

Three Faces of Globalization: Trump, Obama and Xi

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Introduction

- Insights from economic theory and empirical evidence to explain their approaches to globalization. Journey from economics to politics
- Simple message: policies of Trump, Obama and Xi can be viewed as different football tactics commonly associated with 3 well-known past and current managers
 - Conservative. Defend your advantage when ahead (Trump-Jose' Mourinho)
 - Press and increase your advantage when ahead (Obama-Jurgen Klopp)
 - Risk defense and emphasize attack when behind (Xi Jinping- Alex Ferguson)

Trump: Revenge of the 'Deplorables'

	Globalization/Free Trade	Anti-globalization/ Illiberal trade
Socially progressive	Obama/Biden Hillary Clinton	Bernie Sanders/ Elizabeth Warren
Socially conservative	Paul Ryan/Jeb Bush/ Marco Rubio/ Ted Cruz	Donald Trump

Why Anti-Globalization?

➤ Immigration

Impact on average native-born workers, including low skilled is small

➤ Trade Theory (Heckscher-Ohlin model)

- Factor-price equalization theorem: Free trade equalizes factor prices
- Stolper-Samuelson theorem: Increase in the price of one good increases real income used intensively in the production of that good and decreases real income of the other good.

Life Experiences and Anti-Globalization

- Stagnant earnings for the median worker. Since 1979, real output per capita in the US has expanded by a cumulative 80%, but median real weekly earnings of F/T workers have grown by only about 7% - attributable largely to higher wages and working hours for women. Male workers' real median weekly earnings have declined since 1979 (Bernanke 2017)
- Census data - 90 per cent of Americans born in the 1940s would go on to earn more as adults than their parents did, but that only about 50 per cent of those born in the 1980s would do so. Latter group entered labour market in late 1990s and early 2000 at time when China's manufacturing took off (Chetty et al. 2016)

'China Syndrome'

- Value of annual US goods imports from China increased by 1,156% (1991-2007), US exports to China increased much less. Displaced workers had fewer unskilled jobs to shift to. Workers displaced from low-skilled jobs are unable to transfer to other jobs, because they do not have the necessary basic generic skills
- Depressed labour participation and wages and long-lasting high unemployment. Affected workers face higher job turnover and reduced lifetime income (Autor, et al. 2013)

From Economics to Trumpian Politics I

- In the 2016 presidential election, if Chinese import competition had been 50% lower during the period of analysis, electoral votes in the key states of Michigan, Wisconsin and Pennsylvania would have gone to Hillary Clinton (Autor et al. 2017).
- From 2000-6 in presidential elections, counties with greater trade exposure shifted towards the Republican candidate (Autor et al. 2020)

From Economics to Trumpian Politics II

- Stolper-Samuelson- Better educated skilled workers benefit, unskilled hurt, reflected in 2016 presidential election. Clinton won 274 counties (64% of output relied on skilled labour), Trump won 2,584 counties (36% of output) (Muro, Brookings 2016)
- Climate change- US has comparative advantage in high tech manufacturing and highly skilled services, not in fossil fuels. High-emitting states, mostly Republican, are heavily invested in the fossil-fuel economy - producers of oil, natural gas, and coal, or as large consumers of low-cost, coal-powered electricity (partly because several are manufacturing centres. Democrat states are often urban. They embrace low-carbon energy sources and generate less carbon because they have embraced digital and other services.

Pillars of Trump's Economic Policy I

- Withdrew US from the Trans-Pacific Partnership (TPP) and weakens WTO.
Decoupling is good
- A zero-sum game (surplus good, deficits bad)
- Tariffs strengthen the economy
- Traditional manufacturing jobs are important
- Current account imbalances should be addressed by bi-lateral trade agreements. No attention to domestic savings

Pillars of Trump's Economic Policy II

- Immigration
 - Discourage
- Climate Change (one of the protocols in TPP)
 - Out of Paris agreement
- Trade policy is backward looking
 - Priority on protecting home market and its low-tech sectors where US does not enjoy comparative advantage instead of promoting the sectors where it has comparative advantage
 - Restrict export of technology

Obama's Vision I

- Forward looking with strategic intent: consolidate US position as the global ruling economic power
 - Freer trade and supports immigration into US
 - Takes climate change seriously
 - Focuses on rule setting- what rules and who enforces. Obama believes US sets the rules with TPP (2016 State of the Union address)
- Bilateral investment treaty (BIT)
 - Framework for foreign acquisitions, with guarantees of non-discriminatory treatment, protects investments from expropriation, and access to investor-state dispute settlement (ISDS) process

Obama's Vision II

- Obama's TPP: Difference of TPP from RCEP- tighter rules on IPP and SOEs, and ability of host countries to regulate MNCs
- IPP required as incentive to innovate, but time of IPP should be limited- otherwise give rise to permanent monopolies/oligopolies – reduces competition and slows future innovation. Unduly favors first-movers and penalizes followers
- Limit state industrial policies

Xi Jinping's Globalization

➤ Multi-pathways

- 'All roads lead to Rome. No country should view its own development path as the only viable one, still less should it impose its own development path on others' (2017 World Economic Forum at Davos)
- China favours the China-led Regional Comprehensive Economic Partnership (RCEP) over the TPP because of protocols covering SOEs and IPP

China and WTO I

- China gave more concessions than other countries to join WTO (Shaffer and Gao 2018)
- Greater tariff commitments than any other emerging economy. Reduce its average tariff on goods to 10% by 2008. Brazil agreed to an average bound tariff of 31.4% and India an average bound tariff of 48.6%. Broader and deeper commitments on services liberalization, in such key sectors as financial and telecommunication. implemented its tariff commitments three years ahead of schedule, and its services commitments largely on schedule (with some exceptions- strategic industries).
- Agreed to China-specific rules that granted other WTO members greater rights against China, and China fewer rights against them.

China and WTO II

- China has worked hard to adhere to WTO rules (Shaffer and Gao 2018)
- Invested massively in learning and developing legal capacity to adjust to WTO requirements and defend its interests through the WTO against the US
- Academic research leading to thousands of books and articles
- Elite schools use case study method to teach international trade law
- Develop expertise within Chinese law firms. A Chinese law firm worked with a foreign law firm in all but one of the first twenty-eight cases that China faced before WTO panels (form of technology transfer)

China and WTO III

- Has become more active as a litigant, first as a respondent and then as a complainant
- China's record is impressive. Between 2010 and 2017, the US and EU have lost, in whole or in part, four important WTO cases brought by China, involving billions of dollars of imports
- Intellectual Property
 - Chinese payments for IP use ranked 4th in world after Ireland, Netherlands, US. Ahead of Japan, Singapore, Korea, and India. Adjust data for tax reasons, most probably ranked 2nd in 2017 (Lardy 2018)
 - Improved IP protection as China produces more IP

Economics of XJP's Pathway I

- Trajectory followed path of Premier Zhu Rongji
 - The 'only way to break the hold of the 'old' economy and its champions was to force change on it via the stringent requirements imposed by WTO rules' (Pearson 2001)
- Transition from comparative advantage following (marketing enhancing) to comparative defying industry policy, leveraging large Chinese market
 - Exploit economies of scale in production
 - Network externalities and bandwagon dynamics (Software, social media and payments systems)

Economics of XJP's Pathway II

- Outward overseas direct investment
 - To balance accumulated current account surpluses, but also part of industry policy
 - Technology acquisition
 - Seek influence over global standardization of technology (QWERTY)

Conclusion

- Trump: Protect home market and employment through restrictive trade, but no reform of domestic economic institutions. Impede China's rise in unsystematic manner. Conservative. Defend your advantage when ahead. (Jose' Mourinho)
- Obama: Open foreign markets and make them more hospitable for US investments. Immigration, greater IP protection, limit foreign industry policy and seek control over standardization of global technology to preserve first-mover advantage. Press and increase your advantage when ahead (Jurgen Klopp)
- Xi Jinping: Significant WTO entry concessions, followed by comparative advantage defying industry policy. Risk defense to emphasize attack when behind (Alex Ferguson)