



Global Governance: from fragmentation to recomposition

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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



What worked and what didn't.

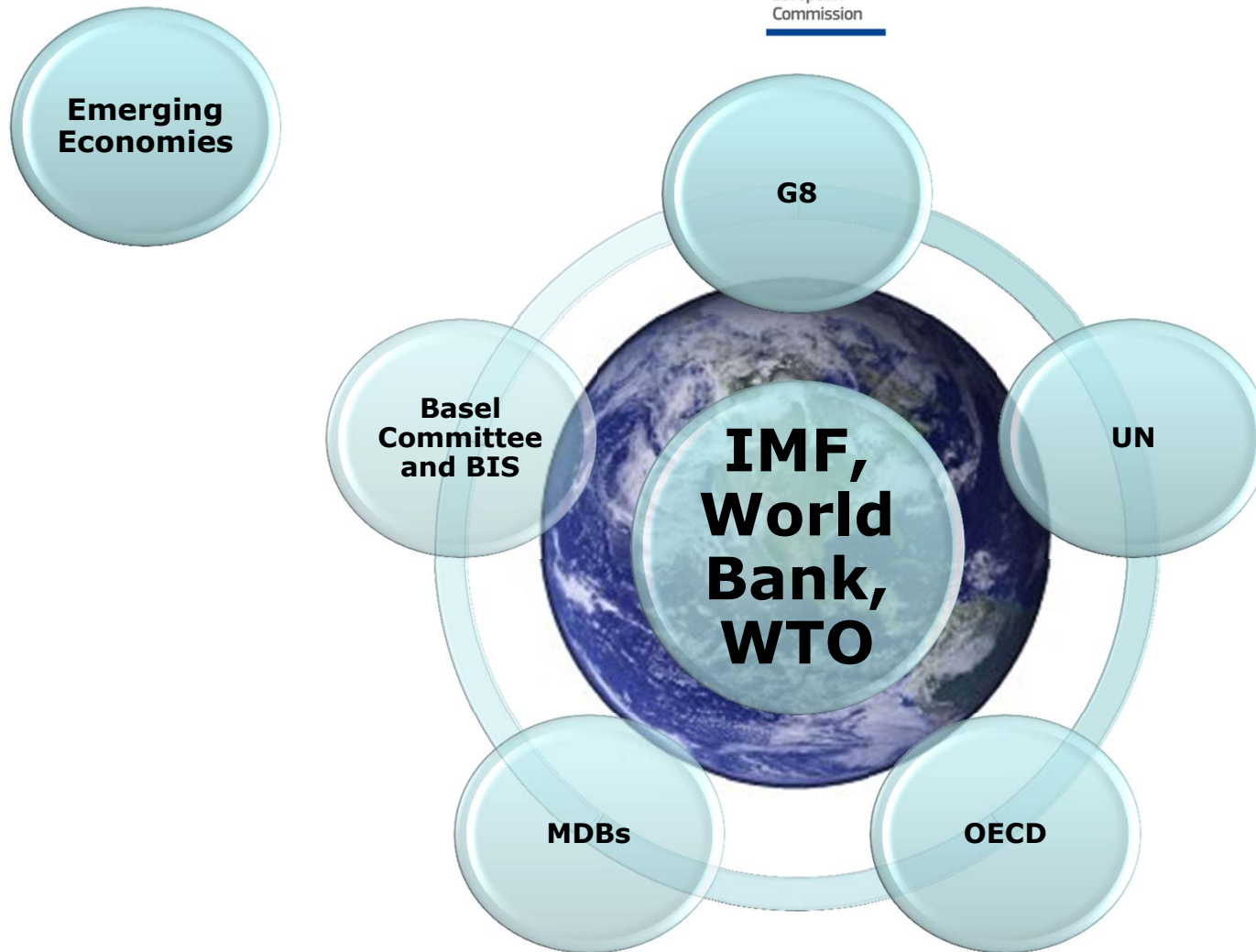
Europe's experience with globalization	China's experience with globalization
Beneficial for the economy at aggregate level BUT Stagnation of median income	Rapid growth in income per capita BUT Increasing income inequalities (started to decline?)
Enhances economies of scale and network effects BUT Increasing and persistent regional disparities	High growth areas in coastal areas BUT Lagging behind in the interior
Increases competitive pressures and leads to higher market flexibility BUT Negatively affects fair working conditions and lowers protection in the market	Rapid increase in trade BUT Increasing tensions with trade partners
Foster innovation and productivity increase BUT Reduces enforcement power of government and limits the room for re-distributional measures	Big push forward in industrialization BUT Significant environmental costs
Favours mobile factors; capital and high skilled workers. BUT Capital flows reversal increases volatility; migration flows hard to manage at national level	Investment-led growth BUT Declining returns and rising leverage



2.1) Institutional fragmentation



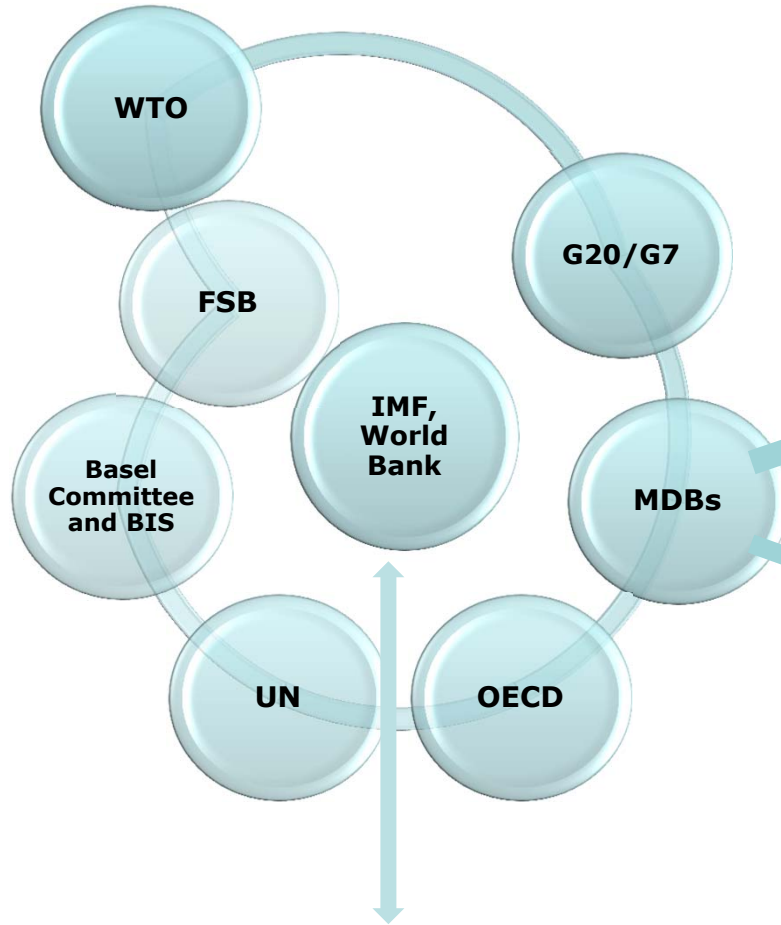
From an apparent order before the crisis...



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

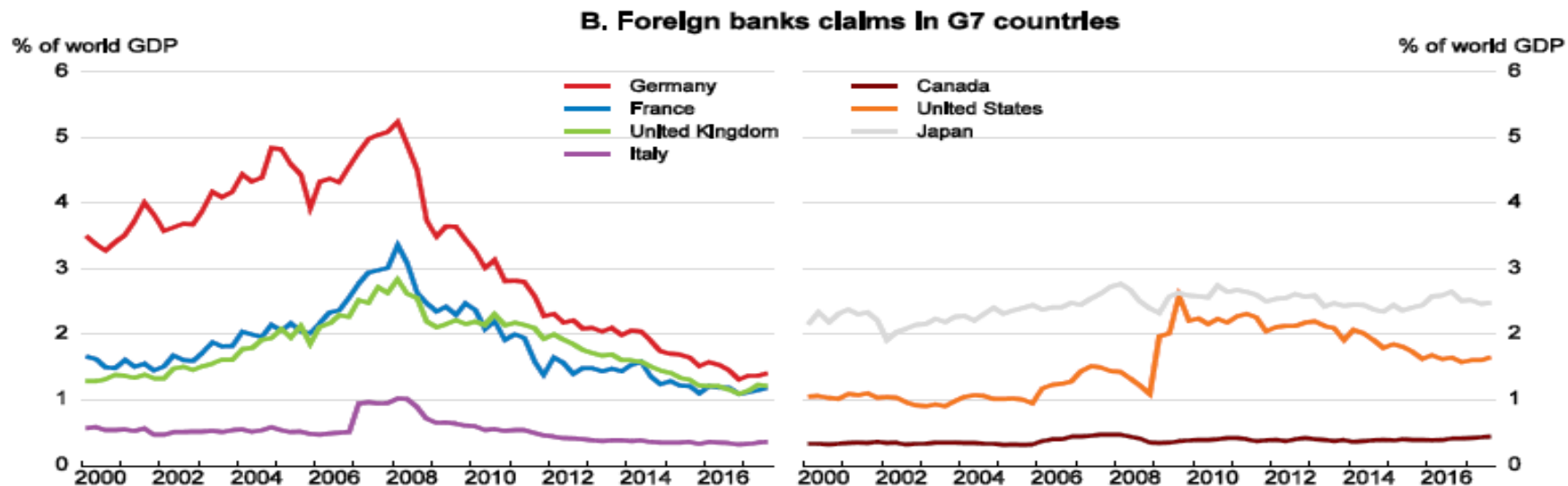
Russia and Eurasia: Eurasian Fund for Stabilization and Development



2.2) Financial fragmentation



Financial integration has reversed, particularly in Europe



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.

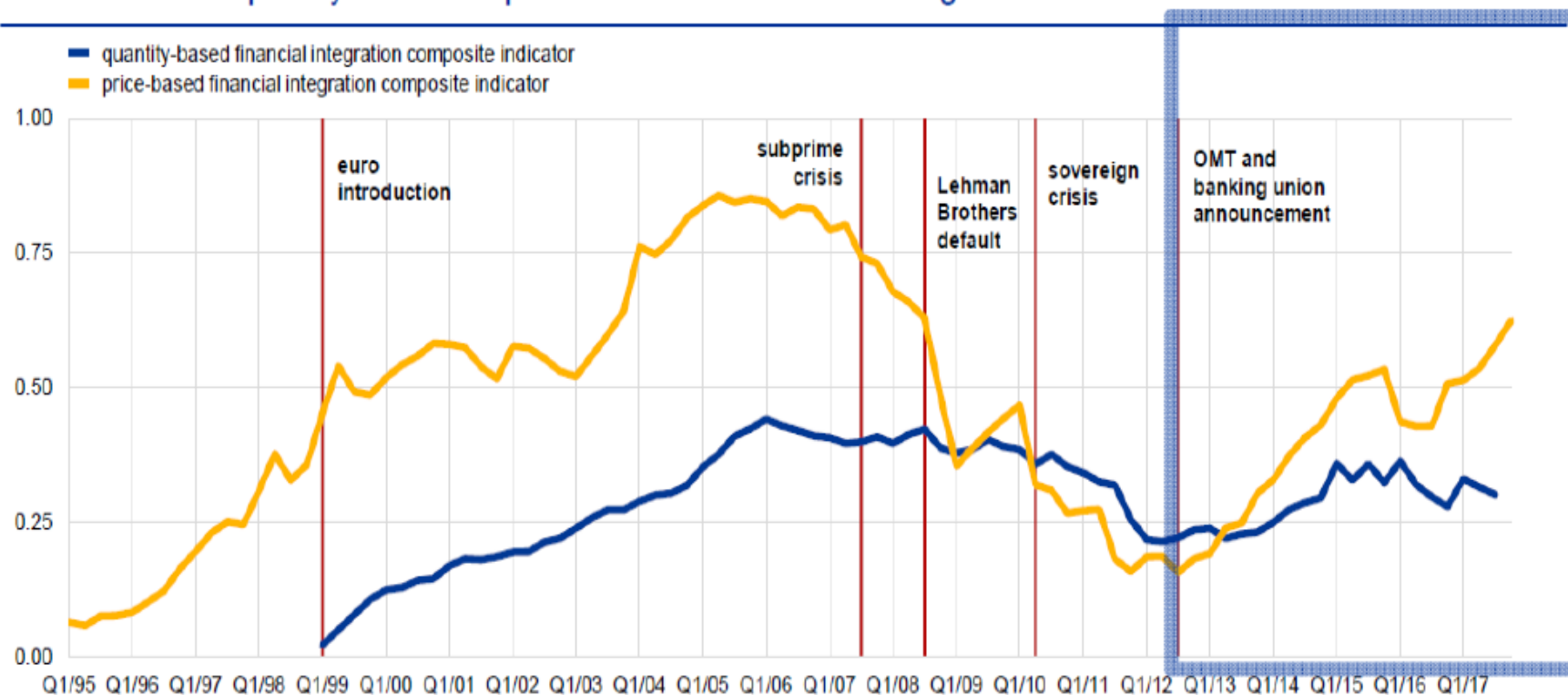
Source: Bank for International Settlements Banking Statistics and Debt Securities database.

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.

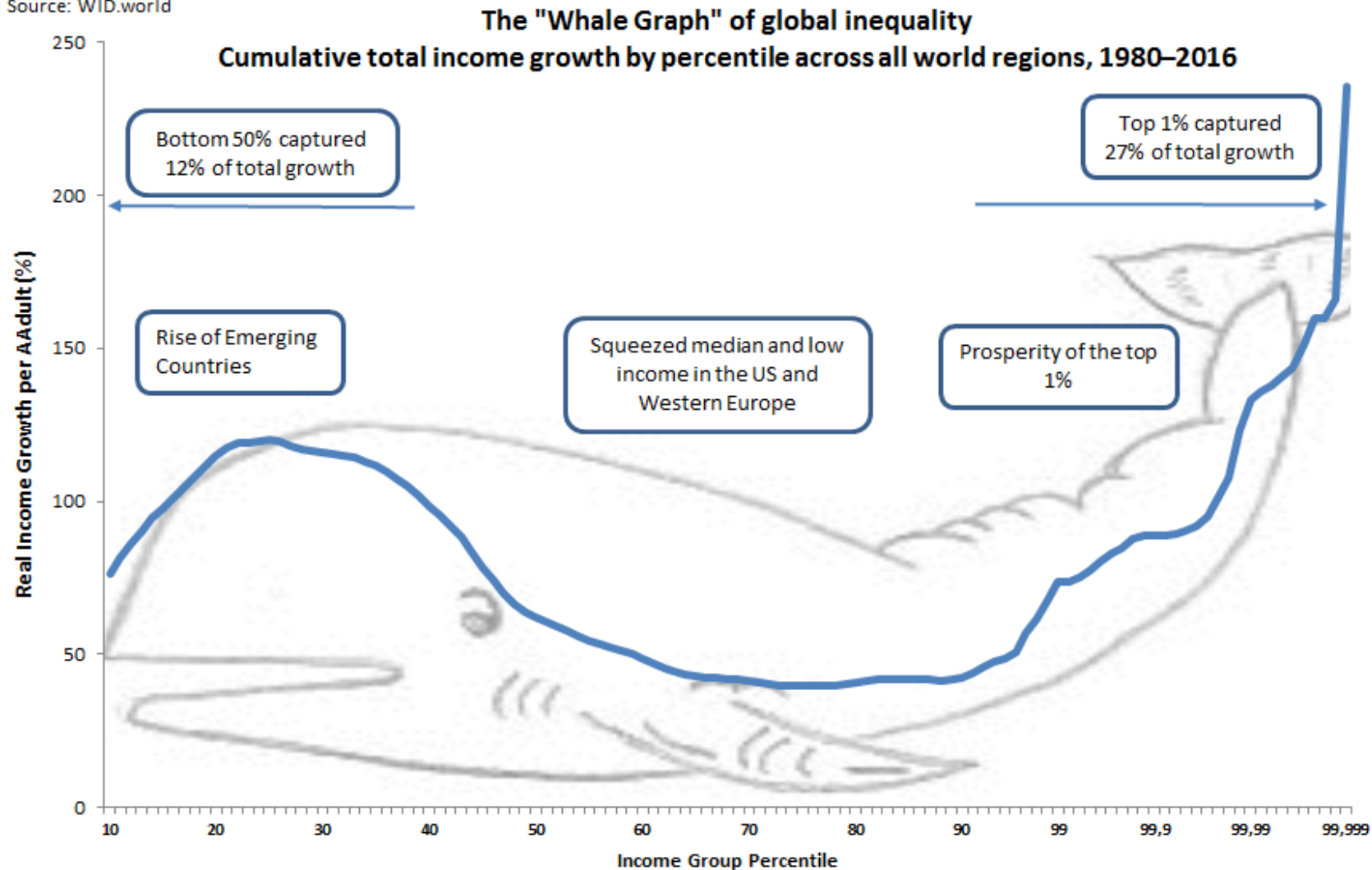
Notes: The price-based composite indicator aggregates ten indicators covering the period from the first quarter of 1995 to the fourth quarter of 2017, while the quantity-based composite indicator aggregates five indicators available from the first quarter of 1999 to the third quarter of 2017. The indicators 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

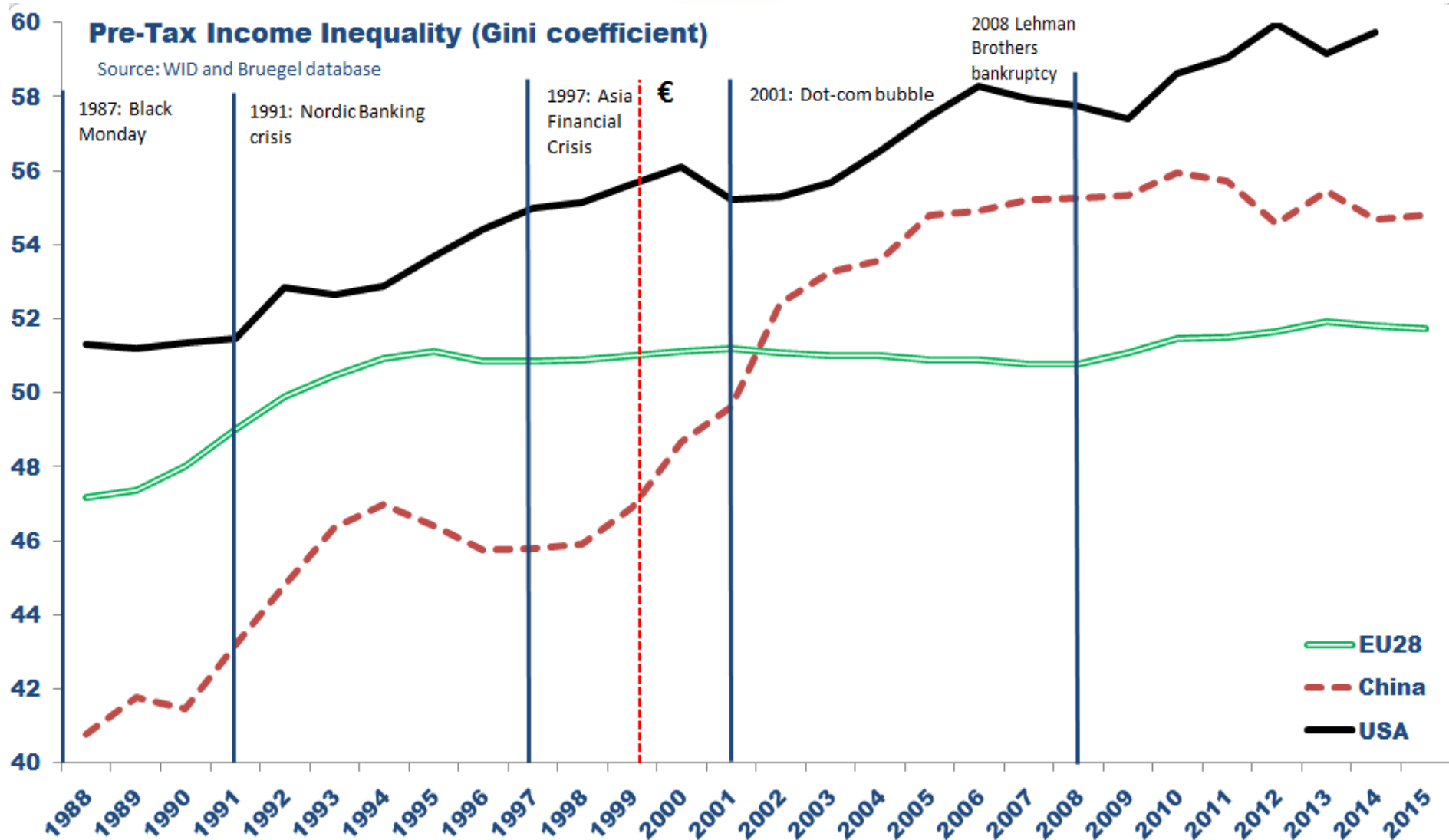
Source: WID.world



2.3) Social fragmentation



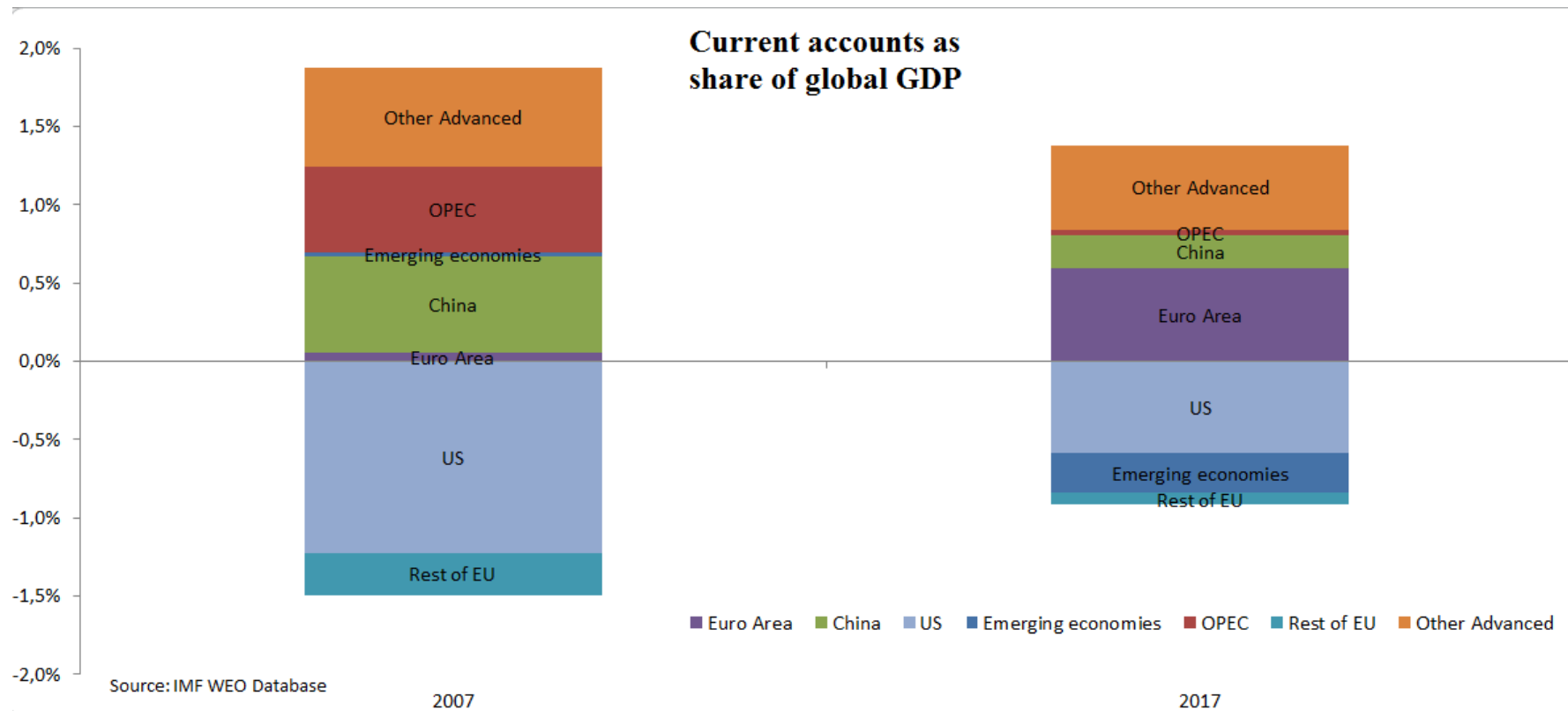
Income inequality in China: reversing the trend?



3.1) Renewed Global Imbalances



Continue efforts to reduce imbalances



3.2) Renewed Global Imbalances

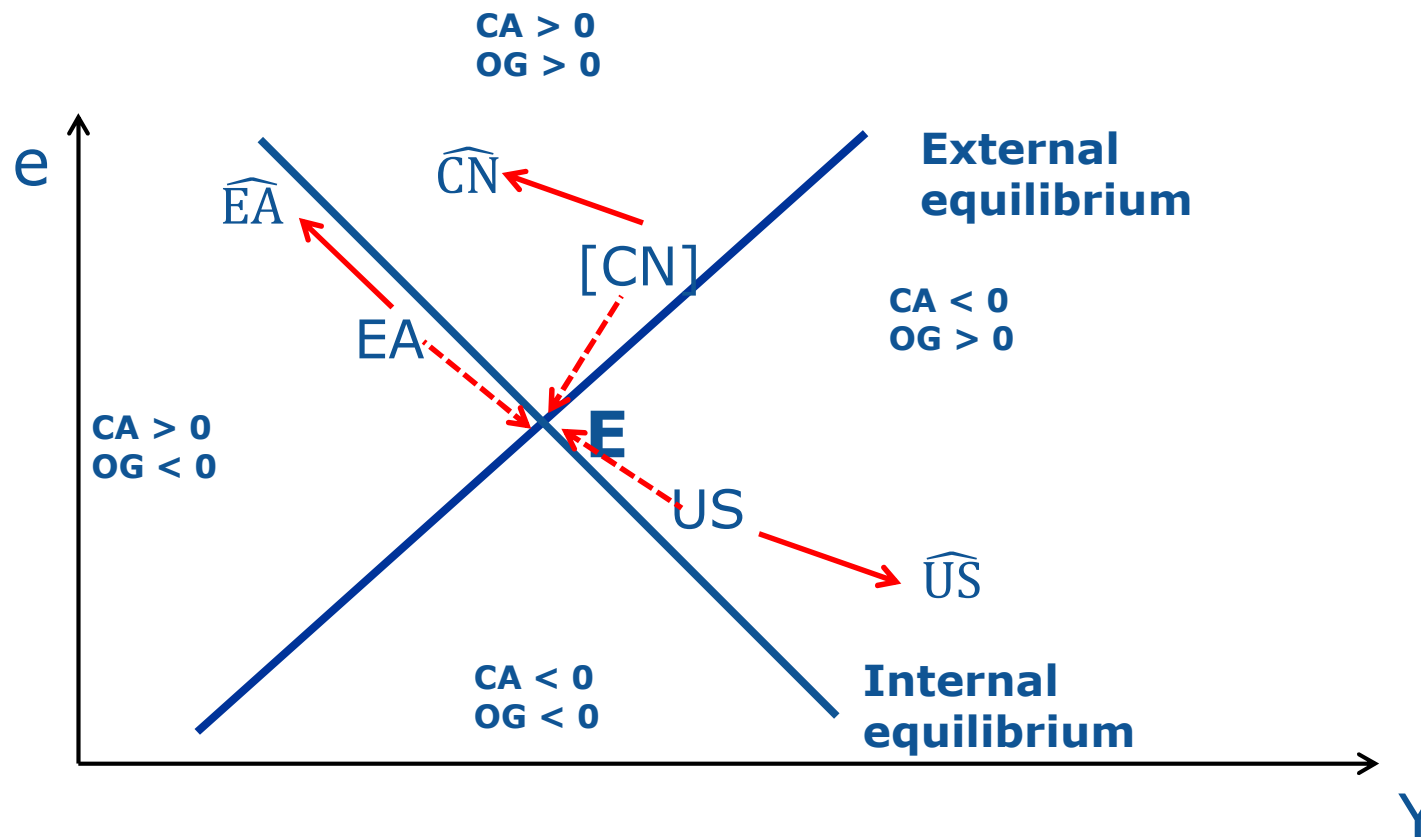


Global imbalances fuelled by unbalanced policy mix

---> With balanced policy mix

—> With unbalanced policy mix

E: desirable equilibrium

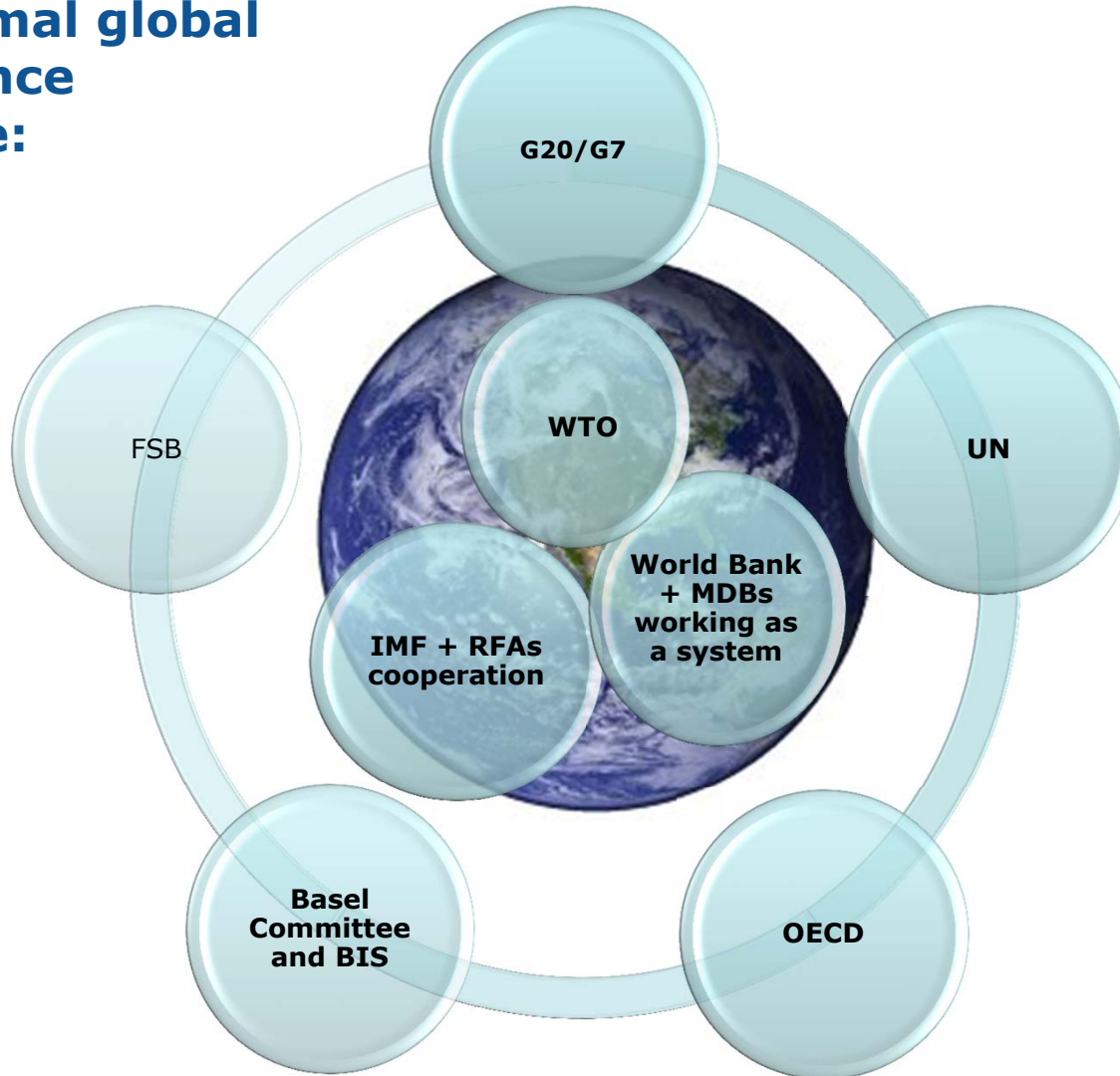


4.1) Taking back multilateralism



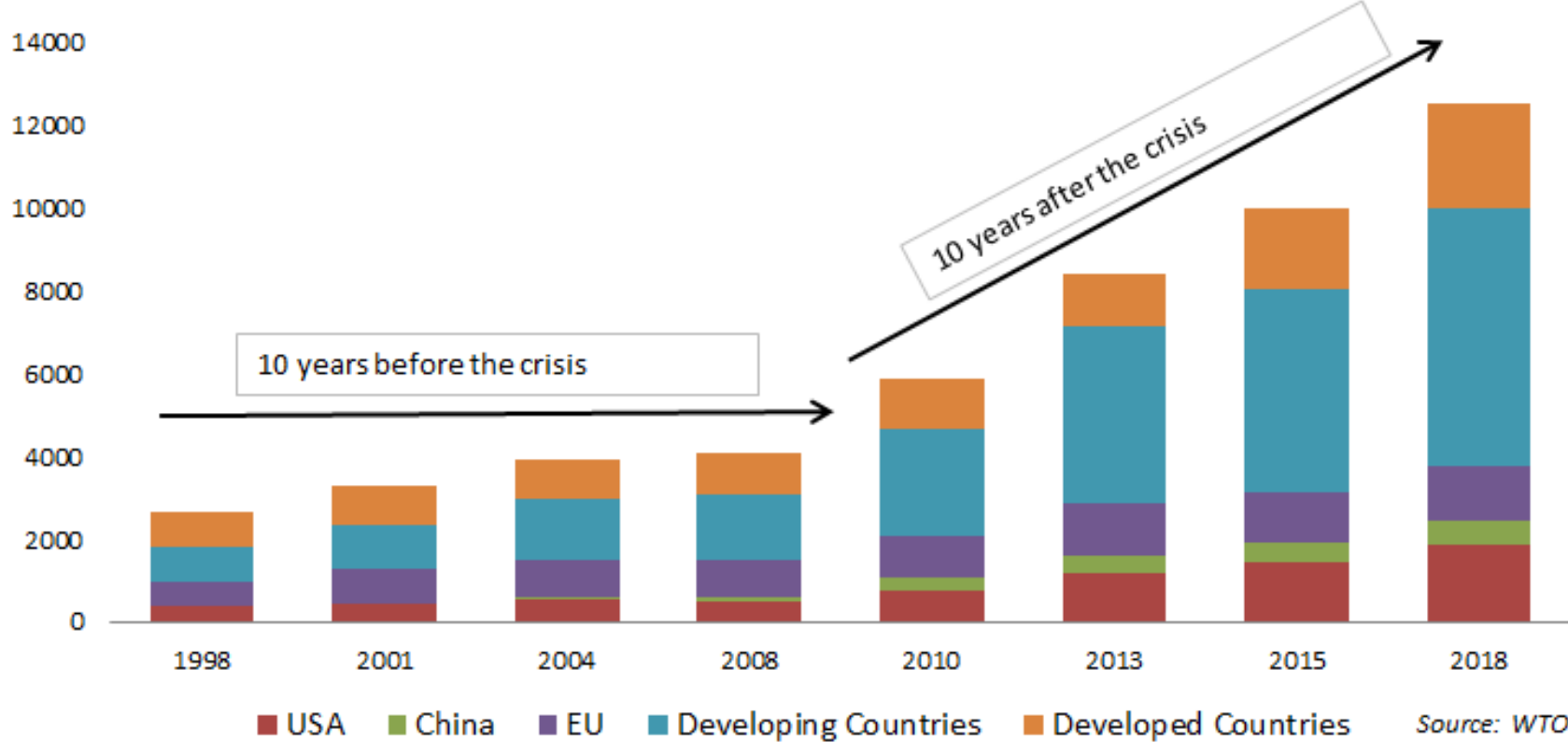
Tackle common challenges, provide global public goods and regain citizens' trust.

The optimal global governance structure:





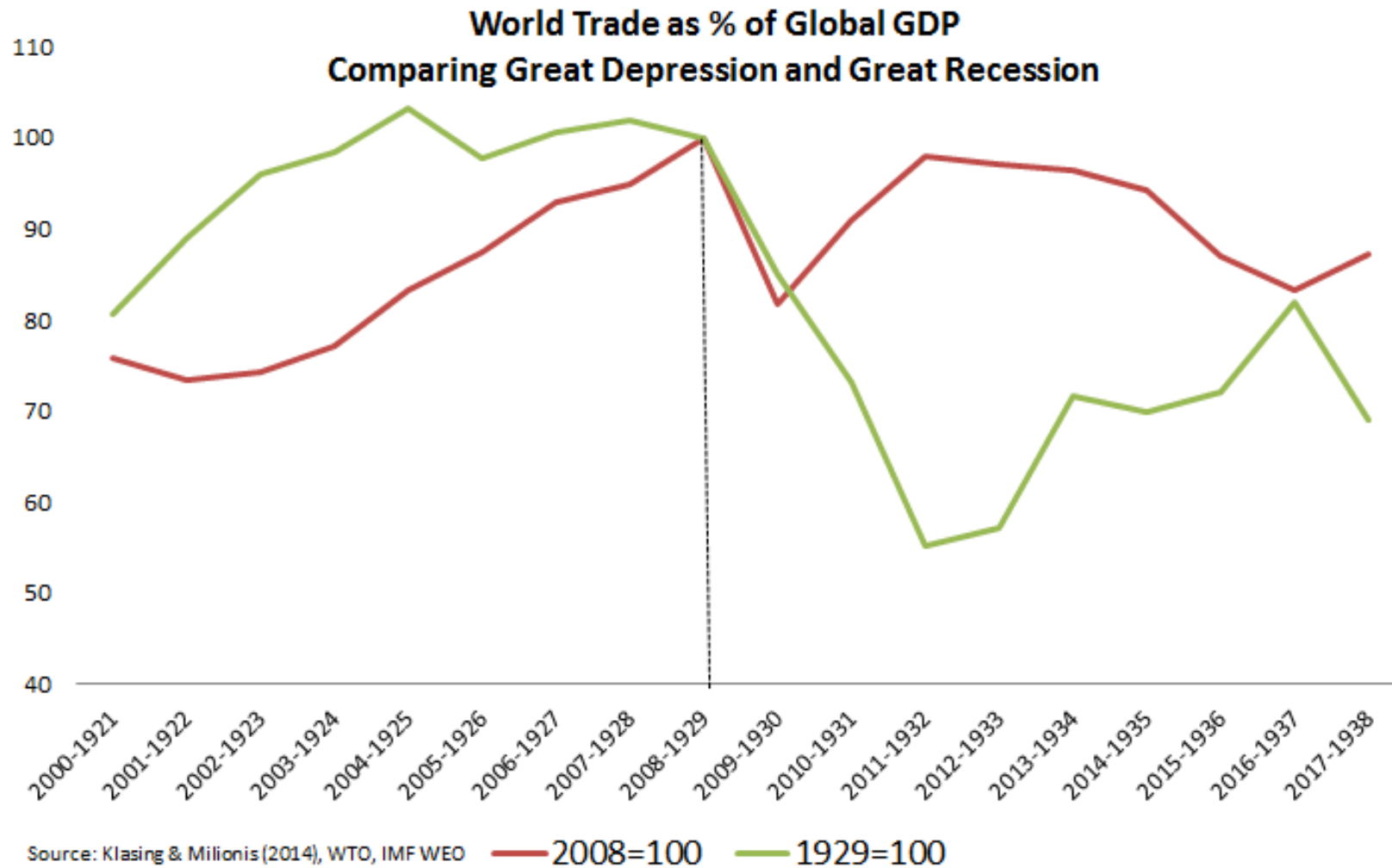
Total Number of Trade Restrictive Measures in force



4.3) Taking back multilateralism



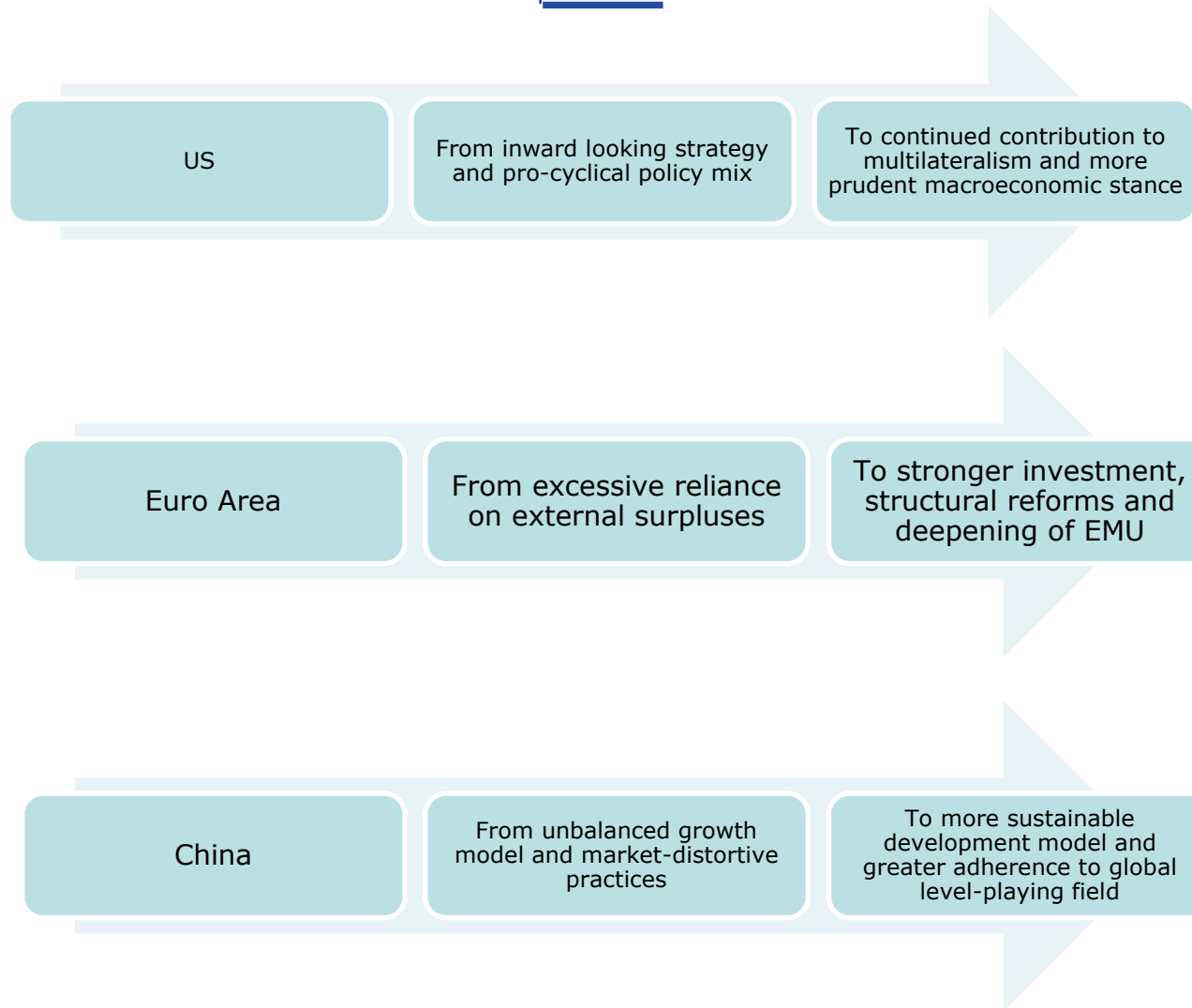
Keep the global economy open



4.4) Taking back multilateralism



Towards a more consistent global policy mix.



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*