compound these challenges. What we are witnessing is not the end of globalization, but the shift of its drivers from the transatlantic axis to China and emerging Asia. As the North-to-North and North-to-South globalization is slowing down, the South-to-North and South-to-South globalization is gathering momentum.

The Changing Landscape of Globalization

Since the 2008–2009 global financial crisis, the forces of globalization have been stagnating and may have taken a turn for the worst more recently. One way to understand the relative decline of globalization is to look at the Baltic Dry Index (BDI). Historically, the BDI is old, but the first daily freight index was published by the Baltic Exchange in 1985.³ Overall, the index measures the demand for shipping capacity versus the supply of dry bulk carriers. In practice, it may be useful as a barometer of international commodity trade.⁴

³Since dry bulk mainly consists of materials that serve as raw material inputs to the production of intermediate or finished goods, such as concrete, electricity, steel, and food, the BDI is also seen as an economic indicator of future economic growth and production. On the history of the BDI, see Payton Odom, *Shipping Indexes Signal Global Economic Trends — Globalization and Monetary Policy Institute 2010 Annual Report* (Dallas: Federal Reserve Bank of Dallas, 2010), p. 28.

⁴Historically, the BDI is an Index that is subject to flawed interpretations, yet it is difficult to ignore. See Jeffrey Rothfeder, "The Surprising Relevance of the Baltic Dry Index," *New Yorker*, June 22, 2016, <http://www.newyorker.com/business/currency/the-surprising-relevance-of-the-baltic-dry-index>.

Heralding the peak of the oil prices, the BDI soared to a record high in May 2008 reaching 11,793 points. But as the financial crisis spread in the advanced West, the Index plunged by 94 percent to 663 points, the lowest since 1986, which illustrated marine shippers' challenges as they were moving dangerously close to the combined operating costs of vessels, fuel and crews.⁵ As China and other large emerging economies chose to support the ailing advanced economies amid the crisis, the United States, the EU, and Japan pledged they would accelerate reforms in global governance. At the same time, the central banks of these major advanced economies launched massive fiscal stimulus and monetary easing packages. As a result, the BDI returned to 4,661 in 2009. However, as promises of reforms were ignored and stimulus policies expired, the BDI bottomed out at 1,043 in early 2011, amid the European sovereign debt crisis.

During the past half a decade, advanced economies have sustained a semblance of stability by relying on historically ultra-low interest rates and massive injections of liquidity. Yet, these huge shifts have not been reflected by the BDI, which continues to stagnate, as do the advanced economies. In early 2016, the Index reached a historical low of 290 but rose to almost 1,260 in the fall when China took over the leadership of the G20 with the pledge of promoting greater globalization. Another turn for the worse followed after Donald Trump's protectionist moves as the index began to decline again. In mid-April 2017, it barely exceeded 1,230.

Despite huge stimulus packages after the 2008 crisis, a decade-long massive monetary injections and record-low interest rates,⁶ there has been no corresponding pickup in world trade and investment. The BDI is today where it was nine years ago. In contrast, the Dow Jones Industrial Average (DJIA) recovered to its pre-crisis high in spring 2013 and soared to 21,000 in early 2017. If the BDI reflected a similar logic, it would have risen to 11,800 in early 2013 and amounted to 17,700 in the present, 15 times higher than its actual value today (see Figure 1).

⁵Bob O'Brien, "Marine Shippers Scuttled as Baltic Measure Hits Low," *Barron's Blog* October 29, 2008, <http://www.barrons.com/articles/BL-SWB-1007>.

⁶On the global crisis, see Joseph E. Stiglitz, *Freefall: America, Free Markets, and the Sinking of the World Economy* (New York: Norton & Company, 2010); Menzie D. Chinn and Jeffry A. Frieden, *Lost Decades: The Making of America's Debt Crisis and the Long Recovery* (New York: Norton & Company, 2011).

(a) The Baltic Dry Index, 1985–2015

(b) The Baltic Dry Index, 2012–2017

(c) The Dow Jones Industrial Index, 2012–2017

Fig. 1. Plunge of the Baltic Dry Index, 1985–2017.

Source: Bloomberg; Baltic Dry Index; CNBC.

Why has the BDI not returned to its pre-crisis level? Why has it not climbed beyond that peak as the equity markets have done so triumphantly? After all, between 2008 and today, the world's population has increased by some 800 million, about the size of the United States, Indonesia and Brazil combined, and world GDP has increased by almost \$15 trillion, or the size of all 28 EU economies together. Isn't it only fair to expect international trade to expand accordingly rather than continue to contract by more than 90 percent from its 2008 peak?

The most remarkable thing about the 2008–2009 recession was its near-synchronized global reach, as illustrated by the dramatic and parallel fall of real GDP growth in major advanced economies, particularly the United States and Western Europe, and the concurrent plunge of exports from large emerging economies, particularly China and emerging Asia. Decades ago, the impact might have been restricted to major Western nations; but after

more than half a century of globalization, the crisis triggered a sharp and synchronized collapse in demand. It was this massive negative demand shock in the advanced West that thundered as a huge trade plunge back into the emerging East. Through the colossal fall of capital, trade and investment, these two faces of international trade — demand shock in the transatlantic axis, and trade plunge in the emerging Asia — set off a corrosive feedback loop between financial and corporate sectors, posing extraordinary challenges to policymakers around the world. If, even a decade later, following more than \$10 trillion of quantitative easing and ultra-low interest rates in the advanced economies, international trade continues to languish, as evidenced by the BDI, then it may be only prudent to conclude that past reports on the recovery of the world economy — that is, the real economy as opposed to its financial sector — have been greatly over-estimated.

Another way to peek into the decline of globalization is to look at the trend line of liberalizing and discriminatory measures in world trade. Between 2008 and 2016, global imbalances have steadily worsened as a result of increasing trade discrimination and at the expense of trade liberalization. The top eight world exporters — the United States, China, Germany, Japan, UK, France, South Korea, and Mexico — accounted for about half of all

The shrinking and imbalanced international trade indicates very slow recovery of the world economy.

Fig. 2. World Trade, 2008–2016.

Source: 19th Global Trade Alert Report.

Notes: World Import (%); World Export (%) and World Net Exports: Exports minus Imports (%).

world imports and exports, with a negative balance of nearly 5 percent. China's net exports (exports minus imports) were largest (1.9 percent), along with those from Germany (0.8 percent) and South Korea (0.1 percent). In contrast, the United States suffered from major trade deficit (−5.2 percent), along with the UK (−1.3 percent) and Japan (−0.7 percent) (see Figure 2).⁷ While China's trade surplus was less than 2 percent, the U.S.' deficit exceeded 5 percent. China was slowly but steadily rebalancing its economy from exports to consumption, whereas the United States lacked a credible, bipartisan medium-term debt plan, even though its sovereign debt already amounted to \$20 trillion.⁸

⁷In 2016, the United States accounted for most world imports (13.4%), followed by China (11.2%) and Germany (7%), whereas China accounted for most world exports (13.1%), followed by the U.S. (8.3%) and Germany (7.8%).

⁸Simon Evenett and Johannes Fritz, "Global Trade Plateaus" Vox, July 13, 2016, <http://voxeu.org/article/global-trade-plateaus>.

It is notable that both liberalization and discrimination increased in most countries during this time period, with the latter growing much faster. Among G20 member countries, the number of liberalization measures was highest in China (617), followed by Germany (327) and the UK (327), but slowest in the United States, Mexico and Japan. In contrast, the number of discriminatory measures was highest in the United States (3,081), followed by Germany (1,666) and China (1,269), and relatively slower in Japan, South Korea and Mexico. Indeed, discrimination at the expense of liberalization grew fastest in the United States (13.1 times), followed by Japan (12.2) and Germany (5.1), and slowest in Mexico (3.4), China (2.1) and South Korea (1.4) (see Figure 3).

In brief, since the global crisis, all major trading economies have resorted far more to discriminatory measures than liberalization. Among the G20 economies, the rise of new protectionism has been highest in the United States and Japan, followed by Germany and the UK — and relatively lower in China and South Korea.

Fig. 3. World Trade: Discrimination and Liberalization, 2008–2016.

Source: 19th Global Trade Alert Report.

Notes: Discrimination: Number of discriminatory measures imposed since November 2008.

Liberalization: Number of liberalizing measures imposed since November 2008.

Multiple: Discrimination/Liberalization.

Generally speaking, the global economic integration can be measured by world trade (goods, services, value-added), investment (establishing or acquiring business assets) and migration (migrants, refugees, remittances). These three generic indicators provide a rough idea about the ongoing shifts of dominant trends in global economic integration.⁹

By the 1870s, capital and trade flows rapidly became substantial, driven by falling transport costs. However, this first wave of globalization was reversed by the retreat of the United States and Europe into nationalism and protectionism between 1914 and 1945. After World War II, trade barriers came down, and transport costs continued to fall. As foreign direct investment (FDI) and international trade returned to the pre-1914 levels, globalization was fueled by the United States and Western Europe, followed by the rise of Japan. This second wave of globalization benefited mainly the advanced economies.¹⁰ After 1980, many developing countries broke into world markets for manufactured goods and services, while simultaneously attracting foreign capital. This era of globalization peaked around China's accession into the World Trade Organization (WTO) in 2001 and the 2008–2009 global recession. In the aftermath, China and other large emerging economies fueled the world economy. As the G20 cooperation dimmed, global growth prospects have also diminished. While the Trump administration began to reverse U.S. postwar trade policy, downside risks have grown, as the International Monetary Fund (IMF) warned in early 2017.¹¹

According to the WTO, the value of merchandise trade grew almost 50 percent between 2005 and 2008. After a severe plunge during the global

⁹Since the late 19th century, multinational companies have come to dominate the world economy. As they conduct different value activities in different locations, participation in these global value chains also become a vital indicator for globalization. Finally, globalization could be measured by finance (equities, bonds, currencies, commodities) and alternative assets (such as real estate), and technology. On globalization, multinationals and innovations, see Dan Steinbock, *American Innovation under Structural Erosion and Global Pressures* (Washington D.C.: Information Technology and Innovation Foundation, 2014).

¹⁰Paul Collier and David Dollar, *Globalization, Growth, and Poverty: Building an Inclusive World Economy* (Washington, D.C.: World Bank, 2002).

¹¹"There is a wide dispersion of possible outcomes around the projections, given uncertainty surrounding the policy stance of the incoming U.S. administration and its global ramifications." See IMF, "A Shifting Global Economic Landscape," *World Economic Outlook Update*, January 16, 2017, <http://www.imf.org/external/pubs/ft/weo/2017/update/01/pdf/0117.pdf>.

crisis, merchandise trade rose to \$18 trillion in 2014 but has declined thereafter. Trade in commercial services in 2015 is nearly twice as high as in 2005. In value terms, it represents only a quarter of merchandise trade (see Figure 4).¹² Since the mid-2010s, trade officials have been fretting about what they initially called a global trade “slowdown.” In reality, world export volumes reached a plateau in early 2015. The new normal is pervasive in both advanced and emerging economies. Falling commodity prices do not explain the fall in the value of global trade. After all, raw materials trade recovered in part after 2015. Rather, the total value of both capital goods trade and consumer goods has plateaued, and the same goes for parts and components trade. Since 2010, some 50 to 100 protectionist measures have been implemented in the first four months of each year. Notably, G20 members were responsible for four-fifths of protectionist measures implemented in 2015.¹³

Similar to the global trade slowdown, world investment as the second pillar of globalization has been stagnating since the financial crisis. Before the crisis, world investment had soared to almost \$2 trillion, but the past decade has seen only stagnation. Global FDI flows fell 13 percent in 2016, reaching \$1.52 trillion (see Figure 5); global economic growth remained weak and world trade volumes posted anemic gains. In 2017, global FDI flows are projected to resume growth and surpass \$1.8 trillion in 2018 over the medium-term. Yet, even such projections remain almost 10 percent below the pre-crisis peak. Positive FDI prospects are hampered by weak global growth, soft demand, sluggish growth of commodity exporters, and the slump in multinational companies’ profits.¹⁴

World investment and migration have also fallen into stagnation in the past decade.

¹²WTO, *World Trade Statistical Review 2016* (Geneva: World Trade Organization, 2016), Chapter 1.

¹³In that year, protectionism was 50 percent up on that seen from the previous year, while policy initiatives harming foreign commercial interests in 2015 outnumbered trade liberalization three-to-one. See Evenett and Fritz, “Global Trade Plateaus.”

¹⁴UNCTAD *World Investment Report 2016* (New York: UNCTAD, 2016).

Fig. 4. World Merchandise Trade and Trade in Commercial Services, 2005–2015.

Source: WTO.

The world investment decline has not been equally shared across regions. A dip in FDI flows to developed economies (–9 percent) masked significant variations among countries. FDI flows to Europe fell 29 percent to \$385 billion, with a number of countries experiencing strong volatility in their inflows. The decline was tempered by modest growth in flows to North America (6 percent) and a sizable increase in investment in other developed economies, such as Australia and Japan.¹⁵

In addition, global migration — the third leg of globalization — is also slowing, particularly in advanced economies. International migrants

¹⁵UNCTAD, “Global FDI Flows Slip in 2016, Modest Recovery Expected in 2017,” *Global Investment Trends Monitor*, No. 25 (February 2017), <http://unctad.org/en/PublicationsLibrary/webdiaeia2017d1.en.pdf>.

Fig. 5. Global FDI Inflows, 1990–2015 (billions of U.S. dollars).

Source: UNCTAD.

accounted for a relatively small share of world population in 2015 (3.3 percent, compared to 2.9 percent in 1990).¹⁶ It is instructive to see these figures in historical context. Between 1870 and 1914, some 10 percent of the entire world population migrated in search for a better life. Despite current debates, world migration today is less than a third of what it used to be at the peak of the first wave of globalization. Globally, there were 244 million international migrants in 2015. Of these, nearly 58 percent lived in the developed regions,¹⁷ while the developing regions¹⁸ hosted 42 percent of the world's total [see Figure 6(a)].¹⁹

¹⁶Between 1990 and 2015, the number of international migrants worldwide rose by 91 million, or by 60 percent. In the early 21st century, some 4.9 million migrants were still added annually. From 2010–2015, only 4.4 million were added on average.

¹⁷More developed regions comprise Europe, Northern America, Australia/New Zealand and Japan.

¹⁸Less developed regions comprise all regions of Africa, Asia (except Japan), Latin America and the Caribbean, plus Melanesia, Micronesia and Polynesia.

¹⁹UN, *International Migration Report 2015* (New York: United Nations, September 2016); and OECD, *International Migration Outlook 2016* (Paris: Organization for Economic Cooperation and Development, September 2016).

The new normal of migration is reflected by remittances, namely, funds sent home by migrants. Worldwide, an estimated \$582 billion was sent in 2015 by migrants to relatives in their home countries, a 2 percent decline (\$10 billion) from 2014. That year, migrant remittances worldwide plunged for the first time since 2009 [see Figure 6(b)].

(a) International Migrants by Major Area of Destination, 1990–2015 (millions).

(b) Migrant Remittance Inflows, 1970–2016 (US\$ billion)

Fig. 6. Migration, Remittances, Global Displacement, and Refugee Crises.

Sources: (a) UN; (b) World Bank and (c) UN Refugee Agency (UNHCR).

(c) Trend of Global Displacement & Proportion Displaced, 1996–2015 (End-Year)

Fig. 6. (Continued)

As migration flows decelerate or are being blocked, the number of globally displaced people has exploded. Since 2011, when UNHCR announced a new record of 42.5 million forcibly displaced people globally, these numbers have risen sharply each year, to more than 65 million in 2015. This is an increase of more than 50 percent in five years. Following the 9/11 terrorist attacks in 2001, the subsequent U.S.-led wars in Afghanistan and Iraq, the West’s interventions in North Africa and the Middle East, and elsewhere, conflicts and persecution have caused the greatest global forced displacement since 1945 [see Figure 6(c)].

In short, if global economic integration peaked around 2008, it has been in trouble ever since, except for a brief respite at the turn of the 2010s, thanks to massive stimulus packages, zero-bound interest rates and quantitative easing. The key indicators of globalization reflect progressive deterioration in early 2010s and even greater uncertainty in the second half of the decade. Even worse, for the first time since 1945, the United States, which has been playing a critical role in the postwar international multi-lateral institutions, appears to be moving away from free trade and toward mercantile protectionism.

The Eclipse of the U.S.’ Role in the Postwar Trade Regime

A few days after his inauguration, President Donald Trump announced U.S. withdrawal from the Trans-Pacific Partnership (TPP), which had been

negotiated for half a decade and was seen as President Obama's enduring legacy. Also, President Trump threatened that the United States would withdraw from the North American Free Trade Agreement (NAFTA) should Mexico and Canada refuse a renegotiation. Actually, President Trump did not create the trend toward protectionism in trade and isolationism in international affairs — he merely capitalized on both. Since the end of the Cold War, there has been a deepening gap between those Americans, who believe that the role of the United States in the world arena should not be overstretched at the expense of the American economy, and those, including some neoconservative Republicans and liberal internationalists, who believe in U.S. exceptionalism and America's "manifest destiny" as an "empire of freedom."

In the postwar era, the United States still accounted for more than a third of the global economy and most Americans believed that it should not go its own way in international matters, but pay great attention to international matters and think in international terms. There have been exceptional periods, for instance, the Vietnam War, the 9/11 terrorist attacks, and the demise of the Bush terms in 2008, when Americans have had increasing doubts about the U.S. role in the world. After the Cold War, more and more Americans have come to believe that the United States should go its own way in international matters and concentrate more on national problems. Most importantly, President Trump managed to capitalize on the frustration of those Americans, who accounted for the majority in 2016 and believed that the United States should mind its own business internationally and let other countries get along the best they can on their own (see Figure 7).²⁰

What makes real change so elusive in U.S. politics is the reality that political polarization between and within the two dominant parties is so deep. Until the 9/11 terrorist attacks, there was real fluctuation among those who were satisfied or dissatisfied with "the way things [we]re going in the United States." After the early 2000s, a huge gap has

²⁰"Public Uncertain, Divided Over America's Place in the World," May 5, 2016, Pew Research Center, <http://www.people-press.org/files/2016/05/05-05-2016-Foreign-policy-APW-release.pdf>.

(a) *Unilateralism*. "Since the U.S. is the most powerful nation in the world, we should go our own way in international matters, not worrying too much about whether other countries agree with us or not."

(b) *Disengagement*. "The U.S. should mind its own business internationally and let other countries get along the best they can on their own."

Fig. 7. Long-Term Attitudes Toward U.S. Global Involvement.

Source: Carroll Doherty *et al.*, "Public Uncertain, Divided Over America's Place in the World," Pew Research Center, 2016.

(c) *Isolationism*. "We should not think so much in international terms but concentrate more on our own national problems and building up our strength and prosperity here at home."

Fig. 7. (Continued)

separated those Americans who are satisfied with the status quo and those who are not.²¹

Trump's "America First" protectionism will harm the U.S.' long-term interests and leadership role in promoting global trade.

As President Trump moved ahead with appointments, he virtually ensured potential for serious trade friction. He selected Peter Navarro, the author of sensationalist China-bashing books (*The Coming China Wars*, 2005; *Death by China*, 2011 and *What China's Militarism Means for the World*, 2015), to head the new National Trade Council (NTC), which would oversee industrial policy in the White House. While news media portrayed Navarro's appointment as a sudden move towards trade protectionism in America, the reality is that Navarro had long struggled to gain a voice in Washington

²¹Ibid.

and the White House.²² In addition, DiMicco, former CEO of the largest U.S. steel company Nucor and vocal free trade critic, became President Trump's trade adviser;²³ and former Reagan administration trade hawk Robert Lighthizer was appointed as U.S. Trade Representative. The three would work with Secretary of Commerce, billionaire Wilbur Ross, a bankruptcy expert who made a fortune by offshoring American jobs and who calls China "the world's most protectionist country."²⁴

Targeting the U.S. deficit, Trump's trade warriors began their work by singling out nations that had large trade surplus with the United States. In 2016, the deficit list was topped by China (\$347 billion), whereas for Japan, Germany and Mexico, the deficit only exceeded \$60 billion each. By default, big countries tend to have bigger deficits (or surpluses). However, with its huge population, China is in a class of its own. Understandably, the Trump warriors ignored the size of these surpluses on a per capita basis. Taking into account the population size, Germany (\$831) was by far the deficit leader followed by Japan, Mexico, while China (\$262) is far behind (Figure 8).

In substance, Trump's bilateral deficit obsession is a relic from the mercantilist era. Historically, U.S. trade deficits began in the 1970s, not with China's rise in the 2000s. Moreover, these deficits are multilateral, not

²²Navarro is a Republican insider who advised President George W. Bush and Mitt Romney's failed campaign. See Dan Steinbock, "Trumping World Trade," Roubini's EconoMonitor, January 24, 2017, <http://www.economonitor.com/blog/2017/01/trumping-world-trade/>. On Navarro's *Death by China* book and documentary, which portray China as the biggest threat to global peace since Nazi Germany, and the associated financial abuses and legal proceedings, see Dan Steinbock, "The Quest to Demonize China," China-U.S. Focus, August 9, 2013, <http://www.chinausfocus.com/finance-economy/the-quest-to-demonize-china/>.

²³Before the great recession, Nucor made fortunes. In 1995–2005, its stock price rose from \$15 to \$20. Thereafter, it almost tripled to \$75 in mid-2008, followed by a plunge to less than \$34 in February 2009. That year Nucor suffered a loss of \$293 million. It was then that its executive chairman Dan DiMicco and Navarro began to cowrite op-eds blaming U.S. trade deficits on China's currency manipulation (*Wall Street Journal*), decrying China's "weapon of mass production" (*San Francisco Chronicle*), and urging Washington to "get tough" with China (*Barron's*).

²⁴Matt Egan, "Wilbur Ross Calls China 'the Most Protectionist Country,'" CNN Money, January 18, 2017, <http://money.cnn.com/2017/01/18/investing/wilbur-ross-hearing-trump-commerce-secretary/index.html>.

(a) U.S. Trade Deficit Contributors on Aggregate Basis, 2015 (US\$ billion)

(b) U.S. Trade Deficit Contributors on Per Capita Basis, 2015 (US\$)

Fig. 8. Targeting U.S. Trade Deficit.

Source: Trade Map, International Trade Center (ITC).

bilateral. They have prevailed for more than four decades with Asia, first with Japan, then with the newly-industrialized Asian tigers and more recently with China and emerging Asia. However, since Trump won the presidency with his mercantilist rhetoric, he needs perceived deficit concessions.

Consequently, there was great interest in the first Trump-Xi Summit, which many saw as a harbinger of things to come. Despite preliminary pessimism, the Trump-Xi Summit showed greater trade pragmatism than expected. Starting with Deng Xiaoping's economic reforms, U.S.-China merchandise trade has grown from \$2 billion in 1979 to \$579 billion in 2016.

Today, China is the United States' second-largest merchandise trading partner, third-largest export market, and biggest source of imports.

At Mar-a-Lago, besides the Trump-Xi talks, U.S. cabinet officials held meetings with their Chinese counterparts, with the economic team led by Treasury Secretary Mnuchin, and a trade meeting including Commerce Secretary Wilbur Ross and Director of the National Economic Council Gary Cohn. It was a Goldman Sachs play. Mr. Cohn is the investment bank's former president, and Mr. Mnuchin is its former hedge fund manager. The two support a tough but more cooperative approach with China. However, the White House advisers had been split by internal battles between those Trump advisers (Navarro and DiMicco) who advocate aggressive measures to challenge China on trade, and their opponents (Mnuchin and Cohn) who prefer a moderate tone. While sympathetic to the trade hawks, Secretary Ross leans toward the moderates. Like President Trump, the moderates know only too well that short-term wins in trade battles could easily be undermined by long-term friction in bilateral relations that could hurt vital U.S. fiscal, monetary and security interests.

Moreover, the Trump administration has great interest in closer investment cooperation. In 2015, barely 1 percent of the stock of U.S. FDI abroad was in China. But things are changing. After U.S. investment in China peaked at more than \$20 billion in 2008, it has remained at around \$12–15 billion annually. In the same period, China's investment in the United States soared from a few hundred million dollars to \$15 billion in 2015, tripling to \$45 billion in 2016. Since 2008, Washington and Beijing have been in talks about a bilateral investment treaty (BIT) to expand investment opportunities in the two countries.²⁵ While the original goal was to complete an agreement by the end of President Obama's second term, the latter's geopolitical plays undermined the investment objective. Somewhat like China's accession into the WTO, China's pursuit of a BIT with the United States offers domestic gains as well. It could accelerate structural

²⁵One possible bilateral scenario that has been discussed involves Chinese investment in U.S. infrastructure, including bridges, roads and airports. Beijing is interested in such prospects, but the Trump administration would have to reconcile such ideas with its "Buy America" doctrines. While the BIT would certainly facilitate investments in the two nations, it would support Trump's infrastructure initiatives. Nevertheless, the Trump administration would have to portray it as a trade pact that would not result in U.S. jobs being offshored to China.

economic reforms in the country and is very much in line with President Xi's medium-term goals and the rebalancing of the Chinese economy.

After the two-day summit at Mar-a-Lago, the United States and China announced a 100-day plan to improve strained trade ties and boost cooperation between both nations.²⁶ The simple reality is that, without efforts at stabilization in the China-U.S. relations, aggressive bilateral rhetoric could derail more than four decades of bilateral normalization. As President Xi said at Mar-a-Lago: "There are a thousand reasons to make the Sino-U.S. relationship work, and no reason to break it."²⁷

China and the Advent of South-South Globalization

In contrast to the United States, China's trade stance in the late 2010s was fueled by efforts on continued globalization, as reflected by China's G20 leadership last year, and a strong push for free trade and investment, with parallel efforts to alleviate the adverse side-effects, as illustrated by President Xi's 2017 speech in Davos. Nevertheless, China's approach to globalization was economically constrained by ongoing domestic efforts at cyclical stabilization, which were necessitated by deleveraging after the dramatic rise of local debt associated with the 2009 stimulus package, and secular challenges, which ensued from the massive rebalancing of the Chinese economy and were likely to endure until the late 2020s.²⁸

²⁶Reportedly, China will offer better market access for U.S. financial sector investments, while ending the ban on U.S. beef imports that has been in place almost 15 years. While Washington would like Beijing to lower the 25 percent tariff on automotive imports, Beijing would like Washington to relax restrictions on advanced technology sales to China. Meanwhile, the Trump administration is preparing an executive order that would probe dumping from foreign companies and could result in tariffs, while steel and aluminum will be targeted. See Tom Mitchell and Shawn Donnan, "China Offers Concessions to Avert Trade War with U.S.," *Financial Times*, April 10, 2017, <https://www.ft.com/content/6c14b8fe-1ce5-11e7-a454-ab04428977f9>.

²⁷"From Mar-a-Lago, Xi Sets Course for China-U.S. Relations," Xinhua News, April 8, 2017, http://news.xinhuanet.com/english/2017-04/08/c_136192659.htm.

²⁸Critics are right to note that as long as China's credit target of 13 percent is twice the nominal GDP, growth will be fueled by reduced quality. In the past two years, the banks' non-performing loans have almost doubled to nearly 6 percent. Yet, these facts are known in Beijing. In May 2016, a top government source described leverage as the source of all other risks, while advocating comprehensive reforms of state-owned enterprises.

Yet, the distinction between the two — China's short-to-medium-term cyclical fluctuations and longer-term secular rebalancing — remained understood internationally. In August 2016, Harvard economist Kenneth Rogoff sent grave warning about China's economy and its effects towards the world. As a former IMF chief economist and the coauthor of a 2009 bestselling though controversial debt analysis, his comments carried weight in markets.²⁹ According to Rogoff, China was headed toward or amid a "hard landing." Yet, the story was more complex. Usually, hard landing is accompanied by the central bank's rate hikes to slow growth. But in China, the People's Bank of China (PBOC) had been cutting rates down. Typically, hard landing also implies rising inflation. Yet, in 2015–2017, Chinese inflation was expected to increase but remain between 1.5 and 2 percent. Moreover, hard landing is predicated on a business cycle. Yet, China's cyclical growth seems to be stabilizing. And while hard landing often indicates recession, Chinese growth remains over 6 percent; 3 to 4 times that of advanced economies. In short, China was experiencing structural deceleration, instead of a cyclical recession. After intensive industrialization, such deceleration has been typical of all maturing

²⁹Nevertheless, austerity advocates have only too often overstated their case. Rogoff built his case on the debt-to-GDP gap. This ratio was developed after the global crisis to quantify "excessive credit." Large gaps (China's exceeded 30 percent) have been found to be an early warning indicator of banking crises or severe distress. However, the ratio has also been criticized for measurement problems. It can result in policies that conflict with intended goals; for instance, stringent austerity measures may aggravate challenges. Finally, credit gap has not been seen as an effective indicator for banking crises, especially in emerging economies. Indeed, while the bestselling debt report *This Time it is Different* (2009) by Rogoff and his coauthor has widely been used as a pretext for neoliberal austerity policies in the advanced economies, the authors' periodization has been dictated by their ideological bias, as Paul Krugman has argued, and relied on flawed statistical methods, as critics have shown. On the debt debate, see Kamal Ahmed, "China Slowdown is Global Economy's Biggest Threat, Rogoff Says," BBC, September 26, 2016, <http://www.bbc.com/news/business-37468566>; and Dan Steinbock, "China is Facing Growth Deceleration, not Hard Landing," China.org.cn, December 10, 2016, http://www.china.org.cn/opinion/2016-12/10/content_39882686.htm. On the Reinhart-Rogoff methodological errors, see Dean Baker, "The Reinhart-Rogoff Debt-to-GDP Error: Why it Matters," CEPR Blog, April 18, 2013, <http://cepr.net/blogs/cepr-blog/the-reinhart-rogooff-debt-to-gdp-error-why-it-matte>. On debt-to-GDP gap research, see Mathias Drehmann and Kostas Tsatsaronis, "The Credit-to-GDP Gap and Countercyclical Capital Buffers: Questions and Answers," *BIS Quarterly Review*, March 2014, pp. 55–73.

economies. In China, it is also the goal of economic rebalancing. Unlike major advanced economies, China is implementing structural reforms, even amid its cyclical challenges.

As a defender of globalization, China has been advocating for free trade and investment with prudent management of the domestic economy.

Indeed, cyclical stabilization began to strengthen in China around the third quarter of 2016, when economy grew 6.7 percent for a third consecutive quarter.³⁰ After the solid first quarter performance in 2017, the central government was in the unique position to achieve its growth target, even while tightening.³¹ According to the IMF, the world economy was also gaining momentum. Yet, such prospects could be undermined by a broad array of forces, including renewed “America First” protectionism,

post-elections turmoil in Europe, geopolitical friction, refugee crises, and broad-scale terrorism. Consequently, even as China assumed a more visible role in globalization internationally, its credibility continued to be debated in the advanced West as even cyclical stabilization would still be misinterpreted as further evidence of China’s so-called “hard landing.”

Since the 1980s, the role of Brazil, Russia, India, and China in the world economy has been prominent. When Goldman Sachs’s Jim O’Neill introduced the concept of BRICS (Brazil, Russia, India, China, and South Africa) in early 2000s, the economic output of these countries was less than 15 percent of the G6 (the United States, Japan, Germany, France, UK, and Italy) in U.S. dollar terms. However, long-term projections indicated that, by the early 2040s, the BRICS economies together could be larger than the G6. This

³⁰Manufacturing and service sectors may have bottomed around 2015/2016 and risen since, while consumer price inflation rose to 1.9 percent in fall 2016. After seasonal adjustments, exports and imports reflected stabilization as well. In the first quarter of 2017, China’s economy grew 6.9 percent; slightly faster than expected and led by strong expansion at factories. See Dan Steinbock, “China’s 3Q Indicates Cyclical Stabilization Secular Challenges,” *China Daily*, October 25, 2016, http://www.chinadaily.com.cn/opinion/2016-10/25/content_27166933.htm.

³¹Dan Steinbock, “The Real Story of China’s Strong First-Quarter Growth,” *China Daily*, April 20, 2017, http://africa.chinadaily.com.cn/opinion/2017-04/20/content_29008298.htm.

transition does not require economic miracles, but it will not materialize without pro-growth preconditions, including macroeconomic stability, relatively high investment rates and openness of the economy, increasing technological capabilities, growing emphasis on human capital, and political stability.³² Historically, global economic integration was initiated by the UK and other major advanced economies. While their share is now in relative decline, that of the BRICS and other large emerging economies is on the ascent. In turn, these shifts in GDP are mirrored by world trade, investment and migration. In each case, absolute values may continue to increase, but relative terms reflect the erosion of major advanced economies and the expansion of large emerging economies.

Essentially, the world has witnessed a rise of South-to-South trade in recent years. A simple review of merchandise trade of WTO members by region shows that Asia, Europe and North America accounted for 88 percent in total merchandise trade of WTO members over the past decade. What is even more significant is that the share of developing economies in merchandise exports increased from 33 percent in 2005 to 42 percent in 2015. In short, the share of developing economies has increased by a third in the past decade, whereas that of developed economies has declined by a fourth (see Figure 9).

Since 2010, South-to-South trade has recorded stronger growth than trade with developed economies and with the Commonwealth of Independent States (CIS).³³ In recent years, trade has grown unevenly among the five developing regions (Africa, developing Asia, developing Europe, Latin America and the Middle East) due to political stability, dependence on commodity exports, and changes in global commodity prices. Oil exporters in developing economies have seen their exports fall significantly due to the global oversupply and falling demand as a result of sluggish

³²Dominic Wilson and Roopa Purushothaman, "Dreaming with BRICS: The Path to 2050," Goldman Sachs Global Economics Paper No. 99, October 1, 2003, <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/brics-dream.pdf>.

³³The Commonwealth of Independent States (CIS) was formed when the former Soviet Union (today Russia) dissolved in 1991. At its conception it consisted of 10 former Soviet Republics: Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Fig. 9. Rise of South-to-South Trade.

Source: WTO.

growth globally.³⁴ In 2015, merchandise exports of WTO members totaled \$16.2 trillion, while developing economies had a 42 percent share in world merchandise trade. In turn, exports of commercial services by WTO members totaled \$4.68 trillion, while developing economies accounted for 36 percent of total trade in commercial services in 2015. In short, the share of developed economies in world merchandise trade and commercial services has become significant in a short time.³⁵

Second, the South-to-South investment has also been on the rise. In 2016, global FDI flows fell by 13 percent. Before the burst of technology bubble in 2000–2001 and the financial bubble in 2007–2008, the share of developed economies in world FDI flows were dominant. Nevertheless, the share of developing economies in these flows steadily climbed from barely 15 percent in the early 1990s to more than 50 percent in 2014. Recently, the share of developed economies has reached 57 percent of the total. Nevertheless, the share of developing economies is likely to continue its steady

³⁴The share of fuels in developing countries' exports fell from 25 percent in 2012 to 21 percent in 2014. Commodity-dependent regions showed double-digit declines (annual percentage change) in exports in 2015 in contrast to developing Asia, which was buoyed by its manufacturing sector.

³⁵WTO, *World Trade Statistical Review* 2016.

Fig. 10. Global FDI Inflows by Group of Economies, 1990–2015 (billions of U.S. dollars).

Source: UNCTAD.

climb, while the bubble-fueled gains of developed economies are likely to diminish in the future (see Figure 10).³⁶

Moreover, developing economies continue to comprise half of the top 10 host economies. In 2015, the United States remained the largest recipient of FDI, attracting an estimated \$385 billion in inflows, followed by the UK with flows of \$179 billion. China remained in third position with a record inflow of \$139 billion. Perhaps to prepare for the rise of new protectionism, FDI inflows into the United States have recently surged, exceeding FDI outflows by a fifth. In the case of China, FDI outflows first exceeded FDI inflows around the mid-decade.³⁷

Thirdly, there is an obvious increase in South-to-South migration. In 2015, there were 244 million international migrants. Of these, nearly 58 percent lived in developed regions, while developing regions hosted

³⁶UNCTAD, "Global FDI Flows Slip in 2016, Modest Recovery Expected in 2017."

³⁷Ibid.

42 percent of the world's total. Of the three major immigration destinations — Europe, Asia and North America — the first two regions combined hosted nearly two-thirds of all international migrants worldwide in 2015, about 75 million in each. Despite media hoopla, international migrant inflows to North America have been on a decline, whereas Asia has added more international migrants than any other region since 2000.

Between 1990 and 2015, international migrant stock soared from almost 153 million to 244 million. At the same time, the share of international migrants in developed economies rose by a few percentage points to 57 percent of the total. Concurrently, the share of international migrants in developing regions rose from almost 80 percent to some 84 percent of the total. Finally, the annual rate of change of the migrant stock in developed regions has been on a decline ever since the mid-2000s, whereas that in developing regions has soared (see Figure 11).³⁸

Remittances sent home by international migrants from developing countries are estimated to have risen to \$432 billion in 2015, an increase of only 0.4 percent over the previous year. India was the largest remittance-receiving country, with an estimated \$69 billion in 2015, followed by China (\$64 billion) and the Philippines (\$28 billion). Growth of remittances slowed considerably to 0.4 percent in 2015 from the growth rate of 3.2 percent in 2014 and of 7.4 percent a year from 2010 to 2013. This is the lowest growth rate since the global financial crisis in 2008–2009 and it was amplified by the

(a) International Migrant Stock at Mid-Year, 1990–2015

Fig. 11. Trends in International Migrant Stock, 1990–2015.

Source: UN.

³⁸UN, *International Migration Report 2015*; and OECD, *International Migration Outlook 2016*.

(b) Total Population at Mid-Year, 1990–2015

(c) Annual Rate of Change of the Migrant Stock, 1990–2015 (%)

Fig. 11. (Continued)

appreciation of the U.S. dollar against other major currencies, including the Euro and the Ruble. Between 2010 and 2018, remittance flows to developing countries are projected to increase from \$332 billion to \$485 billion. Nevertheless, growth rate of remittance flows is expected to decrease from 11.4 percent in 2010 to 4.1 percent in 2018.³⁹

Despite the international media focus on migration burden in Europe or the threat of migrants in the United States, developing countries, rather than advanced ones, hosted 17 of 20 of the world's refugees under

The enormous increase of South-to-South trade, investment and migration marks the great shift of globalization.

³⁹See Dilip Ratha *et al.*, "Migration and Remittances: Recent Developments and Outlook," World Bank, April 11, 2014, <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief22.pdf>.

2015: Forced Displacement Hits a Record High

Conflict and persecution caused global forced displacement to escalate sharply in 2015. Now at the highest level ever recorded, it represents immense human suffering around the world.

Source: UNHCR / 20 JUNE 2016

Fig. 12. The UNHCR Infographic About Global Forced Displacement.

UNHCR's mandate in 2015. The number of refugees received by developing countries reached 14 million, the highest in more than two decades (see Figure 12).

In the past few years, most refugees have come from the Middle East (Syria), South Asia (Afghanistan), the Horn of Africa (Somalia, South Sudan, Sudan, Eritrea), Central Africa (Democratic Republic of Congo, Central African Republic), as well as Southeast Asia (Myanmar) and Latin America (Colombia). These crises have been triggered by the U.S.-EU military interventions during the wars in Afghanistan and Iraq in the 2000s and in the aftermath of the Arab Spring in the early 2010s. In turn, the latter have spilled over to the Horn of Africa, amplifying decades-long civil strife, along with Central Africa's crises. Conversely, the major refugee-hosting countries are in close proximity to Europe and the Middle East (Turkey, Lebanon, Iran, Jordan), South Asia (Pakistan) and Africa (Ethiopia, Kenya, Uganda, Democratic Republic of Congo, Chad). In a word, the wealthy

nations are not hosting most of the “wretched of the earth.” Rather, it is the wretched who struggle to host even more wretched.⁴⁰

Conclusion

Global economic integration is not history and protectionism has not yet triumphed. As a misguided bilateral distraction in multilateral trade, deficit targeting does not mean the end of globalization. Rather, as the disaggregation of the basic indicators of globalization suggests, the ability and willingness to sustain globalization are at crossroads in major advanced economies. In contrast, most large emerging economies are both able and willing to promote world trade, investment and migration.

Since 2008, the efforts of the BRICS economies to establish new emerging-economy multilateral banks, such as the BRICS New Development Bank (NBD) and the Asian Infrastructure Investment Bank (AIIB), reflect their ability and willingness to foster global economic integration, even when large advanced economies remain mired in secular stagnation. In particular, China’s massive “One Belt One Road (OBOR)” initiative offers an impressive harbinger of South-to-South globalization that is fueled by accelerated industrialization in regional proximity. Yet, a perception remains in the advanced West that emerging economies, including China, are not “carrying their weight” internationally. That perception is partly misguided and overshadowed by advanced economies’ own agendas.

In 2005, Robert Zoellick, then U.S. Deputy Secretary of State, urged China to become a “responsible stakeholder” in the international community.⁴¹ In his remarks, Mr. Zoellick described the U.S.-China relationship as one that must be built on both shared interests and values.

⁴⁰The term is from the anti-colonial Algerian philosopher-psychiatrist Frantz Fanon. In the mid-20th century, Fanon stressed that the old confrontations — colonialism versus anti-colonialism, capitalism versus socialism — are losing their importance. “What matters today, the issue which blocks the horizon, is the need for a redistribution of wealth,” he wrote. “Humanity will have to address this question, no matter how devastating the consequences may be.” See Frantz Fanon, *The Wretched of the Earth* (New York: Grove, 2006), pp. xvii-xviii.

⁴¹Robert B. Zoellick, “Whither China: From Membership to Responsibility?,” Remarks to National Committee on U.S.-China Relations, New York City, September 21, 2005, <https://2001-2009.state.gov/s/d/former/zoellick/rem/53682.htm>.

Unsurprisingly, the notion was quickly embraced by the American policy community.

In addition to topical motivations, Mr. Zoellick's statement did highlight other, more fundamental considerations. First of all, it suggested that the integration of China into the international system was mainly a U.S. achievement. In reality, the normalization of bilateral ties was a part of far broader reforms, which were multilateral and international by nature. Second, Deng Xiaoping's economic reforms and opening-up policies did not emulate the kind of deregulation, privatization and liberalization, which later gave rise to the Washington Consensus.⁴² Rather, Deng's reforms drew lessons from Japan, the newly-industrialized Asian tigers (Hong Kong, Singapore, Taiwan, South Korea) and other developing nations, particularly in proximate Asia.⁴³ Third, the tacit implication of Mr. Zoellick's thesis was that during the previous decades China had been neither responsible nor a stakeholder in the international community. Certainly, during its most intensive decades of industrialization, China's main focus was internal, just as was the case with the United States and the European powers in the 19th century. Mr. Zoellick's idea may reflect Washington's views, but certainly not the realities of international affairs. Rather, Beijing's view of what it means to be a responsible stakeholder in the international community differs significantly from that of Washington. Having suffered from a century of colonial humiliation, China understandably emphasizes non-intervention, whereas the United States, a former colonial power and firm believer in its manifest destiny, has seen regime change as politics by other means. Fourth, unlike Washington, Beijing had only a marginal role in the creation of the postwar order, while its efforts to speed up global governance reforms have not been seconded in Washington, despite rhetoric.

⁴²The term Washington Consensus was coined in 1989 by John Williamson to describe a set of relatively specific economic policy prescriptions of a "standard" reform package promoted for crisis-wracked developing countries by the IMF, World Bank and the U.S. Treasury Department. Subsequently, the term came to refer to a broader market-based orientation.

⁴³American ideas of modernization, as they emerged in the 1950s, were never embraced as such in the so-called Third World in the 1960s and 1970s. In China, in particular, Zhou Enlai had conceived of the "Four Modernizations" already in the mid-1960s, even though political consensus to implement those reforms became possible only with Deng Xiaoping's reforms in the 1980s.

Fifth, as the largest emerging economy, China's values and interests cannot be similar to those of the United States', nor should the U.S.-China ties be built on such factors. As long as per capita incomes between the United States (\$57,436) and China (\$15,399) differ by a factor of four,⁴⁴ it would be naive to presume such convergence. Nevertheless, it is vital for China to build bilateral ties with the United States and other major advanced economies in those areas where joint interests prevail and joint values exist or emerge over time.

There are significant differences between the U.S.' and Chinese views of international affairs and globalization, due to divergence regarding bilateral and multilateral relations, modernization and reforms, the role of non-intervention and regime change in international affairs, the legitimacy and reality of international order created by advanced economies, and the appropriate policy space for common values and interests in global governance. Nevertheless, there are equally significant joint interests for both nations to support global economic integration, even in adverse circumstances. What are the lessons of the past crises of globalization and these new developments?

First of all, crises of global economic integration are by default multilateral and have global repercussions. Any effort to penalize a single economy via bilateral deficit targeting reflects crisis participants' unilateral partisan strategies. Such efforts are part of the problem, not the solution.

Next, the first globalization crisis, which ensued amid the two oil crises in the 1970s, involved mainly major advanced economies opting for geopolitical solutions that were designed to sustain their interests in world trade, investment and migration, and not those of the emerging and developing economies. What is really needed, however, are solutions that reflect the interests of both sets of economies, not just one or the other. Today, the crossroads of globalization involves all major economies. As the Trump White House has proved less willing to lead the 21st century

More inclusive participation of China and other emerging economies should be encouraged to address the globalization crisis.

⁴⁴As measured by inflation-adjusted GDP per capita and data by the IMF.

globalization, China has taken a more proactive role. In this new, evolving status quo, in which large emerging economies fuel most of the global growth prospects, these very same economies should not be penalized for efforts at sustained rapid economic development. New trade barriers will not allow advanced economies to overcome their secular stagnation, rather they certainly have much potential to broaden and deepen the malaise.

Moreover, through the OBOR initiative in particular, Chinese overcapacity can serve and catalyze industrialization and modernization in emerging economies that participate in the initiatives, which also offer opportunities to advanced economies. Historically, such initiatives have had an energizing impact on globalization. In the globalization crises, international observers tend to rely on aggregate data. However, this data should also be assessed (1) in terms of the level of economic development, because emerging economies have great capital, energy and raw material needs due to their earlier phases of development and (2) in per capita terms, because large economies have larger aggregate demand by default. In effect, aggregate data is often seized to justify protectionist measures, even though per capita figures may significantly differ from such data, as evidenced by the ongoing steel overcapacity crisis, for instance. As Washington and Brussels are targeting China as the largest aggregate producer, what is ignored is the simple reality that in per capita terms, China's overcapacity falls behind that of South Korea and Japan.⁴⁵

Finally, any sustained success in overcoming the ongoing crisis of global economic integration must be based on multilateral cooperation with all major advanced, emerging and developing economies that will seek to reduce distortions and imbalances in the flows of trade, investment and migration. But that cooperation will also ensure emerging economies' opportunities to participate in globalization and thus rising global growth prospects.

The globalization of the 21st century will differ from that seen in the postwar 20th century. In April 2017, the EU and China pledged closer cooperation on trade and geopolitical issues amid lingering concerns about

⁴⁵Compare Dan Steinbock, "Overcoming the Second Major Steel Crisis," *China Daily*, September 19, 2016, http://www.chinadaily.com.cn/cndy/2016-09/19/content_26826100.htm.

U.S. protectionism under President Trump.⁴⁶ Nevertheless, only days thereafter, member countries of the IMF vowed to work together to reduce global imbalances but failed to repeat their past pledge to resist all forms of protectionism.⁴⁷ Their communiqué largely adopted the trade language from the Baden-Baden G20 statement after U.S. Treasury Secretary Mnuchin noted that the anti-protectionism pledge was “no longer relevant.” It was a diplomatic way of framing the new status quo, which insisted on old phrases but refused to acknowledge new realities. In the past, world trade, investment and migration featured mainly North-to-North and North-to-South flows. In the future, the indicators of globalization will be characterized by South-to-North and South-to-South flows in particular. Globalization may have started in the advanced West; it will be completed in the emerging East.

⁴⁶Eszter Zalan, “China and EU Push for Global Free Trade,” *EUobserver*, April 20, 2017, <https://euobserver.com/eu-china/137619>.

⁴⁷Leika Kihara and Francesco Canepa, “IMF Members Set Aside Trade Split,” *Reuters*, April 22, 2017, <https://finance.yahoo.com/news/imf-members-set-aside-trade-210951744.html>.