



Shanghai Forum 2017 Perspective Highlights

Trade Slowdown, Reserve Globalization and The Choice of Asia and

China

ROUNDTABLE 07 Session One

13:30-15:30, May 27

Topic: The Challenge of Regional Integration and Globalization: Asia's Case

Chair: Luo Changyuan, Professor, Deputy Director, Institute of World Economy, Fudan University

Wan Guanghua, Professor, Senior Economist, Asian Development Bank Institute

Moderator: Wan Guanghua

Hua Min

Globalization and its Spillover Effects

Professor, Former Director, Institute of World Economy, Fudan University

The Globalization starts from the Industrial Revolution. And as the globalization is not a total Pareto Improvement process, it might be against in some area by some people. The global trade now meets 3 principle problems: the trade growth slows down, the cross-board capital declines sharply, and the normal population mobility is disrupted by the refugee problem. To look back to the history, we'll find there are all kinds of Non-Pareto Optimality in different phases. In the Sailing Era, the Europe chose the industrial civilization but the Asia chose the agricultural civilization, which leads to the totally different direction. In the Imperialism Era, the America offered land to the colonist and enjoyed the spillover, but the Latin America was only exploited for its resources. In the Trade Liberalization Era, China became the largest beneficial owner, but the income distribution became more unbalanced as well. In the Free Capital Flow Era, the capital has higher rate of return because of its better liquidity. So when we look forward to the future, the driving force of globalization will turn to concept, technology and culture, and they will be connected globally with the help of the internet.



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Quan Heng
Professor, Director,
Institute of World
Economy, SASS

Growing Income Inequality and Reverse Globalization: Asia's Case

During the 20-year globalization, the development of globalization is quite not equal, especially in terms of income. According to the data displayed, per capita income differences between developed and developing countries is very large. Income inequality will reduce the growth of trade. From a global perspective, regional income disparities are also great. In addition, there is great inequality in the output distribution. As time goes on, inequality in Asian countries is also increasing. Populism also shows signs of germination.

Therefore, globalization over the past 20 years is unfair globalization, which will delay the trend of globalization. But this does not mean that we must oppose globalization. What we should do is not to criticize globalization, but to study deeply and find effective solutions to meet the challenges of globalization, especially to solve the problem of unequal income distribution.

The trend of globalization is irresistible and unstoppable. Globalization has become a kind of phenomenon. We need to promote global inclusive development so as to realize global balancing. We need to have a more efficient global governance system and management system, and a micro governance system for global value chains to promote globalization. For example, I think China's "Belt and Road Initiative" is a good policy. Globalization could help us build a better Asia, contribute to the development of Asia, and promote the economic growth of all Asian countries.

Yu Miaojie
Professor, Deputy
Dean, National
School of
Development,
Peking University

The Day after Tomorrow: Evaluating the Burden of Trump's Trade War

Based on the assumption of the Sino-US trade war, this paper investigates the changes of trade flow, domestic production and welfare measured by real wages. Interestingly, this paper attaches great significance to input-output linkage in transmits these changes. In terms of preference and tradable intermediate analysis, this paper induces the relationship between main indicators and trade cost.

The empirical studies are divided into three cases: US imposing high tariffs, Sino-US trade war(without China's re-balance) and Sino-US trade war (with China's re-balance).These findings are ,in any cases concerned ,US will suffer a lot while China may be better-off if China can import from other countries. This paper also emphasize the significance of belt and road initiatives and the subsequent OFDI ,import and stronger cooperation.



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Cyn-young PARK Asian Regional Integration and the Role of China: Challenges and Opportunities
Director, Economic Research and Regional Cooperation Department, Asian Development Bank

The theme of Director Cyn-young Park is Decoupling Asia Revisited, which focus on the integration of Asian economies and China's role in it. The whole lecture is formed by three parts: the evolution of Asian Regional Integration, business cycle synchronization and macroeconomic interdependence. In addition, she studies Asian integration and trade through Chinese structural change. In recent years EEA's export market has become more diversified. US has become one of the largest absorber of EEA value-added export. After showing PRC's export and import, next part she shows that external shocks drive Asia's equity return volatility. Business cycle synchronization peaks during crisis times. Finally, she uses VAR model to illustrate the impulse responses of AXC business cycles to external shocks to prove macroeconomic interdependence.

Amelia PAULINO U.S. Regional Integration and Development: Does Asia Stand Out?
Senior Economist, UNCTAD

Regionalisation is expanding as the number and the coverage of RTAs are increasing. It is obviously RTAs drive international trade, and trade improves country's growth and has ambiguous impact on inequality and poverty, while RTAs are a development tool or not need to be clarified. Amelia examines whether growth and inequality fare differently in low-income countries by introducing two indices of regionalization measuring and empirically estimating of growth and distributional impacts of regional integration through RTAs. He finds that firstly, on aggregate, regional integration leads to increased GDP per capita growth through both bilateral channels. Secondly, a higher intensity of regionalism on average increases within country inequality. In conclusion, regionalism affects development through both country's policy and also the exposure to the policy of its trading partners. Regional integration leads on average to higher economic growth and higher inequality, while for developing countries it can result in lower inequality. The ability to capture gains from integration varies across developing country regional groups with developing Asia benefiting on par with the developed world. Three policy implications are – pursuit of RTAs by capacity-constrained countries may be a reasonable input to poverty-reduction goals; regionalism can be an important step to extra-regional agreements by enabling a broader section of the population to experience the gains from trade; national policies still have to be in place to realize the full potential of regionalization.

(Editor: Huang Yiyao)



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Trade Slowdown, Reserve Globalization and The Choice of Asia and

China

ROUNDTABLE 07 Session Two

15:45-17:30, May 27

Topic: The Way to Restart Regional Integration and Globalization: Asia's Choice

Chair: Luo Changyuan, Professor, Deputy Director, Institute of World Economy, Fudan University

Wan Guanghua, Professor, Senior Economist, Asian Development Bank Institute

Moderator: Luo Changyuan

**Peter PETRI
Professor,**

**Brandeis
University**

Alternative Strategies for Asia-Pacific Integration without the United States

In the past 60 years, liberal trade rules agreed under US leadership have reduced barriers and the cost of trade. But today, global rules are under threat. And we shall admit that the integration will not be led by U.S but by Asia, at least in the recent future. Wherever the risk of policy and economy will move to, connecting tightly and making the global trade stronger is still the priority for the whole world. To Asia, there are 3 integration approaches: the TPP without U.S, the RCEP led by ASEAN, and the Belt and Road led by China. Comprehensively, the third approach will create about \$1,600 billion to the world, and China, India, Russian, Central and SE Asian will be winners (please refer to Fan Zhai et.al, 2017, "China's Belt and Road Initiative: A Preliminary Quantitative Assessment." for more information). But to Asian countries, if they want to adopt the Belt and Road Plan, they should be aware of the high uncertainty of the geography, policy and investments practice. And it's more suitable to follow a multi-pronged strategy and focus on the first-mover advantage.

**Sheng Bin
Professor, Deputy
Dean, Graduate
School, Nankai
University**

How to Boost Global Trade Growth?

Over the past five years, Global trade has shown a downward trend. What is the cause of Global trade contraction? We can explain the problem from demand and supply perspective. In terms of demand, the most important thing is the global economic recovery. Demand-side factors include gloomy global economic recovery, slowdown of investment, fiscal tightening and financial deleverage and rising protectionism of trade and inbound FDI. Supply-side factors include the falling bulk commodity prices, the reallocation of the global value chain, the technological and institutional challenges of industrial upgrading and stagnation of multilateral trade negotiation.

The program to promote global trade: first of all, to understand



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changes in trade patterns, and then to find the highest priority policies to promote growth in global trade. From the traditional trade point of view, international production (domestic production, global sales), raw materials are basically from home, and international trade is carried out by foreign trade companies. From the point of view of trade policy, policy makers are more concerned about the priority of policy. In addition, we need some supplementary factors, such as trade, finance, trade credit, etc..

The pattern of trade has changed gradually, and the international production network has become a value chain. Foreign enterprises, small and medium-sized micro enterprises have also begun to join in the international trade. E-commerce and electronic commerce promoted the formation of big data and promoted the development of trade. The trade policy evolved from the first generation to the second generation, paying more attention to trade regulation and trade environment. Finally, trade connectivity and the building of related infrastructures are becoming increasingly important.

Ways to promote international trade: multilateral, bilateral (G20, WTO) and plurilateral (TISA, EPA) approaches. In different areas, a number of regional integration agreements have been established.

Trade is the best way to eliminate prejudices. Trade can not only bring wealth and prosperity, but also bring peace and cultural exchanges. For China and other developing countries, trade can promote institutional change and governance structure adjustment. Trade means a lot to us.

Huang Xianhai
Professor, Dean,
School of
Economics,
Zhejiang
University

The Driving Force of Export Product Quality Upgrading: China's Case
Prof. HUANG's research discloses the inaccuracy of the measurement index for the quality of the export, and there are little researches on this. In HUANG'S research, they adopt the unobserved market demand as an instrumental variable, build the dual-heterogeneity model, and make the quality of export goods endogenous. The research finds out 4 reasons for the different quality of the export goods: technology improvement, products 'transformation, trade convenience, and the demand shock. And in which, the technology improvement is quite rather stronger and steadier. The trade convenience is negatively affected. And the product transition is getting more increasing in influence.



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Zhang Ming
Senior Research Fellow, Institute of World Economics and Politics, CASS

The Latest Changes about China's Cross-border Capital Flow and RMB Exchange Rate

The theme of Director Zhang Ming is The capital outflow and RMB's depreciation, beginning with China's persistent capital outflow since 2014. Cross-border borrowing and lending, underground banking are major channels for capital outflow. Some capital outflow happened with the disguise of service trade deficit. PBC uses many methods including opening market operations by selling USD and buying RMB, which lead to the shrinking of China's foreign exchange reserve. In the future, RMB's exchange rate against USD can be expected from three periods: In short term is decided by the interest rate spread between China and USA; In middle term depends on the comparison between China's inflation and United States' inflation; In long term depends on the comparison between China's productivity growth and United States' productivity growth. The bilateral interest rate spread would still shrink; China's inflation rate would still be higher than United States; The uncertainty about China's structural reform next step; The emerging of financial risks and the strengthening of financial regulations. Therefore, in the short term: the current depreciation process is not over; In the mid or long term: the strength of RMB depend on the prospect of structural reforms in the near future.

Cheng Dazhong
Professor, Deputy Dean, Department of World Economy, Fudan University

GVC Participation and Employment Growth: How does China Interact with the United States

There is a close GVC linkage between China and the U.S. and the two countries' employment changes in opposite direction since China's accession into the WTO. How do China and the US interact with each other in affecting their employment growth given the current GVC division of labor? Cheng examines the mutual contributions of GVC partners to respective employment growth from technology and demand angles, quantifies the extent to which China and the US are dependent on each other in promoting mutual employment growth, and follows the structural decomposition analysis approach based on the seminal insights of Leontief. By applying the world input-output database from 1996-2009 at constant prices, Cheng finds both China and the US experienced employment growth during the sample period, mainly due to final-demand changes. As for the US, high-skilled employment grew but medium- and low-skilled employment declined. Technology-motivated employment changes are negative for the US, while China made positive rather than negative contributions to the US employment growth led by technology. From demand dimension, both countries are important to each other's employment growth, but the impact on employment is asymmetrical: the US is more important to China. Moreover, sector-level heterogeneity.

(Editor: Huang Yiyao)