Globalization, protectionisms and new equilibriums theory

Vicini, Andrea

2019

Globalization, Protectionisms and New Equilibriums Theory

Dr. Andrea Vicini

Economist,

Independent Researcher

Rome, Italy

Email: andrea.vicini@tiscali.it

Abstract:

The recent decision of the US President to adopt a protectionist policy vs. Chinese goods could trigger a domino effect in the global context. The conquest by the Chinese economy of new markets such as the African countries is part of a strategy which includes a network of alliances in order to mitigate the effects of the policy of protectionism. Similar responses also seem to have been considered by the USA. In the current, highly connected context, in which the value chain is globalized i.e. highly segmented in many countries, there is little space for isolationist or protectionist policies. Thus the capability to form networks of alliances between nations, even temporary in nature or limited to specific areas, seems the key strategy to mitigate negative effects and win the global challenge.

Keywords: *Globalization, China, USA, protectionism, alliances.*

Introduction:

What will happen to the global economy in 2019?

After that, the full effects of the commercial policy based on protectionism vs. Chinese imports launched by the US administration will be visible. The recent choice of the Trump administration, consisting of tariffs on specific goods imported from China, opens new debates. Recent research conducted by Varas and Maydanchik estimates a cost from the tariffs of close to $200 billion USD to the USA, while other reports and investigations provide different numbers but similar effects (Varas and Maydanchik 2018; Rynne, 2018).

But, what will its impact be on the economy and how is it destined to change the global scenario?

The domino effect is not so easy to forecast, because a high number of variables and conditions (intensity, sectors, ratio) have been put into play which must be modeled, and at the moment the picture has not assumed a definitive form (Rynne, 2018). On the other hand, many politicians and decision makers are looking with caution to the US decisions as a milestone on the path of globalization; some see the beginning of the end of globalization, others simply consider it a corrective policy against the unfair interpretation of the rules, which characterized the Chinese manufacturing sector and its vigorous growth in the last decade.

Recently, President Trump tweeted on 18th September 2018:

"China has been taking advantage of the United States on Trade for many years. They also know that I am the one that knows how to stop it. There will be great and fast economic retaliation against China if our farmers, ranchers and/or industrial workers are targeted!"

So, what are the potential changes in the flow of goods?

The first hypothesis sees the European markets inundated by Chinese merchandising in the short term, but does not consider that other EU countries could follow and emulate the US example in their own commercial policies, so it does not include the effects of a similar reaction (Rynne, 2018).

Now, many institutions, such as banks, universities and think tanks, are searching for the answer to these and other questions. *The Economist* recently dedicated provocative editorials to this theme, such as *'America's tariffs on China are likely to last for some time'* (The Economist, 2018). However, for an adequate evaluation, more time is needed in order to know what the moves of the United States' counterparts will be.

Methods & Materials:

This article has been based on data available from different official reports, journals and academic books. The collection of available literature, analyses and observations based on news reports signals the starting point. The author's interactions and meetings with professional associations, and the discussions at conferences and seminars with NGO managers, economists, individuals responsible for international policy and diplomats, who are actively working on these topics, provided successful foundations for the work.

Finally, it appears useful to highlight that the nature of the present work is policy-based and the analysis has been realized with descriptive and inductive methods.

Results and Discussion:

It is useful to remember that a great part of our efforts, as economists, is intended to provide others with an idea of the future, in other terms, to do forecasts.

However, while the global arena is occupied or "distracted" by the dualism, liberalism vs. protectionism, another significant topic is destined to go undetected. If we enlarge the scope of our considerations to the global scenario, we can see that China, which is becoming a significant player on the African scene, is increasing its presence in terms of FDI on the continent. Africa, as is well known, represents a new sales market, heterogeneous but able to absorb the excess production of the big economies and at the same time to attract considerable foreign investments in big sectors such as mobility (infrastructure and railways), oil extraction, energy development, water, metal production and digital infrastructures.

The presence of Chinese investors in Africa, although widely debated (China is the most important lender for many African countries), does not seem particularly high in terms of volume. In 2017, the inflow of FDI in Africa was $41.7 billion USD, 2.9% of the total FDI in the world (UNCTAD, *World Investment Report 2018*).

Table 1. The distribution of the African FDI flow.

FDI Flows	**2005-2007**	**2014**	**2015**	**2016**	**2017**	**2005-2007**	**2015**	**2016**	**2017**
	Millions of USD					*As a percentage of gross fixed capital formation*			
Africa									
Inward	**38,390**	**52,440**	**56,633**	**53,190**	**41,172**	**14.4**	**11.9**	**12.4**	**9.7**
Outward	**6,994**	**13,598**	**10,844**	**11,234**	**12,078**	**2.5**	**2.3**	**2.6**	**2.8**
North Africa									
Inward	18,768	12,039	12,256	13,831	13,271	17.8	7.8	9.1	9.1
Outward	2,275	770	1,364	1,514	1,323	2.2	0.9	1.0	0.9
West Africa									
Inward	7,909	12,148	10,179	12,694	11,307	14.4	9.0	14.6	12.8
Outward	784	2,193	2,224	2,188	1,888	0.7	2.1	2.4	2.1
Central Africa									
Inward	2,898	5,306	8,305	7,345	5,733	19.3	21.7	25.4	20.9
Outward	67	185	345	305	193	0.4	0.9	1.1	0.7
East Africa									
Inward	2,864	6,578	6,865	7,883	7,625	12.9	10.4	11.3	10.5
Outward	81	157	110	82	174	0.4	0.2	0.1	0.3
South Africa									
Inward	5,950	16,370	19,028	11,437	3,836	8.5	18.8	12.9	4.0
Outward	3,787	10,294	6,801	7,146	8,500	5.5	6.7	8.0	9.0
World									

Inward	1,415,431	1,338,532	1,921,306	1,867,533	1,429,807	11.4	10.4	10.1	7.4
Outward	1,451,593	1,262,007	1,621,890	1,473,283	1,429,972	11.7	8.8	8.0	7.4

Source: UNCTAD, *World Investment Report 2018.*

From Table 1, it appears evident that the trend of FDI flows in Africa accelerated in terms of inflow in the period 2014-2016. In geographic terms, the largest amount in absolute values was destined mainly to the North and South regions, which present logistical advantages with numerous ports such as Tanger-Med located on the Strait of Gibraltar which became, in a decade, the biggest port in Africa in terms of volume traded. In 2017, this port exceeded 50 million tons for the first time, and the logistics platform is ready to increase the future acceleration of African trade (Tanger Med Special Agency, 2018).

The following table synthesizes the amount of FDI stock realized by foreign countries in Africa in the period 2011-2016.

Table 2. Top 10 investing countries by FDI stock in Africa in the period 2011-2016 (in billions of USD).

Country	2011	2016	Differential (2011-2016)	Increase in %
USA	57	57	0	0.0
UK	54	55	1	1.9
France	52	49	-3	-5.8
China	**16**	**40**	**34**	**213.0**
South Africa	23	24	1	4.3
Italy	13	23	10	77.0
Singapore	16	17	1	6.3
India	16	14	-2	-13.0
Hong Kong, China	7	13	6	86.0
Switzerland	11	13	2	18.2

Source: UNCTAD, *World Investment Report 2018.*

It appears evident from the data that the presence of Chinese investors in Africa is not so high compared to others; in terms of FDI stock, China was positioned in fourth place in 2016. However, looking at the potential increasing trend in the period 2011-2016, we can observe that the only country which increased its stock by almost 213% is China. The other three countries positioned at the top remained substantially at the same level, with the exclusion of France.

Of course, this data needs to be contextualized, so it seems useful to remember that, in the period 2011-2016, the EU countries were affected to different extents by the consequences of the financial crisis born in the US (2007-2009), which reduced aggregate demand and contracted the resources available to be set aside for the FDI.

In the same period, the Chinese economy was increasing without signs of crisis; to cite one example, the average annual GDP growth was up 7%, so the surplus of manufactured goods was destined for new markets, and the FDI was directed to Africa which was, although in a different way, experiencing a positive phase characterized by increases in demand and consumption, and, in turn, requests for new infrastructures and technologies to drive the development process (Bastos de Morais, 2016).

Thus, putting together the information deducted from Tables 1 and 2 above, it appears evident that the increase of the FDI during the period considered was to a large extent supported by China, and that the economic presence of the Chinese economy in Africa is destined to surpass those of the top three investors in the coming years.

This is the key point of the Chinese strategies: to increase their presence in the new markets. Given this framework, we should remember that the next three decades will be characterized by strong economic growth in Africa, as affirmed by different economists (Bastos de Morais, 2016).

Coming back to the geo-economics scenario, it is opportune to consider that in a global context with a high level of connections, the move of one player does not remain without a countermove from other players.

So, with respect to this issue, what is happening on the other side of the ocean with the other major world power, the USA?

Apart from the costs, as mentioned above, the USA with its protectionist measures is returning to the old international policy adopted during the 1970s, i.e. increasing its economic and political influence in Latin America, as can be demonstrated by two timely facts. Recently, the USA signed an agreement in favor of free trade between the USA, Mexico and Canada, surpassing the old NAFTA agreement signed in 1994. Brazil and the USA are signing an agreement to permit the US Department of Defense to use the satellite base in the Amazon region built to launch artificial satellites into space. With respect to the past, these specific issues can be inserted in an international policy which attempts to transform the US from an oppressive neighbor or rival into a business and technological partner for Latin American countries.

This picture configures a new theory about "blocs". From one side, China is adopting a closer relationship with many African countries and Russia, and on the other side, the USA is enlarging its sphere of influence in Latin America to extend its sales market. This scenario is generating a sort of "new dynamic equilibrium" in which the most influential economies of the world have their "new allies". It is similar to the strategies of the Cold War being transferred to the commercial and economic arenas (Grinin and Korotayev, 2015).

However, with respect to the 1970s, we now have a more theoretical basis, as "game theory" has been enriched by new developments and principles (Gintis, 2009; Schecter and Gintis, 2016).

Who will be the winner of the “new business war”? The answer is the superpower (USA or China) which is enable to engage the most emergent countries in number and weight on its side. We can consider the following to be part of the Chinese galaxy: Russia, part of Africa (in particular Angola and Mozambique), and Iran. This only considers the middle powers; of course, the full list is longer. Within the USA’s sphere of influence we can consider, without the pretension of being exhaustive, Saudi Arabia and Israel in the Middle East, South Korea in Asia and some Latin American countries, as cited above. Of course, the key strategy is the capability of attracting countries in every bloc.

And Europe?

Europe, although it is considered a unique bloc with a single currency, has 27 different views on foreign, commercial, and immigration policies. In theory it is close to the USA due to the NATO pact, but in practice it is equidistant from the two blocs. It does not have the same perspective for the future within itself; internal divisions together with demographic dynamics are crucial factors which reduce its potential and the advantages of the larger scale blocs (Parsi and Ikenberry, 2014).

Sun Tzu’s lessons, magisterially expressed in *The Art of War*, are well known to the Chinese establishment, while I have many doubts about the current American establishment’s knowledge of his writings (Sun Tzu, 2016).

I am not able to affirm whether this scenario, which has turned into a game of chess, is completely desired or not; it could be hiding the real intentions of the two actors, in which case the overall effect is one of monitoring and measuring rather than the surface issue, which is the impact of tariffs on bilateral trade.

The rise of new emergent countries such as India, which is growing at a significant level, could counterbalance the weight of China in the future and open up more complex paradigms.

It is evident that the sustainability of the protectionist measures is related to the dimensions of the blocs formed by nations. The bloc adopts a free trade policy internally and a protectionist policy externally to mitigate the negative effects. So, once again, the dimension, the nature, and the characteristics of the countries embedded in the bloc become the key factors to winning the global challenge, because (in the same way as the players of a football team) if the mosaic of nations is to be efficient, it must be composed with the right complementarity; in my view, this “new race” to complete the mosaic sees China clearly at an advantage.

Conclusion:

In the global world the current situation is fluid and in a state of continuous transformation; this is not a commonplace scenario. It is recommended that the decision makers, and all those responsible for international relationships (including politicians, NGO managers, diplomats, top managers and businessmen), adopt a long-term vision which is able to go beyond the old schemes and ideological visions.

Recently, in surprising way, President Trump publically declared his respect and admiration for a historic enemy in the form of North Korean Supreme Leader Kim Jong-un. Therefore, it is not impossible that in the future we could see a pact between President Trump and the Iranian president Hassan Rouhani. Ultimately, unusual combinations are potentially more possible now than in the past, because it is clear to a large part of the establishment that none has the potential to win the global challenges alone.

References:

1. Bastos de Morais, J. C. (2016). *A Convergência das Nações: Porque é agora o tempo de África.* (2nd Edition). London: OMFIF Press.
2. Gintis, H. (2009). *Game Theory Evolving* (2nd Edition). Princeton: Princeton University Press.
3. Gintis, H. and Schecter, S. (2016). *Game Theory in Action*. Princeton: Princeton University Press.
4. Grinin L. and Korotayev, A. (2015). *Great Divergence and Great Convergence.* London: Springer.
5. Ikenberry, G. J. and Parsi, V. E. (2014). *Guide to International Relations. From the bipolar system to the global era.* Bari: Laterza.
6. Rynne, B. (2018). *Trade Wars: There are no winners.* Melbourne: KPMG Economics & Tax Centre. August, 2018.
7. Tanger Med Special Agency (2018). *2017 Activity Report.* Tanger: Tanger Med Special Agency.
8. The Economist (2018). “America’s tariffs on China are likely to last for some time”. *The Economist*. September 22, 2018.
9. Tzu, S. (2016). *L'arte della Guerra.* Torino: Einaudi.
10. UNCTAD (2018). *World Investment Report 2018*. New York and Geneva: United Nations.

Works Cited from Website:

1. Varas, J. and Maydanchik, M. (2018). “Research. Calculating the Costs of the U.S.- China Trade War: The Administration’s New Tariffs on $200 Billion.” *American Action Forum*. Retrieved on July 30, 2018 from:

https://www.americanactionforum.org/print/?url=https://www.americanactionforum.org/research/calculating-the-costs-u-s-china-trade-war/