Global Governance: from fragmentation to recomposition

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Peking University, 14 June 2018
Outline

1. Globalization and its discontents
2. Fragmentation
3. Renewed global imbalances
4. Taking back multilateralism
5. What role for Europe and China?
## 1) Globalization and its discontents

### Europe's experience with globalization

- Beneficial for the economy at aggregate level BUT Stagnation of median income
- Enhances economies of scale and network effects BUT Increasing and persistent regional disparities
- Increases competitive pressures and leads to higher market flexibility BUT Negatively affects fair working conditions and lowers protection in the market
- Foster innovation and productivity increase BUT Reduces enforcement power of government and limits the room for re-distributional measures
- Favours mobile factors; capital and high skilled workers BUT Capital flows reversal increases volatility; migration flows hard to manage at national level

### China's experience with globalization

- Rapid growth in income per capita BUT Increasing income inequalities (started to decline?)
- High growth areas in coastal areas BUT Lagging behind in the interior
- Rapid increase in trade BUT Increasing tensions with trade partners
- Big push forward in industrialization BUT Significant environmental costs
- Investment-led growth BUT Declining returns and rising leverage

### What worked and what didn't.

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2.1) Institutional fragmentation

From an apparent order before the crisis...

Emerging Economies

IMF, World Bank, WTO

G8

UN

OECD

MDBs

Basel Committee and BIS
2.1) Institutional fragmentation

...to a more representative but complex order after the crisis.

New Multilateral Development Banks:
BRICS: New Development Bank
China: Asia Infrastructure Investment Bank

New Bilateral Lenders (China)

Strengthened Regional Financing Arrangements:
Euro Area: European Stability Mechanism
South East Asia: Chiang Mai Initiative
South America: Latin American Reserve Fund
Russia and Eurasia: Eurasian Fund for Stabilization and Development
2.2) Financial fragmentation

Financial integration has reversed, particularly in Europe.

B. Foreign banks claims in G7 countries

1. Total foreign claims for all BIS reporting countries.

Note: Banks’ international claims are on an immediate counterparty basis excluding domestic positions. They are not adjusted for changes in exchange rates and breaks in the series.

2.2) Financial fragmentation

Fragmentation in the Euro Area: down in prices, not yet in quantities

Price-based and quantity-based composite indicators of financial integration

Sources: ECB and ECB calculations.
Notes: The price-based composite indicator aggregates ten indicators covering the period from the first quarter of 1995 to the fourth quarter of 2017, while the quantity-based composite indicator aggregates five indicators available from the first quarter of 1999 to the third quarter of 2017. The indicators are bounded between zero (full fragmentation) and one (full integration). Increases in the indicators signal greater financial integration. For a detailed description of the indicators and their input data, see the Statistical annex.
2.3) Social fragmentation

The elephant turned into a whale

The "Whale Graph" of global inequality
Cumulative total income growth by percentile across all world regions, 1980–2016

- Bottom 50% captured 12% of total growth
- Rise of Emerging Countries
- Squeezed median and low income in the US and Western Europe
- Prosperity of the top 1%
- Top 1% captured 27% of total growth
2.3) Social fragmentation

Income inequality in China: reversing the trend?

Pre-Tax Income Inequality (Gini coefficient)

Source: WID and Bruegel database

- 1987: Black Monday
- 1991: Nordic Banking crisis
- 1997: Asia Financial Crisis
- 2000: Dot-com bubble
- 2008: Lehman Brothers bankruptcy

**Graph Details:**
- **EU28**
- **China**
- **USA**
3.1) Renewed Global Imbalances

Continue efforts to reduce imbalances

Current accounts as share of global GDP

Source: IMF WEO Database

2007

2017
3.2) Renewed Global Imbalances

Global imbalances fuelled by unbalanced policy mix

E: desirable equilibrium

External equilibrium

Internal equilibrium

With balanced policy mix

With unbalanced policy mix
4.1) Taking back multilateralism

The optimal global governance structure:

- G20/G7
- UN
- IMF + RFAs cooperation
- WTO
- World Bank + MDBs working as a system
- OECD
- Basel Committee and BIS

Tackle common challenges, provide global public goods and regain citizens' trust.
4.2) Taking back multilateralism

Increase in trade barriers

Total Number of Trade Restrictive Measures in force

- USA
- China
- EU
- Developing Countries
- Developed Countries

Source: WTO
4.3) Taking back multilateralism

Keep the global economy open

World Trade as % of Global GDP
Comparing Great Depression and Great Recession

Source: Klasing & Milionis (2014), WTO, IMF WEO

2008=100
1929=100
4.4) Taking back multilateralism

Towards a more consistent global policy mix.

US
From inward looking strategy and pro-cyclical policy mix
To continued contribution to multilateralism and more prudent macroeconomic stance

Euro Area
From excessive reliance on external surpluses
To stronger investment, structural reforms and deepening of EMU

China
From unbalanced growth model and market-distortive practices
To more sustainable development model and greater adherence to global level-playing field
5.1) What role for Europe?

- **Continued commitment to an open global economy and ensuring an international level-playing field (WTO compliance)**
- **Fostering bilateral trade deals of new generation (Mexico, CETA with Canada, Japan, Singapore)**
- **Tackle climate change (implement Paris Agreement)**
- **Adapting to the digitalization of the economy (digital taxation, Data Protection)**
5.2) What role for China?

- Given its increasing economic weight in the world, will China also take a leading role in the multilateral setting?

- What progress in tackling excess capacity?

- How China's big initiatives (Belt and Road Initiative; Asian Infrastructure Development Bank; Shanghai Cooperation Organisation) can foster connectivity?

- How to make bilateral lending to Least Developed Countries compatible with international best practices?
5.3) The EU and China together

- *Strengthen cooperation in G20 and other fora to uphold the rules-based global trade system*

- *Lead by example in respecting international rules*

- *Continue work towards a growth-friendly global rebalancing*

- *Increase efforts to fight climate change and promote sustainable development*