

The
Economist

SPECIAL REPORT
WORLD ECONOMY
October 12th 2013

The gated globe



The
Economist

G-20 Inaugural statement, 2008

Commitment to an Open Global Economy

“We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty”

Nov. 15, 2008

Did we succeed?

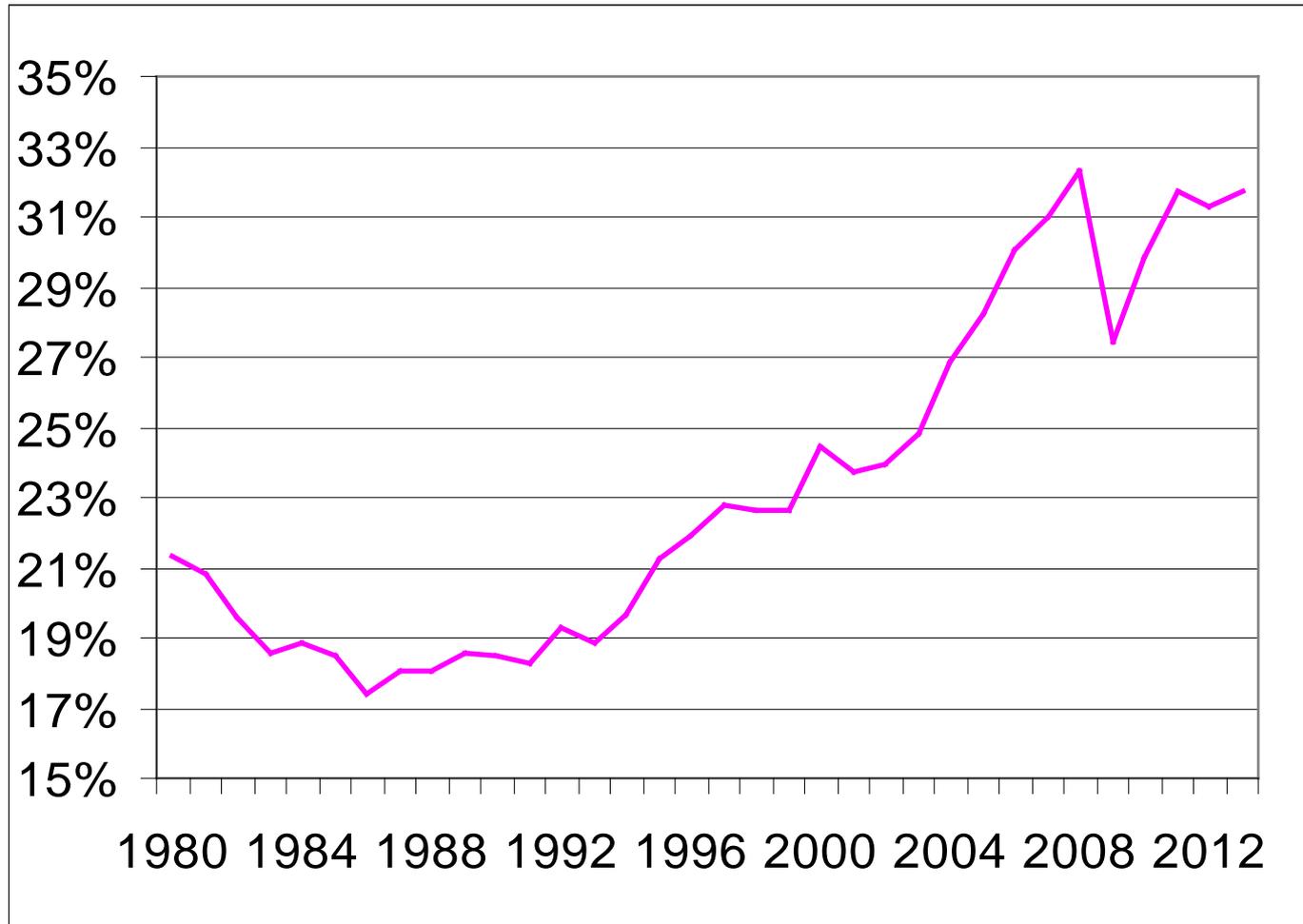
- Yes and no.
- No return to overt protectionism; very little use of tariffs, quotas, etc.
- No embrace of autarky; broad commitment to trade, foreign investment remains

But ...

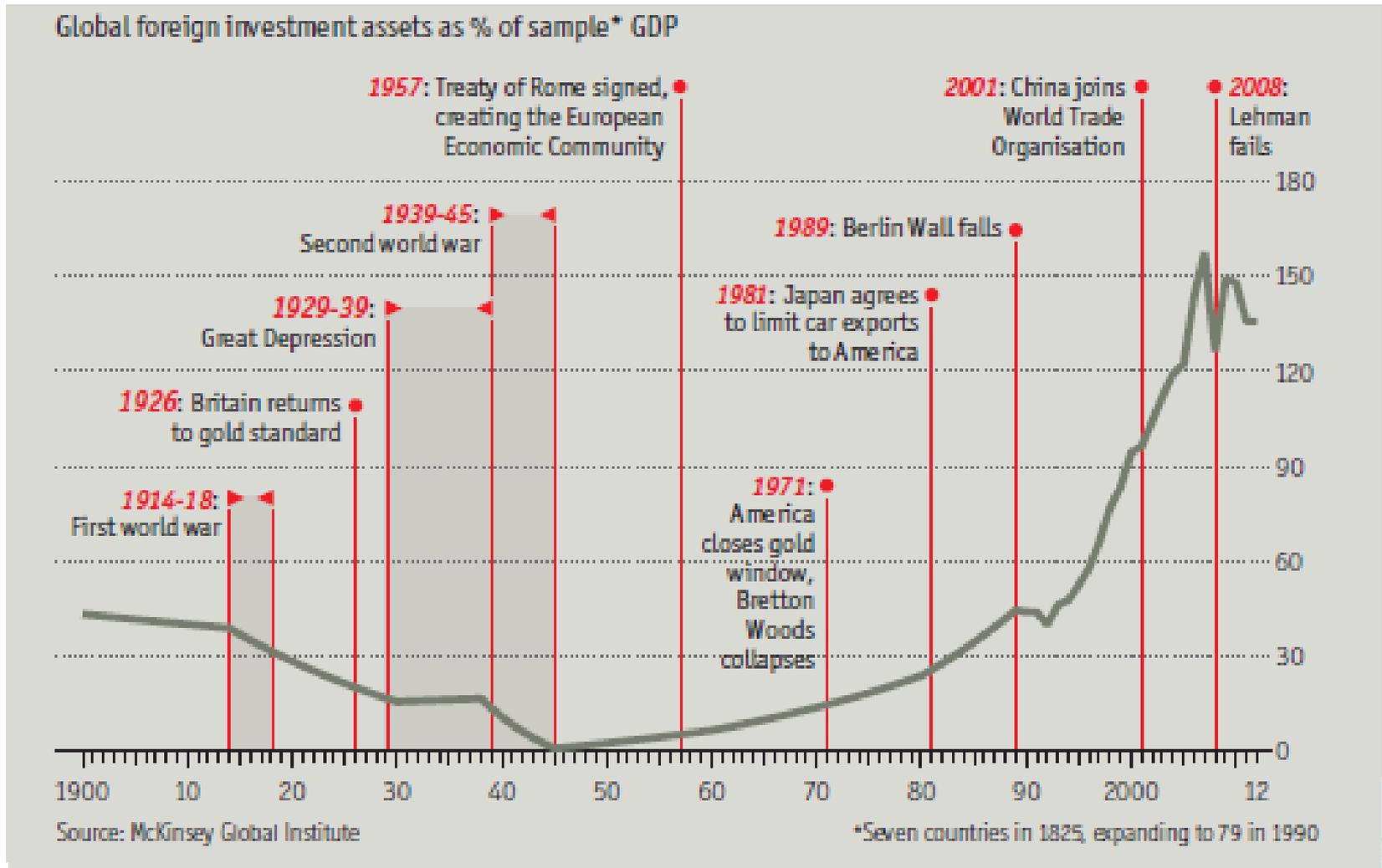
- A rethink of the precepts of pre-2008 globalisation
- Lehman, Iceland, Euro crisis cause rethink of financial globalisation
- QE, hot money flows make capital controls respectable again
- Regionalism: In 2008, Doha dies, TPP is born
- BRICs, state-sponsored capitalism clash with US, liberal capitalism

What do the data show?

World trade % world GDP



Global foreign assets % global GDP

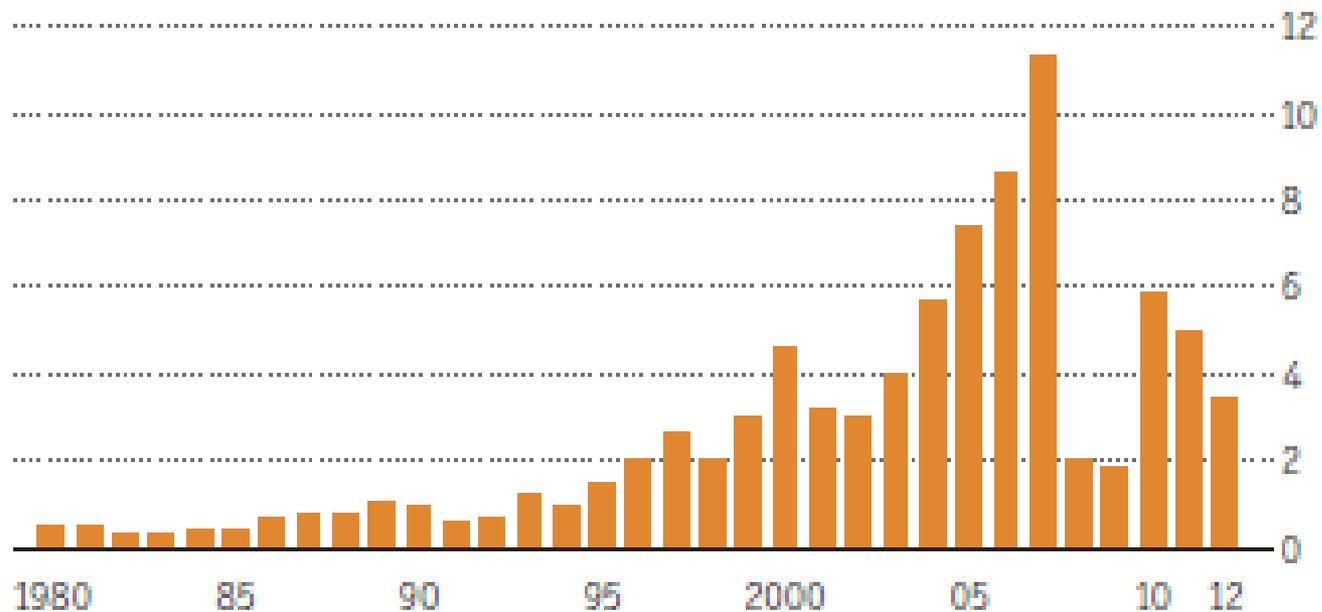


Financial deglobalization

What goes up too much must come down

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Cross-border capital flows, \$trn *



Source: McKinsey Global Institute

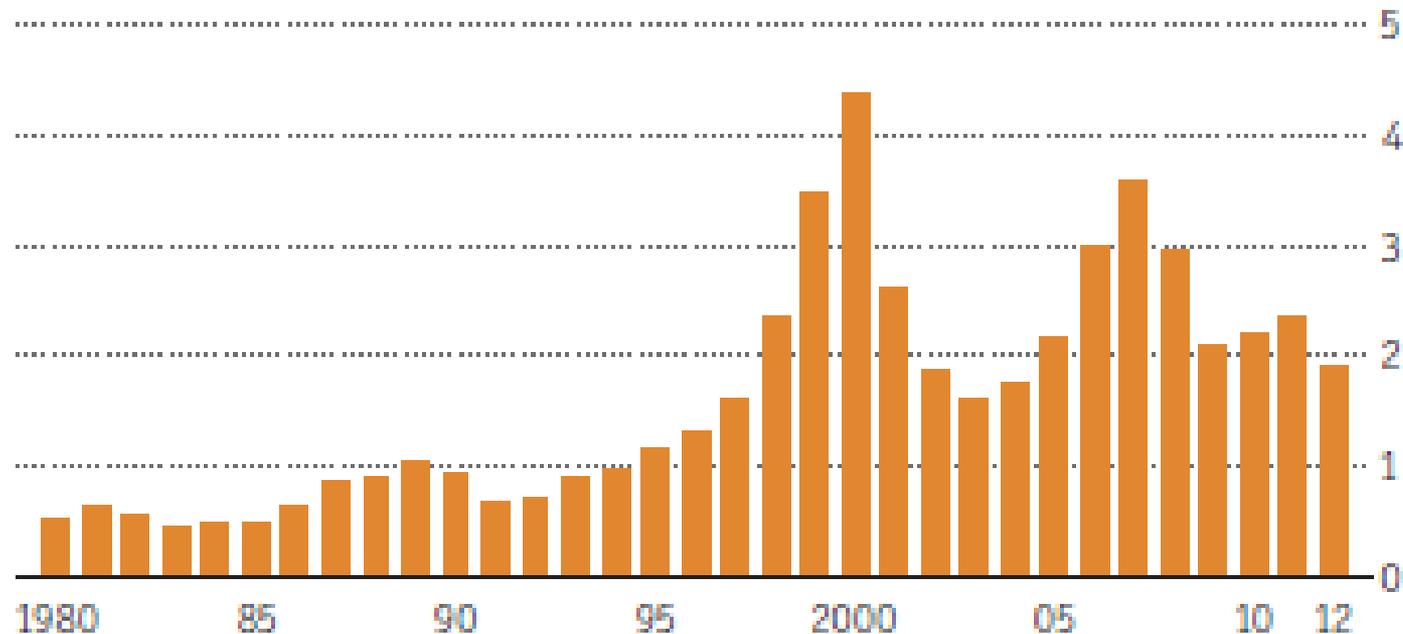
*2012 exchange rates, 173 countries

Foreign direct investment

Proceed with caution

7

World foreign direct investment flows as % of world GDP



Sources: UNCTAD; IMF; *The Economist*

What's behind it?

- Doug Irwin: “market-driven” vs “policy-driven” globalisation
- Cyclical forces: weak growth, weak demand = weaker imports
- slowing in EMs = weaker commodity prices
- Twin Crisis aftershocks: deleveraging of banking and finance, within and across borders
- Business decisions: reshoring, shale oil & gas gas

Policy decisions

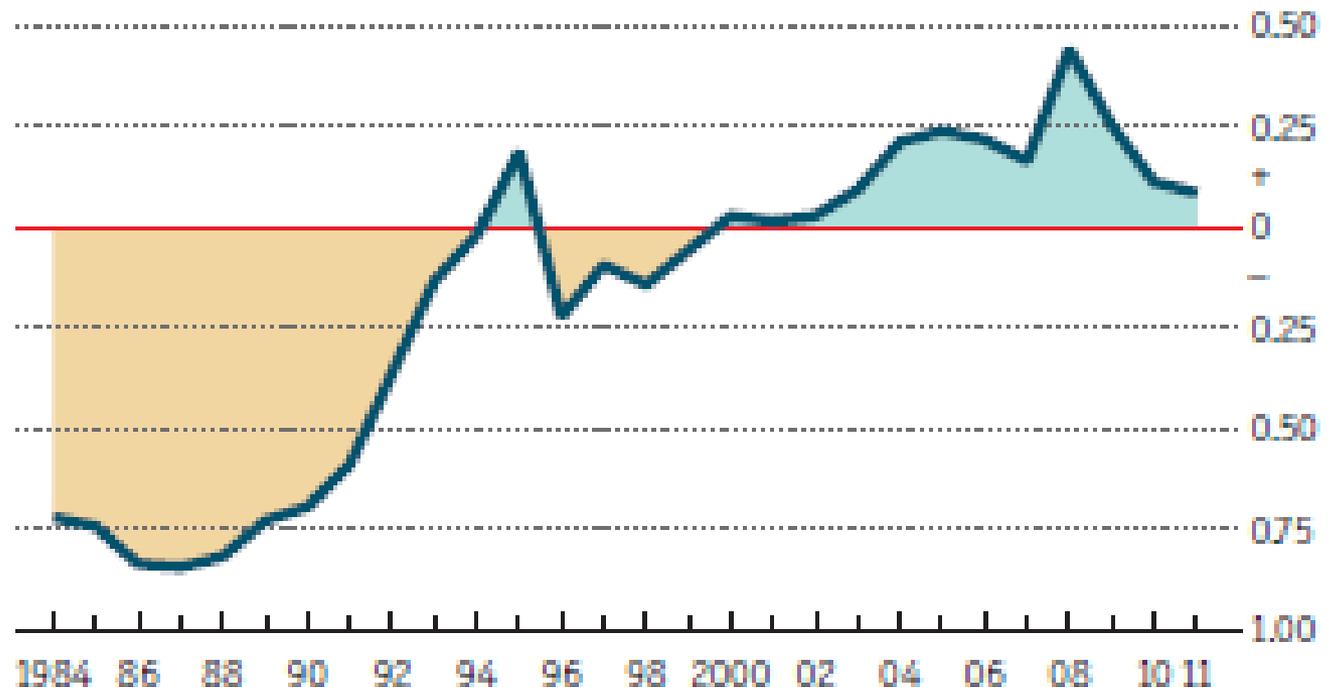
- Lessons of Lehman, Iceland, AIG,
- Financial fragmentation via liquidity, capital rules: Basel 3, Dodd-Frank, CFTC swap rules
- “We will not let the pursuit of international consistency force us to lower our standards” -- Treasury Secretary Jack Lew

The return of capital controls

Still a way to go

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Capital-account openness in emerging markets*, 1–most open



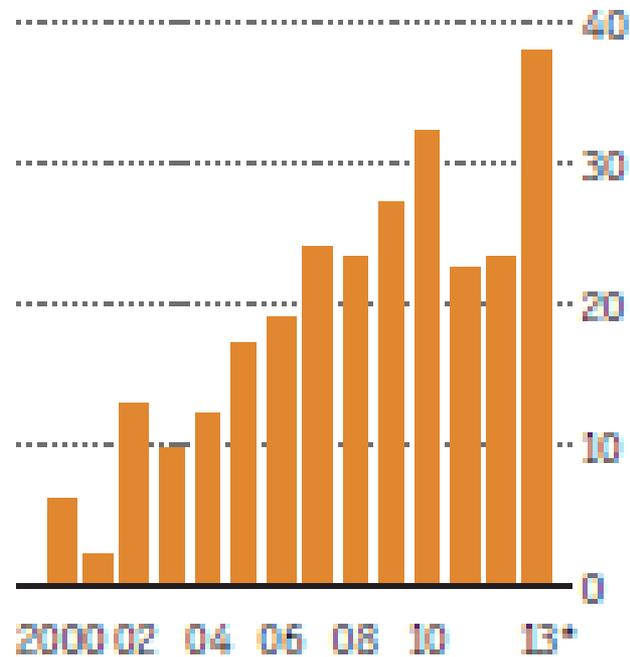
*20 countries based on an index developed by Menzie Chinn and Hiro Ito, which tracks restrictions on cross-border financial transactions
Source: European Central Bank

More discriminating on FDI

More gates

8

New national investment policies
that are restrictive
% of total

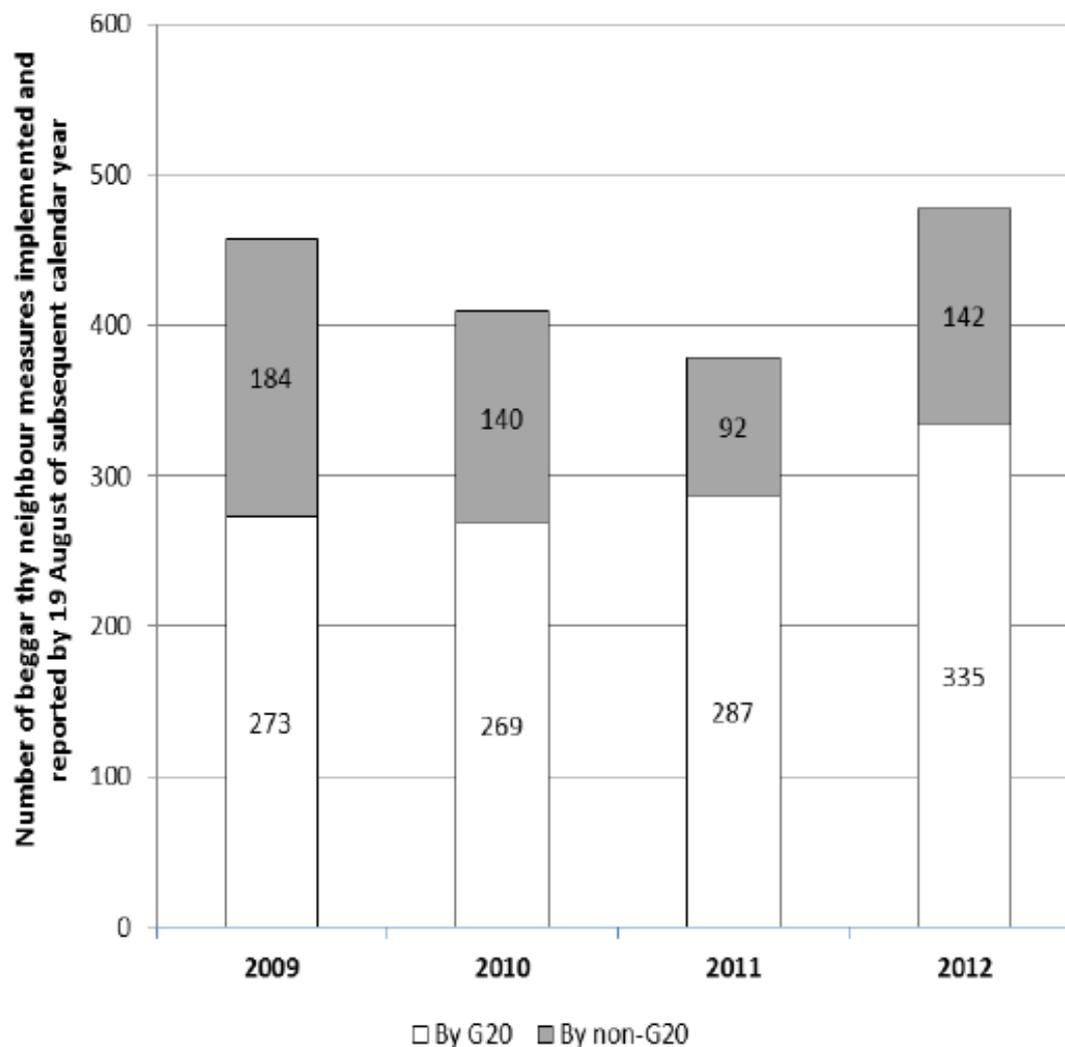


Source: UNCTAD

*January-April

The rise of “murky” protectionism

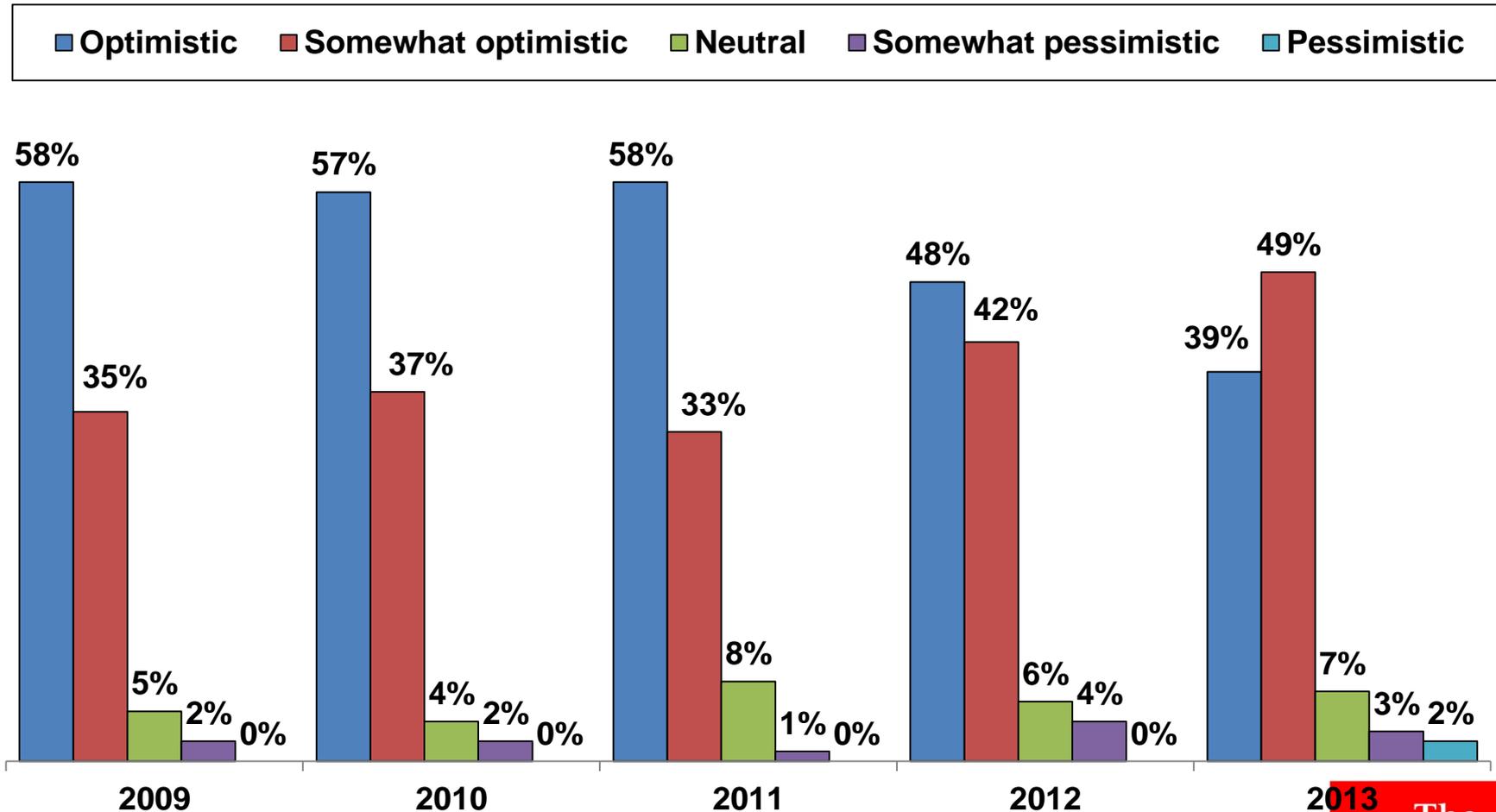
GTA-defined G-20 “beggar thy neighbor” actions



Clash of systems

- The rise of “state capitalism”
- All of the BRICs are committed practitioners of state capitalism & intervention
- Domestic & international interventionism usually go hand-in-hand
- In Brazil, India, reform movements have stalled; Russia’s never began
- China, revival of reform & openness (BIT, Shanghai FT Zone); but skepticism on the ground

Five-Year Outlook for Business in China



“For too long, much of the economic force and sacrifice in Geneva to produce global trade agreements has come at the expense of the US and EU”

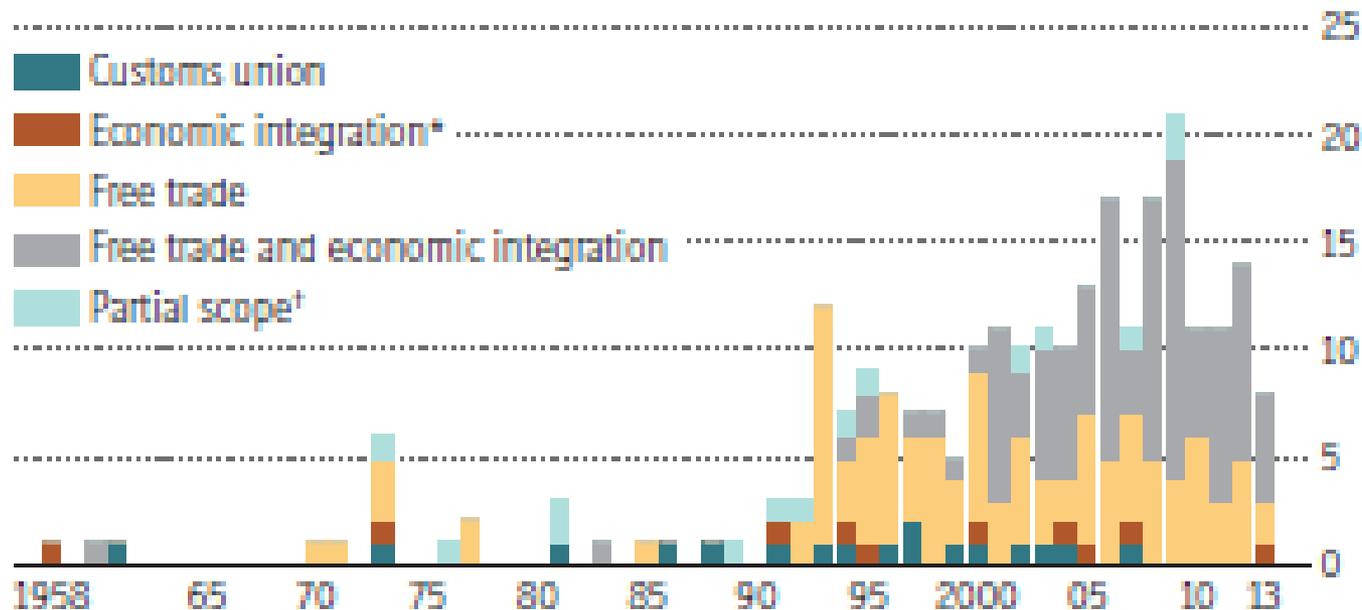
- Ron Kirk, former USTR

Regionalisation

Strength in numbers

Newly signed preferential trade agreements

Number, by type of agreement



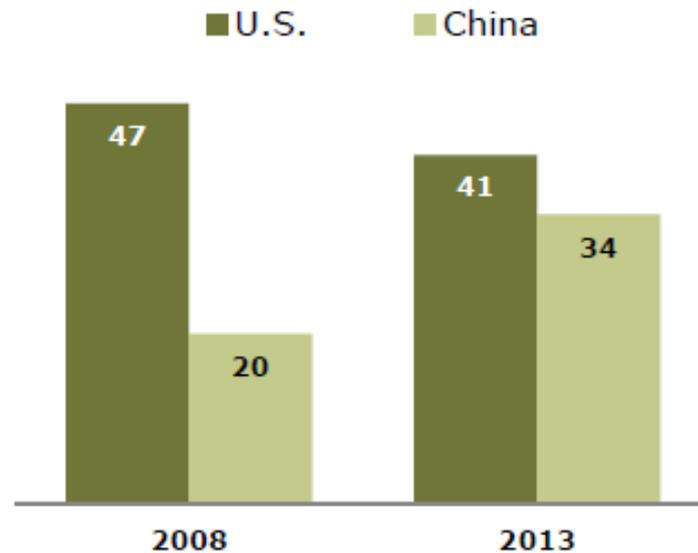
Sources: Arvind Subramanian; Martin Kessler; World Trade Organisation

*Includes joint customs union and partial-scope agreements

†Covering only certain products

In need of a hegemon

Who Is World's Leading Economic Power?



Median percentage naming the U.S. and China as world's leading economic power based on only the 20 countries surveyed in both 2008 and 2013.

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