

Globalization after the Coronavirus Pandemic

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economiaportuguesa.com

Outline

- **Part I: Globalization as we know it**
 - Trade
 - FDI and capital flows
 - Human Flows
- **Part II: The immediate and shocking impact, and the enduring effect on trade, FDI and human flows**
 - Need for a treaty and protocol on pandemics
 - Threat of authoritarian regimes
 - Rise of nationalisms/populisms
 - Redrawing of supply chains and reshoring of manufacturing in Europe and North America
 - Looming financial crisis in emerging economies
 - Rebalancing of geopolitical world power
 - New Protectionism
 - Fight against inequality



Sébastien Thibault

Large and sustained increases in the cross-border flow of goods, money, ideas and people have been the most important factor in world affairs for the past three decades. They have reshaped relations between states both large and small, and have increasingly come to affect internal politics, too. From iPhones to France's *gilets jaunes*, globalisation and its discontents have remade the world.

Economist, jan 24th 2019

The largest and gravest pandemic of the last 100 years will have a major impact on the world we live in

Minus side

- People are getting more risk averse with higher anxiety about the future
- More nationalisms and more authoritarian regimes
- Less interconnectedness at national and world level
- Lower globalization and more regional/continental production chains
- Emerging countries will experience debt crisis and lower growth
- The European Union will perhaps come into strain with lower levels of trust among member countries, with the Brexit a reality, and the post-pandemic problems
- Stricter controls of FDI and border controls of people movements
- Lower innovation and lower economic growth
- As economic situations deteriorate around the world, more extremist movements will arise
- Probably, more intense global conflicts

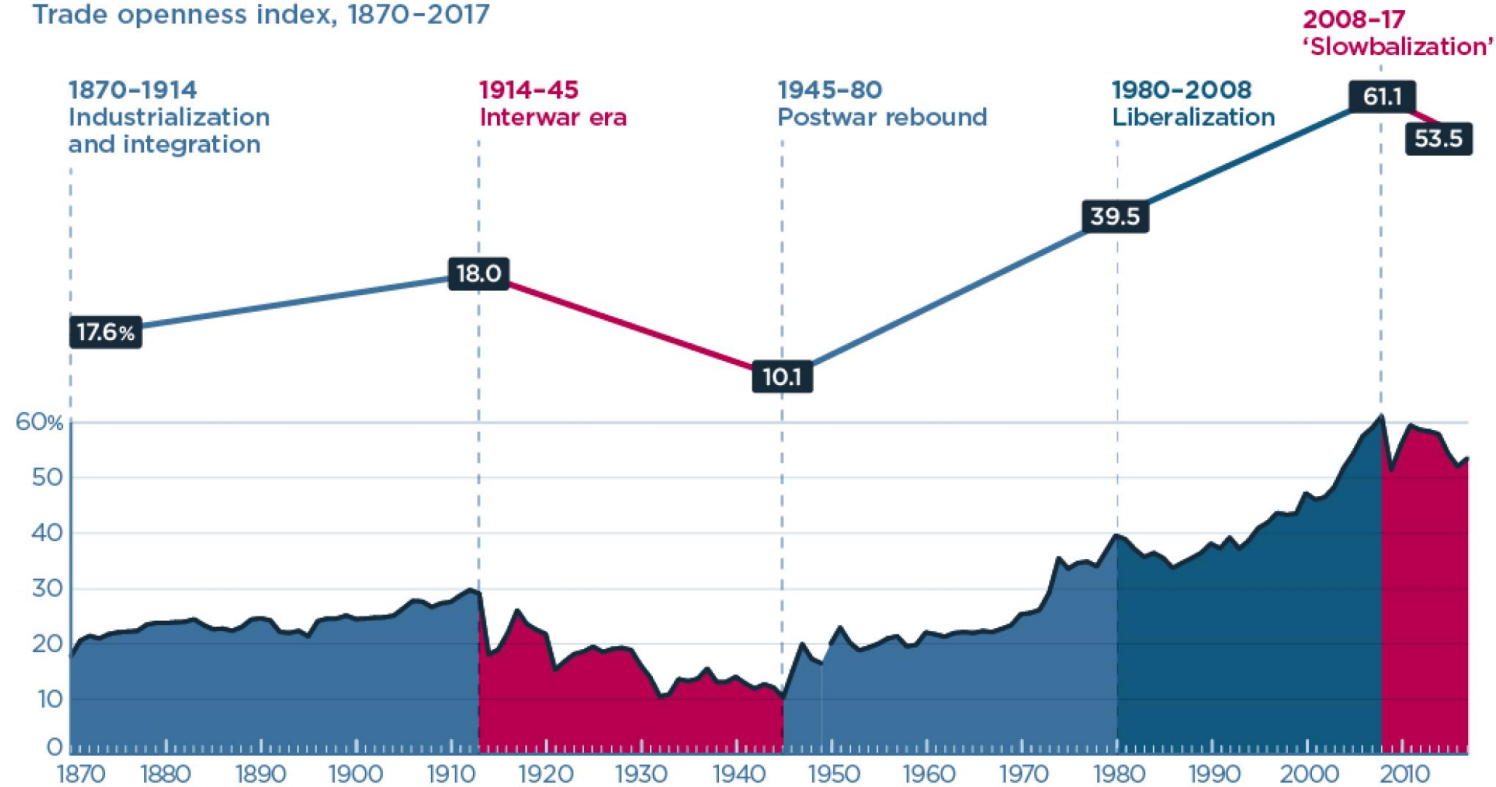
The largest and gravest pandemic of the last 100 years will have a major impact on the world we live in

Plus side

- More concerned about climate change and environment
- Democratic countries will be more conscious of the value of freedom and preservation of their way of life
- Digitalization, big data, AI, will be more important than ever
- Stronger investment and research of health industries and in health infrastructures
- People will become more aware of the importance of civil society
- Reshoring will increase manufacturing and growth in several EU economies and US states
- Regional development policies could lower income disparities

Globalization is in retreat for the first time since World War II

Trade openness index, 1870–2017



Note: The trade openness index is defined as the sum of world exports and imports divided by world GDP. 1870 to 1949 data are from Klasing and Milionis (2014); 1950 to 2017 data are from Penn World Tables (9.0).

Source: Our World in Data, <https://ourworldindata.org/grapher/globalization-over-5-centuries>.

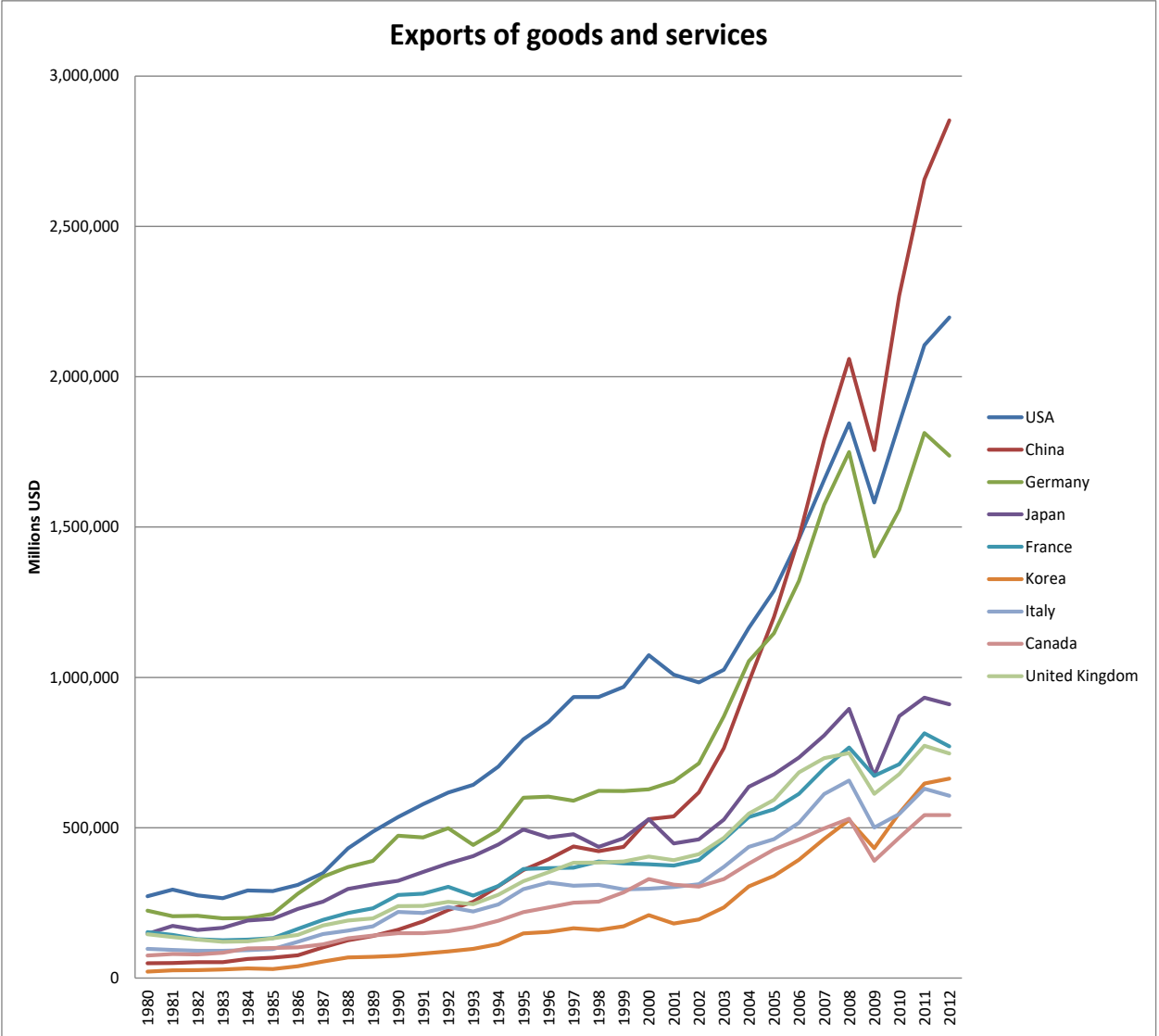
Political and economic factors of globalization, since 1980

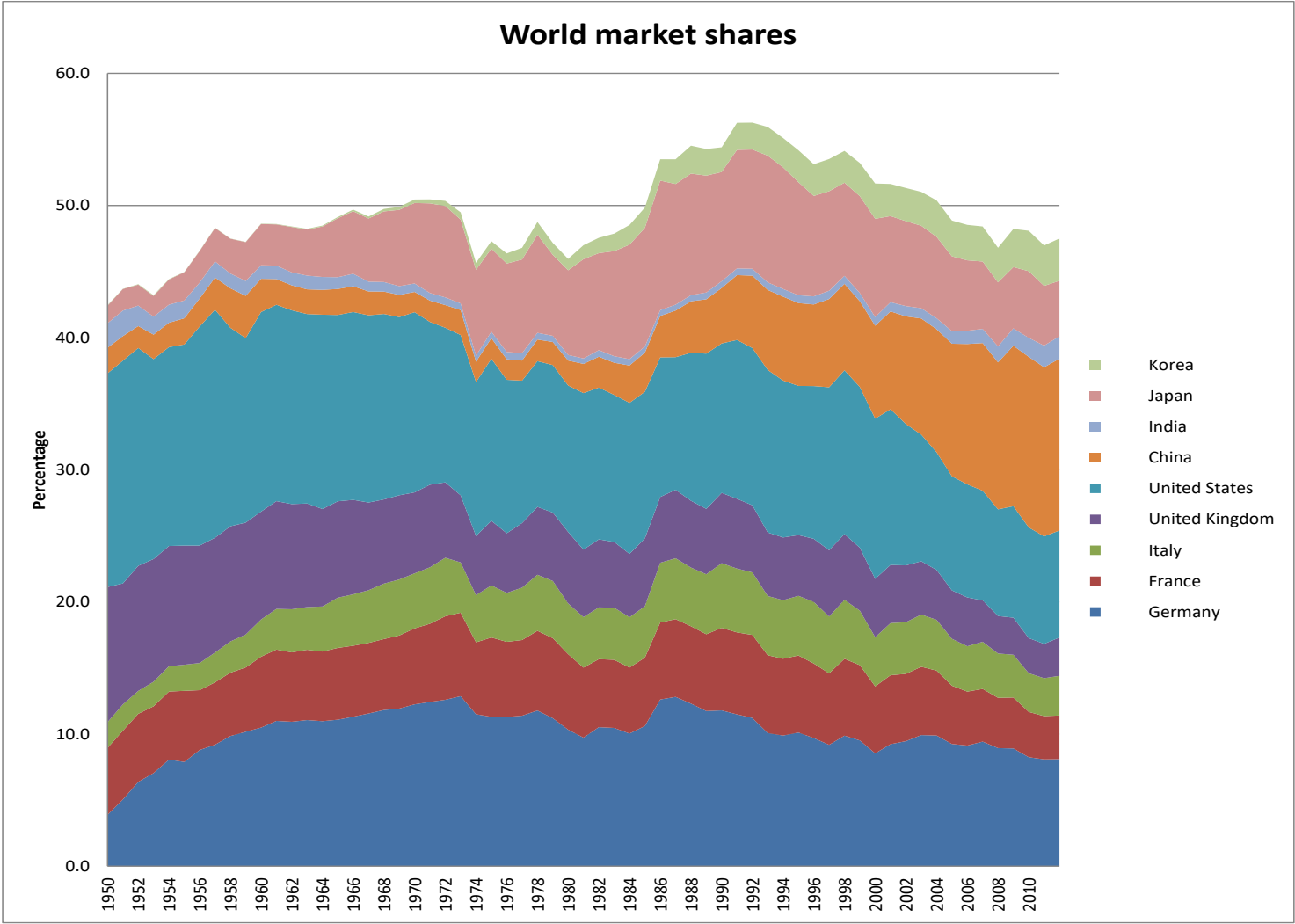
- The present wave is characterized by:
- Incorporation of whole new nations in the World Economic System with the fall of communism: the system expands by more than a third, which led to a reallocation of economic activity at world level (labor scarce North to technology scarce Asia), within a relatively peaceful world and spread of democratic regimes
- The process of technological innovation continued to operate but technological and human capital transfer intensified throughout the last two decades
- massive flow of international students to developed countries universities
- diffusion of R&D and other forms of innovation through value-chains and production networks
- diffusion of knowledge through internet
- facility of contacts through internet and international transport

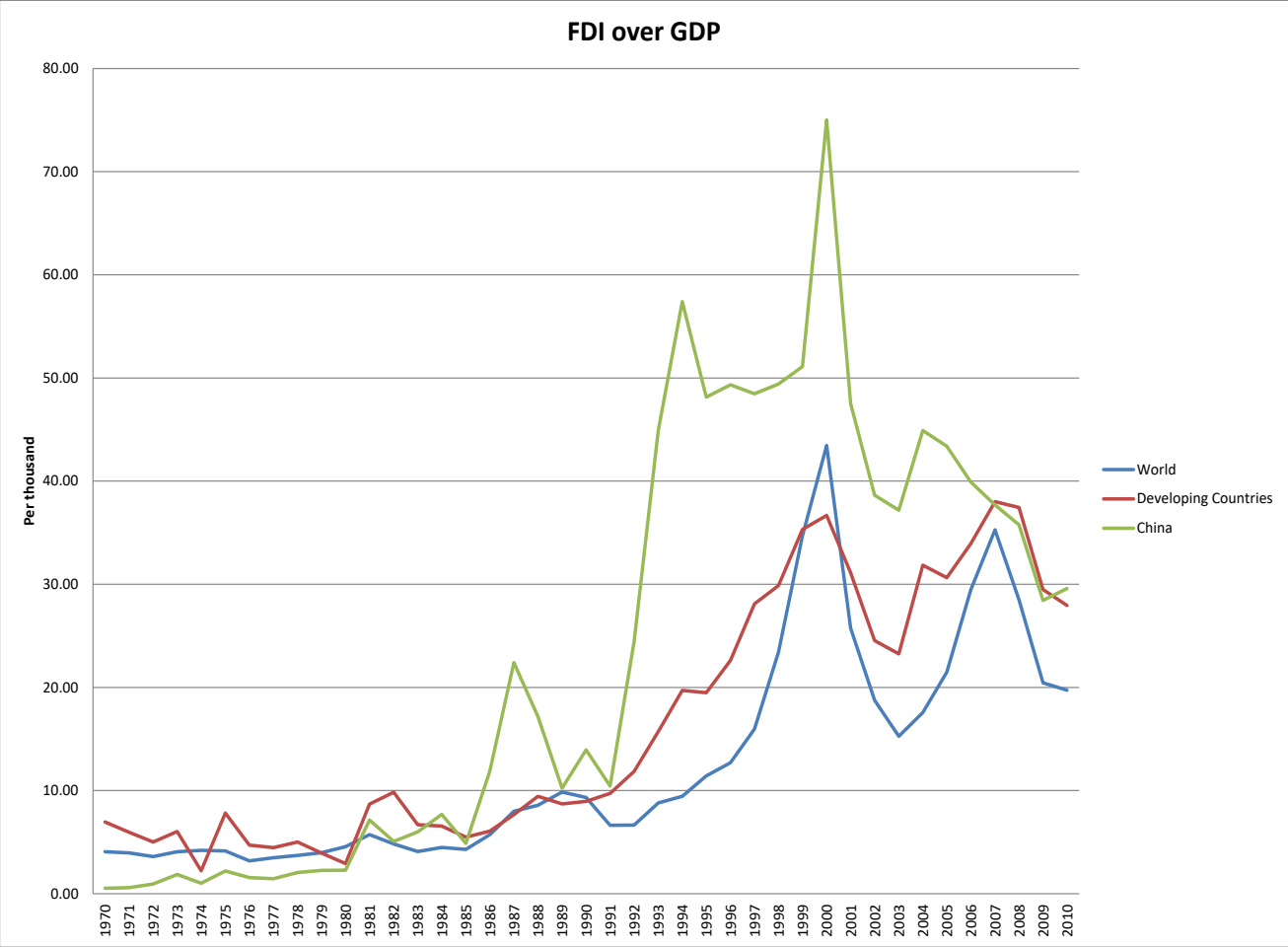
- Opening-up of those economies to the World Economic System was in itself the major institutional change
- Recognition of the role of markets in development of economies
- transfer of institutions from North to South and in particular of the Asian export-led growth model
- Trade liberalization through GAT/WTO
- High-gear growth engines in Asian tigers and China plus continuation of steady growth in North
- For the first time in history, relatively poor countries became developed countries in 40 to 50 years

China the “factory of the world”

- In 1990 developed countries accounted for 79.3% of world manufacturing value added. From 1990 to 2000 their share fell 0.4% annually. In the first half of the first decade of the 21st century was decreasing at 1.2% per year and in the following half accelerated to 2.1%
- By 2010 their share had dropped by 12 pp to 64.4%. China increased its share from 6.7% in 2000 to 15.4% in 2010, becoming the second largest manufacturer after the United States
- East Asia and the Pacific remains the largest manufacturing region by far, with manufacturing value added of 1.5 trillion USD in 2010, more than half of developing countries production
- The shares of employment and value added by manufacturing for the most developed economies have been halved in the last 3 to 4 decades, with important consequences in their domestic economies







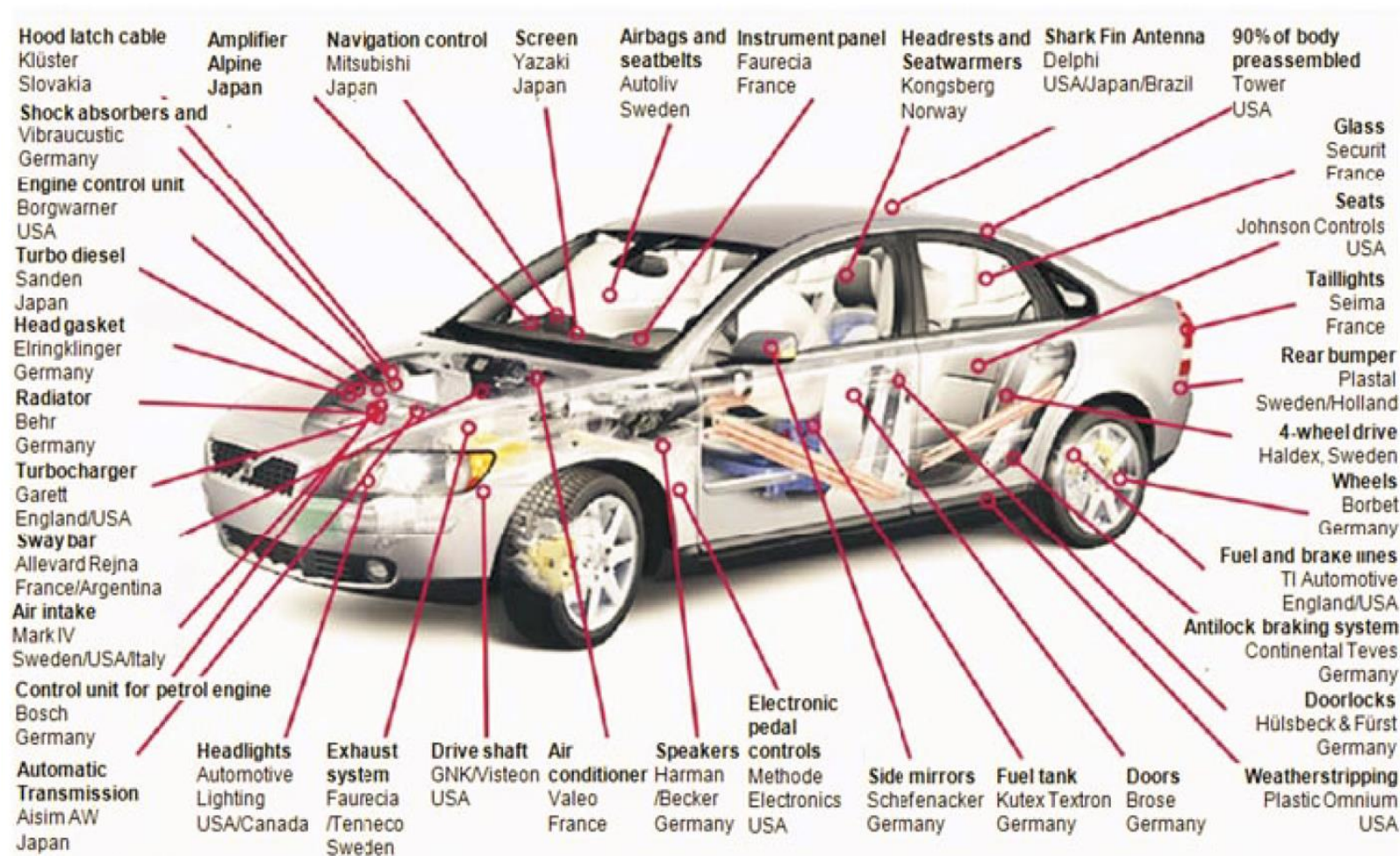
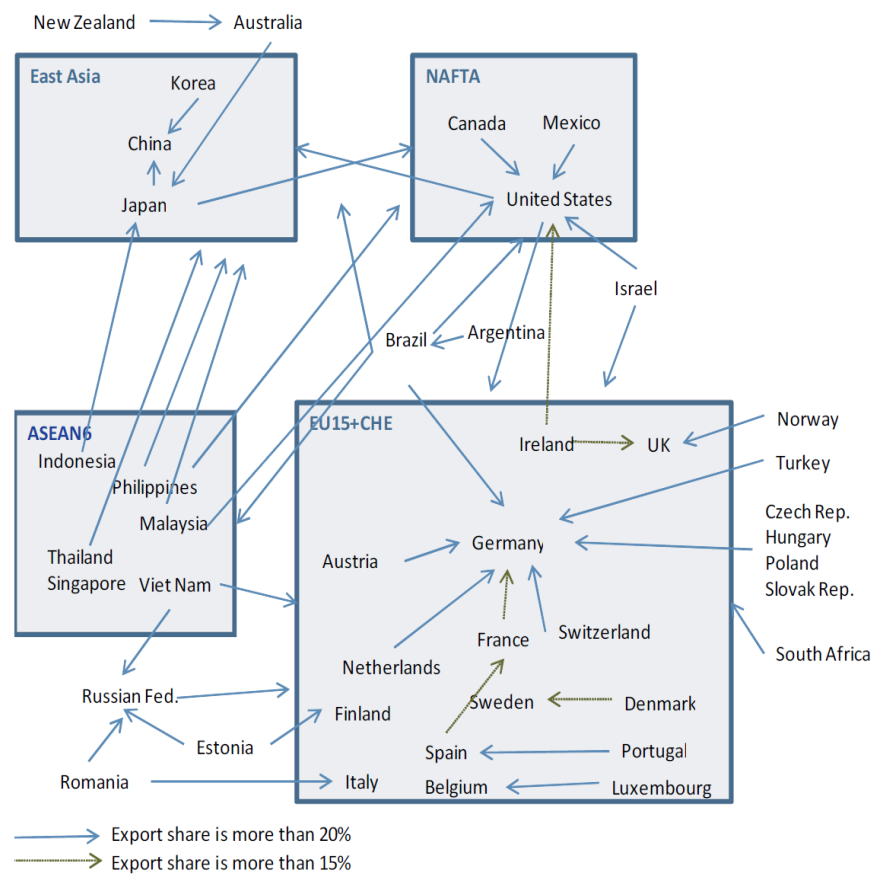


Figure 6: Where are the components of the Volvo S40 made?

Figure 14 Dominant links between economies, exports of intermediates, 2005



Source: Own calculations based on OECD Input-Output Database (September, 2010) and OECD STAN BTD (March, 2010).

Similarities between the first and second wave of globalization and further work

- In the first wave was an **integration “of equals”**: these countries had similar income opportunities from the beginning. The only differences were the different endowments of natural resources.
- In the second wave there it is an **“integration of unequals”** in view of the large difference in incomes and wages between e.g. US or Germany and China or Bulgaria.
- **In the case of the US versus China, the multiple of wages has been reduced from about 60 to 10 in the 1995 to 2011 period**, with a reduction of 12 pp in the income levels: a truly astounding achievement.
- **In the case of Germany versus Bulgaria** the multiple of average wage rate in manufacturing was reduced **from 26 to 11** in the same period.

Conclusions: globalization as we know it

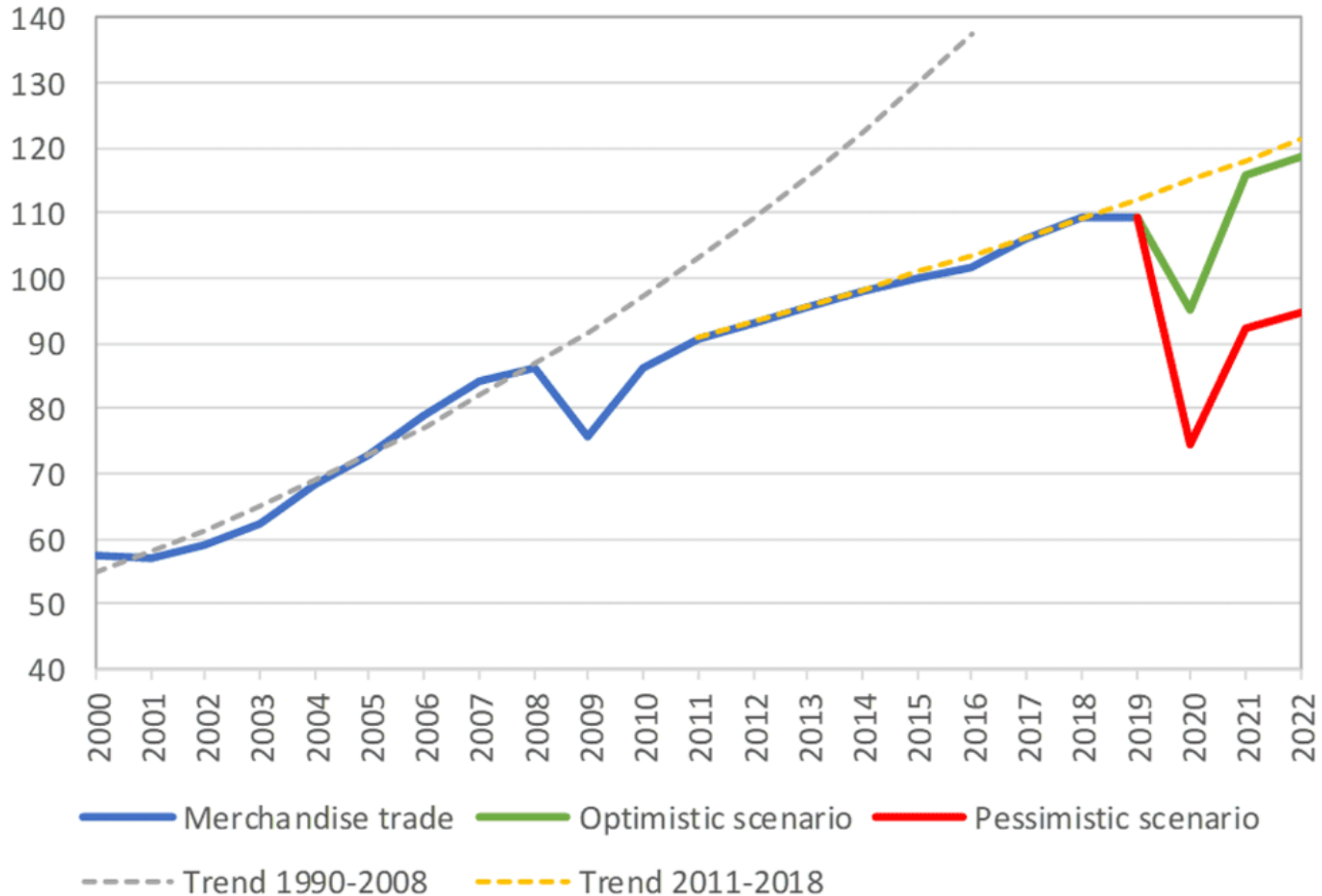
- The main policy conclusion we reach are that the significant convergence achieved by the countries that followed the East Asian export model, integration in the EU and that exploited rich natural resources **would not be possible without globalization.**
- Trade and openness to the world economy is the essence of their success
- However, there have been different modalities of trade and industrial policies: from the dirigisme and protectionist of East Asian countries to the more liberal approaches of the European Union or NAFTA
- Thus, countries should maintain an open system with continuous policies for encouraging integration in the world economy

The immediate and shocking impact of the pandemics on trade, FDI and human flows

- The COVID-19 pandemic is driving the world economy to retreat from global economic integration. Policymakers and business leaders are now questioning whether global supply chains have been stretched too far. In an environment where alliances are uncertain and international cooperation is absent, they are also asking whether they should reduce their economic interdependence. National security and public health concerns are providing [new rationales for protectionism](#), especially for medical gear and food, and an emphasis on domestic sourcing.
- The Great Recession of 2008–10 marked a historic turning point in the degree of global economic integration. Now, in response to the current health and economic crisis, policymakers appear poised to take deliberate steps to reinforce the movement toward deglobalization.
- These steps threaten to slow or reverse the economic growth delivered by globalization. Even worse, new restrictions on trade could proliferate and inflict damage that could take decades to reverse.

- PIIIE

Chart of the week: Trade set to plunge as the COVID-19 pandemic upends global economic



Even before the pandemics globalization was under threat



Luca D'Urbino

Slowbalisation

The steam has gone out of globalisation

Economist, jan 24th, 2019

One possibility is that decisions made during the crisis will lead to less prosperity, slower growth, widening inequality, bloated government bureaucracies, and rigid borders. Or they may lead to a burst of innovation and productivity, more resilient industries, smarter government at all levels, and the emergence of a reconnected world. Neither is inevitable; indeed, the outcome is probably more likely to be a mix. The point is that [where the world lands is a matter of choice](#).

McKinsey report, Shortlist, 1.5.2020

The future: Need for a treaty and protocol on pandemics

- Suddenly, pandemics have topped the agenda in every country around the world. We cannot eliminate pandemics in the future, but we can significantly reduce its risk
 - Virus are living with us since the beginning of humanity and they mutate through time and will attack us any time
 - What is surprising is how unprepared we were and the lack of immediate response of the Western World (and China as the source of the pandemic)
 - The WHO did not perform to the highest standards in scientific ways (late to recognize the danger, and too late to recognize the pandemic)
 - In the last 30 years pandemics have appeared in different countries and regions (SARS in China, MARS in Middle East, HIV in RDCongo-Haiti, Ebola in RDCongo and Sudan)

What is needed at international level?

- An international agreement on what measures should be taken by the country where a potential pandemic can originate
- Set up an independent international agency to monitor the protocol
- Or, redefine the role of WHO and strengthen its scientific capabilities and de-politicize leadership
- Strengthen research capacities in immunology and global coordination in vaccine research and production
- Strengthen national risk alert systems and contingency plans for pandemics (e.g., build digital contact systems under the supervision of health authorities, but danger of authoritarian uses)
- Strengthen national health systems

Threat of new authoritarianism: a role for the European Council

- The pandemic required centralized economic and social systems, that suspended democracy in a number of countries
- Lockdowns: although social distancing was understood and taken voluntarily by most of the populations, it gave the impression that an authoritarian system à la Moyen Age was required
- Mitigation policies to rescue firms and preserve employment left the impression that the state was a savior and preserver of economic livelihoods
- In the recovery, even business associations were asking for nationalizations of troubled large firms

Hungary, Poland, Bulgaria,

- On March 30th, Hungarian Prime Minister Viktor Orbán used his two-thirds majority in the Hungarian Parliament to pass emergency legislation enabling him to rule by decree until the COVID-19 crisis is over
- One of the first laws passed with the new executive powers classifies all information about a railway contract with China, around which there are rumours of corruption
- As long as the emergency lasts, parliamentary elections (including by-elections) will not take place. Many local government revenue sources and some state funding for political parties will be transferred to a national 'coronavirus fund', disadvantaging the opposition parties that control Budapest and other cities.
- Under the emergency legislation, people convicted of spreading false or alarming information about the pandemic or interfering with government measures to fight it face up to five years in prison. The offences are poorly defined, allowing the government to intimidate any journalist who criticises it, however justifiably.
- A citizen could in theory bring a legal case to challenge the law, but the ordinary courts are closed, and citizens cannot petition the Constitutional Court directly
- Even if Parliament decides that it has made a mistake in granting so much authority to Orbán, it will take a two-thirds majority and the agreement of the Hungarian President – currently an ally of Orbán – to repeal the new legislation. Otherwise the state of emergency will continue until Orbán chooses to end it.

The rise of nationalisms/populisms

- Even before the pandemic there were signs of the rise of nationalisms and populisms
 - UK: Brexit
 - Poland with nationalist party
 - Hungary: authoritarian regims of Orban
 - Increasing votes of nationalist parties in France, Italy, Netherlands, Austria, Germany and Spain
- Dissatisfaction with traditional politica parties, low growth and increasing inequality
- For now, most of the countries have rallied around the leader to fight for survival, but after the pandemic, these movements will ressurge

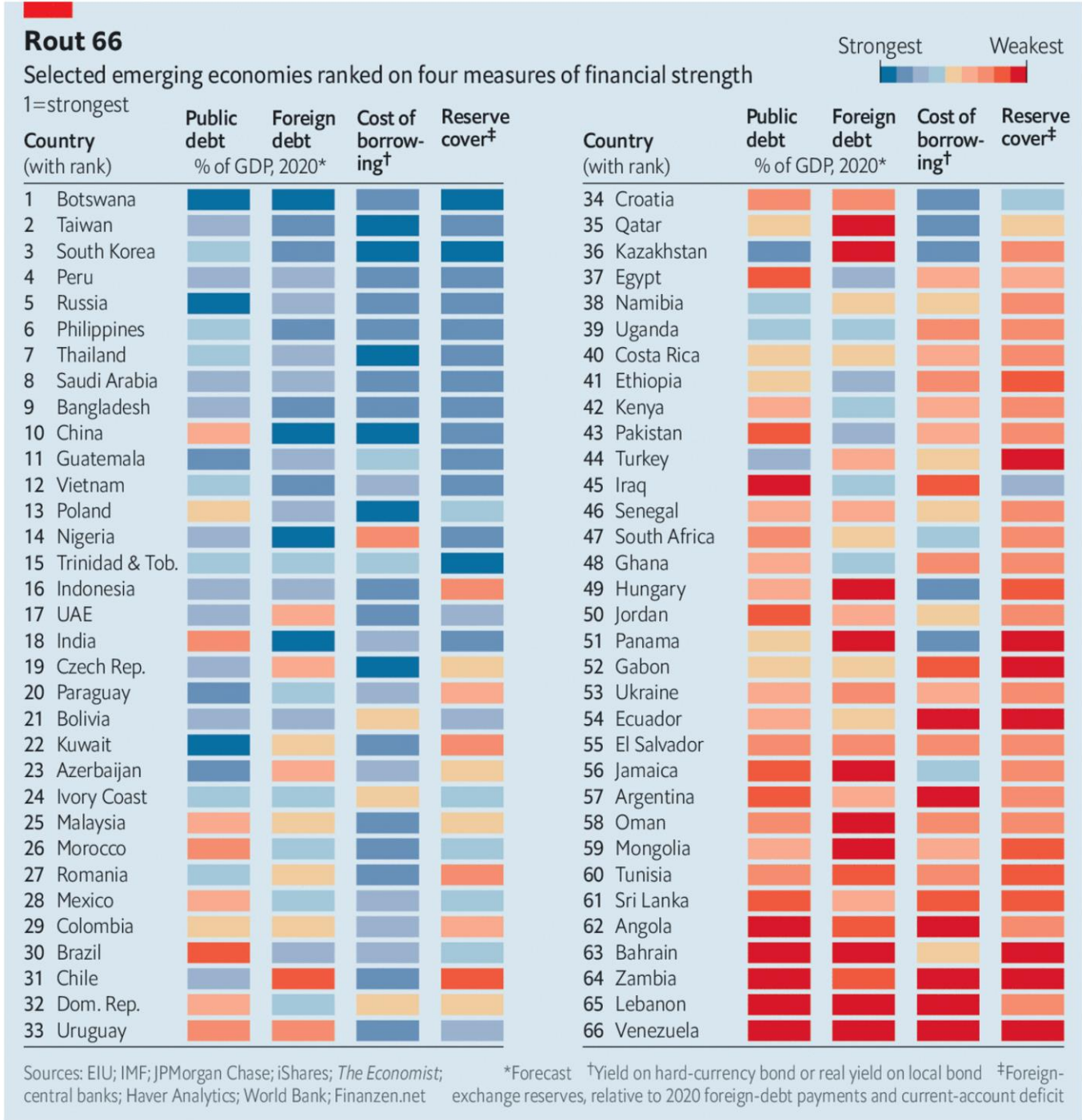
Redrawing of supply chains and reshoring of manufacturing in Europe and North America

- The pandemic has shown how the world is intertwined in terms of value chains: it was a reality, we all know it, it was the result of free movements of goods and investment
- But, the question is if in a world with higher risk of disruptions in value chains should they be shortened?
- Which implies defining either: (i) safety areas where coordination would be easier and faster; (ii) policies of stocks of goods or raw-materials that could be used during a given number of days of disruption

- These require a new industrial policy for the European Union, North America and Japan
 - Japan has recently introduced fiscal and financial incentives to help firms reshore
- It has been discussed for some time, but now there is a new impulse
- The question is how to define a policy with minimum protection costs (for consumers)
- Trump policies (wrong turn) versus new industrial policies (right turn)

- Japan to help bring home factories that left after 2011 disaster –
 - Nikkei Asian Review by ADMIN on MARCH 23, 2020
- TOKYO — The Japanese government will extend emergency loans to companies trying to bring home overseas production facilities as the coronavirus pandemic severs links in global supply chains.
- The move comes as the outbreak has exposed risks of offshoring, which picked up after the March 2011 earthquake and tsunami that battered Japanese supply chains.
- Tokyo looks to provide more than 1 trillion yen (\$9 billion) in funding through the government-owned Development Bank of Japan to help companies restructure supply chains over the longer term.
- Reshoring will likely involve products in heavy demand in Japan, as well as goods with high added value that will still be profitable even if exported rather than made locally.

Looming threat:
Financial crisis
in emerging economies



Major role of
International Organizations
In crisis resolution:
A role for the IMF and
World Bank



	Cost of COVID-19	Development assistance
	USD billions	
Low income	24	
Lower middle income	407	
Upper middle income	1,884	
High income	6,430	
Total	8,745	153

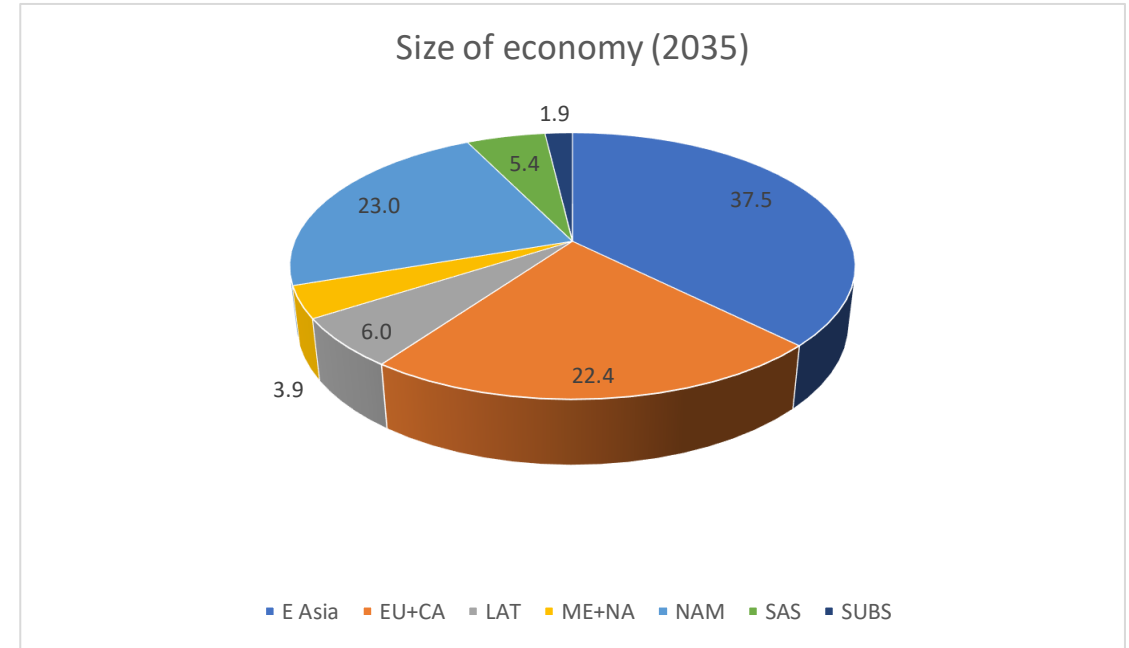
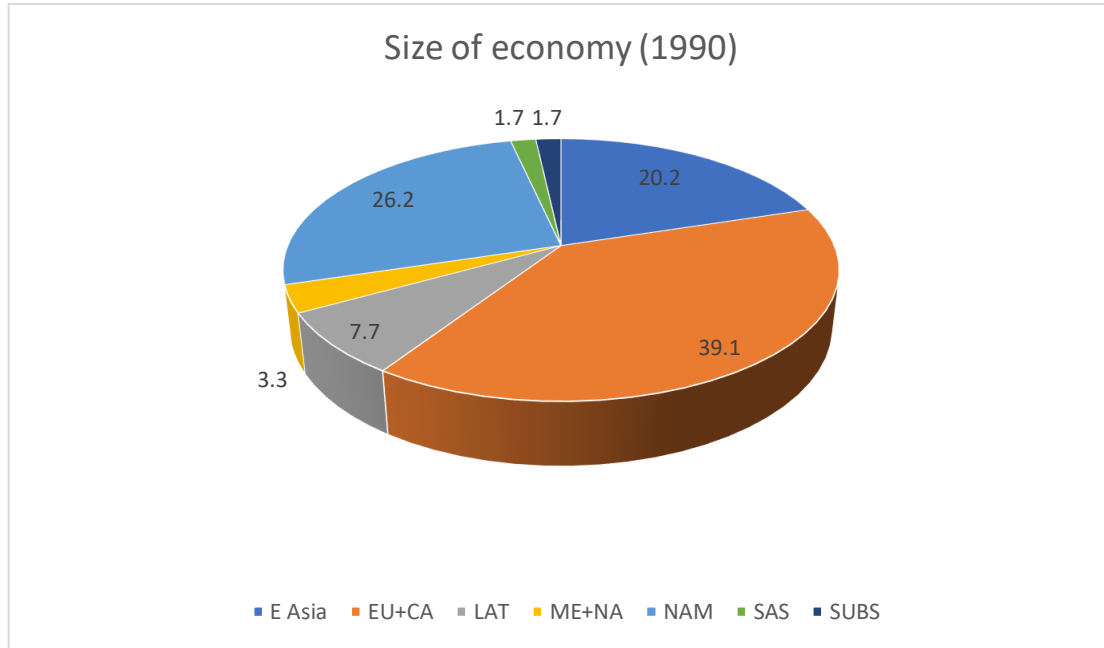
- Emerging economies are experiencing a rekindle of debt and financial crisis
- A large part of the origin of pandemics has been associated with poverty, low health standards and low hygiene
- And pandemics after spreading do not choose populations: they spread from poor countries to rich countries
- The economic cost of COVID-19 dwarfs any development assistance !!!

Rebalancing of geopolitical world power

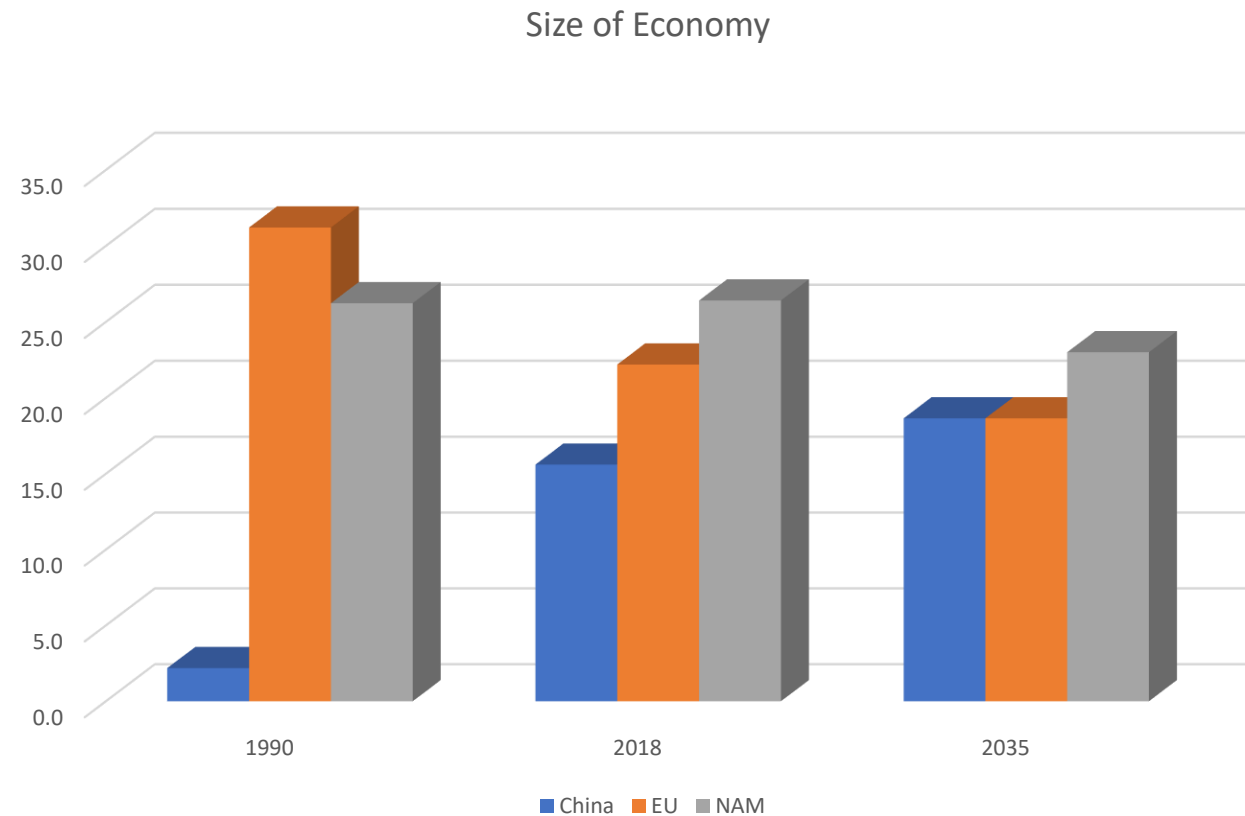
- Europe and EU are the regions that lost more to Asia, in terms of GDP redistribution
- EU lack of an industrial policy and laissez faire attitude
- There have been several Commission papers in the past about a new industrial policy for the EU, but no policies implemented
- Germany is the country that has preserved better her manufacturing
- But, countries like Italy, Greece, Spain, Finland and Portugal have been deeply affected
 - And these countries lack development plans to regain market share in world GDP

Present economic status of EU v. China

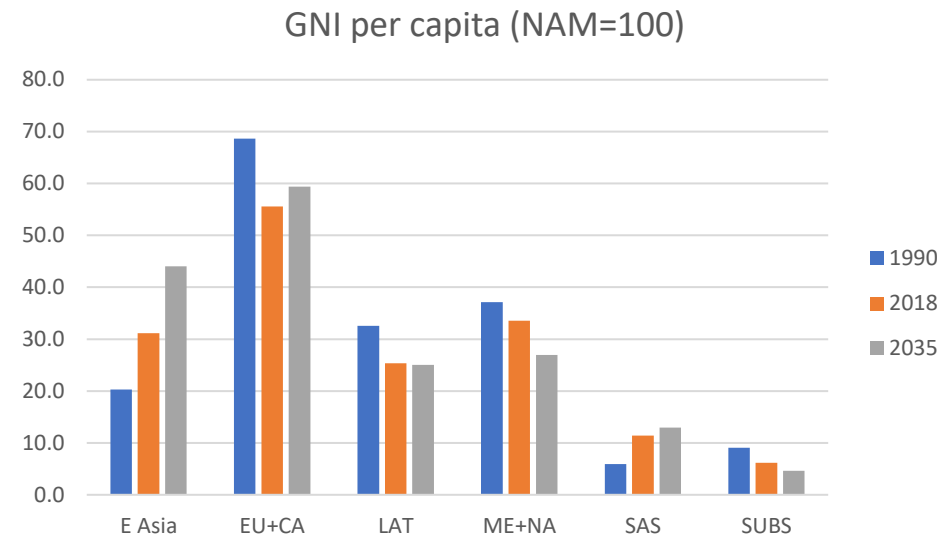
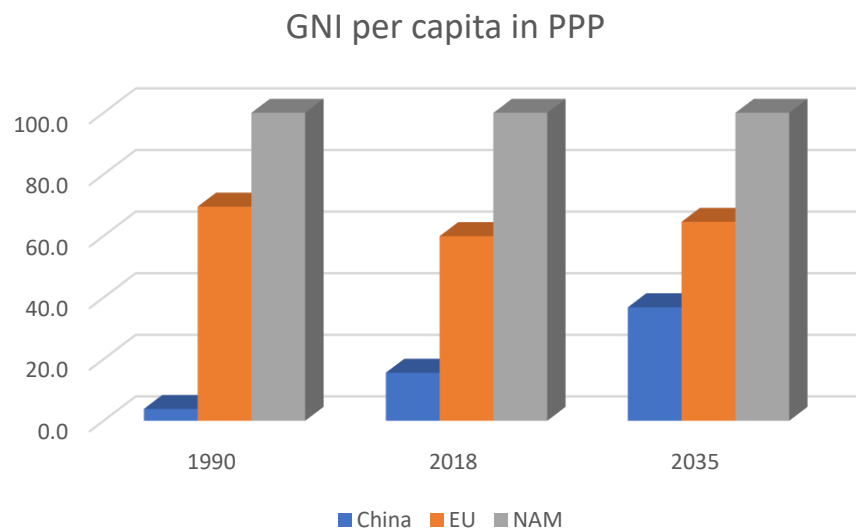
- **The European Union and China at a Glance**
- ? EU: 28 member states
- ? Population: EU: 500 million; China: 1.3 billion
- ? EU GDP (2016): approx. €14.0 trillion
- ? China GDP (2015); approx. \$11 trillion
- ? China is now the EU's second-largest trading partner, behind the United States. The EU is China's largest trading partner.
- ? EU goods exports to China (2017): €198 billion EU goods imports from China (2017): €374 billion EU services exports to China (2015): €37.3 billion EU services imports from China (2015): €26.4 billion
- ? China's investment in Europe is growing rapidly. EU foreign direct investment in China was approximately €6.8 billion in 2014, and China's investment in the EU was around €35 billion in 2016.
-



Europe is the region that loses more: its share in the world economy falls by half between 1990 and 2035 to the benefit of Asia (China)



China's share of world GDP increases from 2% in 1990 to 19% in 2035,
European Union falls from 31 to 19%



China's income per person, relative to the USA increases from 4% in 1990 to 16% in 2018 and to 37% in 2035.

The new protectionism: Disequilibrium in international trade between China and European Union/North America

China became the “world factory” with the deindustrialization process in the EU and North America

- How?
- Exploiting the economy of abundant labor and low wages
- Plus: protectionist industrial policies: forced technology transfer
- Plus policies of undervalued exchange rate
- Disequilibrium in trade balance (Asian model): high savings/investment, holding domestic demand, protectionism and low imports + high exports

Trade war between USA and China+Rworld (Trump policies)

- Washington and Beijing imposed punitive tariffs on \$34bn of imports from each other in July 2018 — for China, equivalent to 7 per cent of its exports to the US — and imposed duties on an additional \$16bn on August 23, later extended to \$50bn.
- In Sept 24, 2018, it imposed a 10% tariff on further \$200bn of Chinese imports
- And threatened to escalate the dispute further, with US president Donald Trump suggesting that the US might introduce duties on its annual total of \$500bn in imports from China, if China retaliates
- In addition, the US is levying tariffs on steel and aluminium imports, triggering retaliatory duties from Canada, Mexico and the EU. Tensions with Europe have lessened after a meeting between Mr Trump and Jean-Claude Juncker, European Commission president, at the White House this month, but Mr Trump could yet follow through on a threat to impose tariffs on European cars.

• FT Delphine Strauss AUGUST 17, 2018

- The U.S. was set to increase tariffs from 10% to 25% on \$200 billion worth of imports from China effective 1.3.2019, with the expiration of a 90-day suspension of tariff increases to allow for talks between the two countries
 - Trump's primary goal in delaying the tariff increases is to avoid spooking the stock markets,
- According to Wharton management professor Minyuan Zhao, tariffs of 25% on imports from China “would be devastating for both parties.” Not only would Chinese exporters find their profits squeezed, they would also defer investments amid the uncertainty in the trade environment
- Study of Wharton School

[Paul Krugman](#)@paulkrugman

Trade policy was supposed to be
Trump's signature issue.

But he has never grasped even
the basic fact that consumers, not foreigners, pay tariffs



Donald J. Trump ✓

@realDonaldTrump

Follow



....I am a Tariff Man. When people or
countries come in to raid the great wealth of
our Nation, I want them to pay for the
privilege of doing so. It will always be the
best way to max out our economic power.
We are right now taking in \$billions in Tariffs.
MAKE AMERICA RICH AGAIN

10:03 AM - 4 Dec 2018



Paul Krugman ✓ @paulkrugman · 4 Dec 2018

And even if there were a deal on autos, it would cut tariffs for all exporters to China, meaning most of the benefits would not go to the US. This is not optional: Most Favored Nation status is integral to the WTO 3/



Trump's car deal with China is great — for other countries

Why Japan, South Korea, and Germany are likely ecstatic right now.

[vox.com](https://www.vox.com)

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Paul Krugman ✓ @paulkrugman · 4 Dec 2018

The best guess is that Trump heard what he wanted to hear, that there never was a deal. This is troubling; trade is one thing, but what if he approached murderous dictators with the same kind of ignorance and gullibility? Oh, wait. 4/

Basic tariff theory: for one-good world

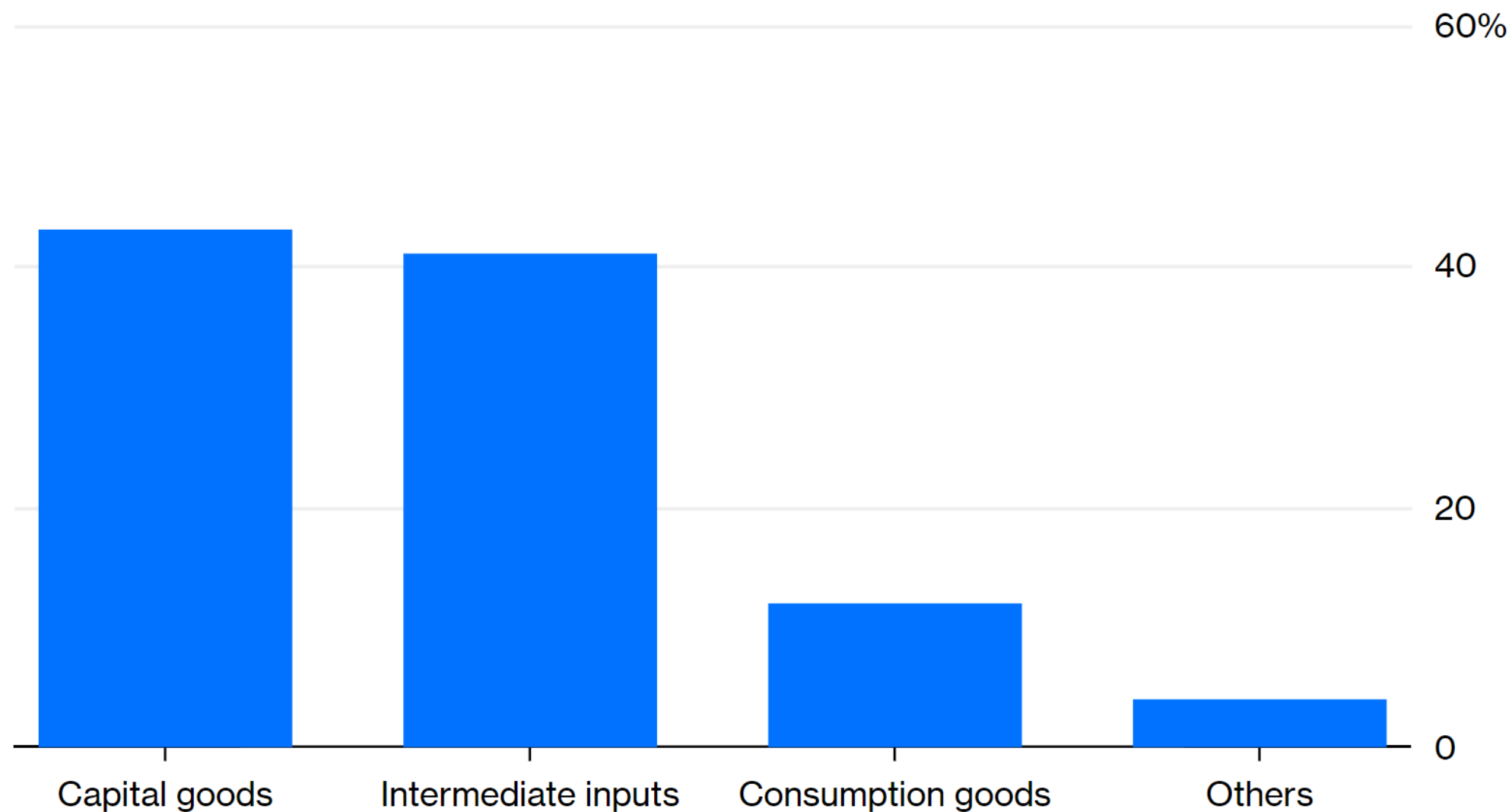
- The increase in tariffs leads to an increase in import prices, and thus
 - Reduction in consumer surplus
 - Increase in producer surplus for domestic firms
 - Increase in tax receipts
- The main effects are on the economy that raises tariffs, but
- For a large country there are also terms of trade effects (ratio of imports versus exports)
- If there are 2 large countries, in bilateral terms, there will also be effects on the other country: profits of the producers of the export country may decrease in short-term but will increase in long-term, and export quantity will be reduced,
 - But there is also trade diversion: benefitting third countries

Basic tariff theory: for multi-sectoral world with value chains

- Basic concept is the Effective Protection Rate (EPR), i.e., tariff on the final output less the impact on inputs, measured by a weighted average of input costs
- E.g. raising a tariff on an input (a tariff on steel) increases the price of steel and the EPR for steel, but reduces the EPR for products that use steel, mainly the ones using steel intensively in production
- Increasing tariffs on inputs with substantial connections in the industrial processes will lead to lower level of domestic protection
- Ideally, the tariff schedule should be homogeneous (same tariff rate) like the external tariff of the EU, tariff differentiation among final products is difficult to achieve, because it is difficult to define a final product in the value chain

Manufacturing Would Be Hit Hardest

Trump's threatened tariffs against China, by product type



Source: Chad Brown, Peterson Institute for International Economics

- Sterne at Oxford Economics estimates that an escalation of the trade conflict could lead to a cumulative loss of 0.7 per cent in global GDP by 2020
- Barry Eichengreen warned that “the standard economic models are notoriously bad at capturing the macroeconomic effects of uncertainty, which trade wars create with a vengeance”
- Sterne adds: “It becomes highly toxic when it gets multilateral.”
- He warns: “It is the interaction with financial vulnerabilities and competitive devaluations that can be really damaging.”
 - Example of the 1930s

- US President Donald Trump has threatened to impose new tariffs on aluminium and steel imports of 10% and 25% to help support domestic producers.
- This will help to boost US prices for aluminium and steel, but the direct global impact should be limited given that the US is a small consumer and importer, particularly of steel.
- US metal-intensive industries will suffer due to higher input costs. However, the indirect impact from a trade war would potentially be far more serious for metal producers.
- Steel producers in Canada and Mexico will struggle to find alternative markets, given high transport costs for steel and a lack of fungibility and are more likely to cut back than aluminium producers.

- Oxford Economics

- Canada and Mexico escaped because they signed a new NAFTA
-

- Jon Harrison (TS Lombard): trade worries, added to the effects of the strong dollar and rising US interest rates, were fuelling a sell-off in emerging market debt
- After Trump announced he was doubling tariffs on Turkish steel and aluminium, the lira accelerated its fall
- Harrison: “the next phase of a trade war would disrupt supply chains more”, as many south-east Asian economies rely on Chinese exports to the US.
- “The odds are, the trade war the Trump administration is pursuing is likely going to — in economic terms — harm everybody else much more than the US,”:Adam Posen, president of the Peterson Institute for International Economics. “The odds are they [the US] have a couple of years before the results are really felt.”

What are appropriate policies for industrial reshoring by the EU/USA?

- Accelerate and improve educational policies, vocational training, and continuous education
- Programs for labor upgrading
- Targeted investment programs to industries and regions in decline, reconverting activities and requalifying manpower
- Increase public investment in R&D
- Accelerate digitalization, use of AI and teleworking
- Research and industrial policies directed at leading technological industries (biotechnologies, software, new materials, renewable energies, etc.)
- Rethink the NEW Green Deal within the context of reshoring and pandemic free world
- The EU Financial Frameworks are very inefficient and waste a lot of resources (e.g. the common agricultural policy or the cohesion policy)

But, also reform the World Trade Organization

- Rules of the WTO
 - Anti-dumping rules
 - Intellectual Property Protection (TRIMs)
- Serious problem: it takes 3 to 5 years to resolve any dispute
- Most-favored nation clause limits bilateral agreements
- But, current WTO rules do not protect adequately intellectual property

Problems of Intellectual Property Protection in China?

- Under an ambitious plan unveiled two years ago called **Made in China 2025**, Beijing has designs to dominate cutting-edge technologies like advanced microchips, artificial intelligence and electric cars, among many others, in a decade. And China is enlisting some of the world's biggest technology players in its push.
- Sometimes it demands partnerships or intellectual property as the price of admission to the world's second-largest economy. Sometimes it woos foreign giants with money and market access in ways that elude American and global trade rules.
- China is directing billions of dollars to invest in research at home as well as to acquire innovative technology from abroad. A Beijing-directed semiconductor fund is thought to have more than \$100 billion at its disposal, while another plan aims to grow China's artificial intelligence companies into a \$150 billion industry by 2030
- China will soon require foreign auto companies to make electric cars there if they want to continue selling gasoline-powered vehicles in what is now the world's largest car market. General Motors, Volkswagen and others have been scrambling to form joint ventures with Chinese partners to do so
 - NY Times 7.11.2017
- The concerns U.S. companies have over protection of their IP rights in China are big and real. As a member of the World Trade Organization (WTO), China is obligated to protect the IP rights of its trading partners, Gold pointed out. Yet, "China has programs" designed to sidestep those obligations

New rules for FDI in the EU

- The German Government and the Ministry for Economic Affairs and Energy are willing to intervene to prevent foreign investments in sensitive areas;
- Even minority investments are looked at skeptically, in particular, where so-called critical infrastructure is at stake (“critical infrastructure” includes facilities in a range of sectors, including energy, information technology and telecommunications, transport and traffic, health, water supply, food, as well as finance and insurance, provided that they meet certain materiality thresholds);
- Acquisitions by buyers linked to foreign governments (in particular the Chinese Government) appear to be of particular concern. However, the Ministry generally treats all acquisitions the same way so that investors with governmental links from any country have been subject to closer scrutiny;
- It seems likely that the German Government will, at least for certain sectors, lower the thresholds to be able to investigate minority acquisitions below the current 25 per cent shareholding threshold;
- Thorough foreign investment due diligence at an early stage becomes more and more important in M&A transactions.

But the new EU regulation on FDI is timid!

- The Commission “should” be consulted by the member state about the FDI from outside the EU, in a strategic sector (question of security and public interest)
- But the member state takes the final decision
- Commission only issues an opinion when the investment can affect several countries or affect community programs like Galileo
- 14 countries have introduced some national legislation about controlling external FDI
- Problem with China: because of state capitalism there are serious competition law issues within EU and USA antitrust laws

New German rules to control FDI

- The German government had already tightened controls on foreign investments in 2017, after a series of high-profile takeovers by Chinese companies, making it possible for Berlin to intervene if a buyer amassed a shareholding of 25 percent (in defense and energy – 10%)
- State bank KfW agreed to take a 20 percent stake in high-voltage energy network operator 50Hertz, fending off an offer from China's State Grid (Reuters, 27.7.2018)
- Berlin also plans to veto the planned sale to Chinese investors of Leifeld Metal Spinning, customers of which include companies in the aerospace, chemicals and automotive industries China and other rivals are gaining access to key technologies via takeovers
- Germany's economy minister, has called for the creation of a state investment fund that would step in to pre-empt foreign takeovers of big German companies (FT, 5.2.2019)
- The move comes just weeks after the BDI business lobby called for a much tougher approach to China, saying Germany's open model was increasingly in competition with China's "state-dominated economy" and needed to protect itself more effectively from Chinese companies (Made in China 2025)
- Mr Altmaier said he was motivated by the 2016 sale of Kuka, Germany's leading robotics group, to Chinese appliance-maker Midea

European Commission case in WTO

- Brussels, 20 December 2018
- **The European Union challenged (20.12.2018) in the World Trade Organisation (WTO) the systemic practices that force European companies to give up sensitive technology and know-how as a precondition for doing business in China. This legal action builds up on a case launched by the EU in June 2018**
- In its revised request to the WTO, the EU is challenging Chinese laws that regulate:
 - - the approval of investments in the areas of electric vehicles (New Energy Vehicles) and biotechnology (crop seeds), part of the strategic sectors of Made in China 2025 plan,
 - - the approval of joint ventures across sectors,
- as they impose performance requirements on foreign companies operating in China, and restrict the economic and contractual freedom of foreign companies on investments and technology transfers.

The USA has a long history of controlling FDI

- Takeover of Aixtron SE (**Aixtron**) by the Chinese investment fund Fujian Grand Chip (FGC) in 2016: Barack Obama, the US President at the time, prohibited the acquisition of Aixtron's US business - Aixtron's products could be used in China's nuclear program
- U.S. semiconductor testing company Xcerra Corp XCRA.O said on Thursday a U.S. national security panel (Committee on Foreign Investment in the United States (CFIUS)) had blocked its \$580-million sale to a Chinese state-backed semiconductor investment fund (Reuters 23.2.2018)
- Ant Financial's acquisition of U.S. money transfer company MoneyGram International Inc ([MGI.O](#)) was also blocked by CFIUS in 2017
- CFIUS is the government group tasked with reviewing foreign investment for potential national security and competitive risks. The new legislation expands its powers. Among them: the ability to probe transactions previously excluded from its purview, including attempts by foreigners to purchase minority stakes in U.S. startups.
- New Trump administration policies aimed at curbing China's access to American innovation have all but halted Chinese investment in U.S. technology startups, as both investors and startup founders abandon deals amid scrutiny from Washington (Reuters 7.1.2019)

- In March 2018 blocked a \$117 billion hostile bid by Singapore-based Broadcom Ltd ([AVGO.O](#)) to acquire Qualcomm Inc ([QCOM.O](#)) of San Diego. CFIUS said the takeover would weaken the United States in the race to develop next-generation wireless technology
- The US has rejected a proposed merger between the Chicago Stock Exchange and a Chinese-linked investor group. Under the proposal, the Chinese-led North America Casin Holdings group would have bought CHX Holdings, which owns the Chicago Stock Exchange
- After Chinese FDI in the United States hit its peak of \$46 billion in 2016, the number fell to \$29 billion the following year. According to a Rhodium Group [report](#) published last month, Chinese acquisition and greenfield investment in the United States from January to May in 2018 clocked in at only \$1.8 billion, the lowest net value in seven years

Competition versus international trade: problem of the European champions (Alstom-Siemens case)

- Mr Altmaier said EU competition rules should better reflect the competitive landscape in global markets, rather than just national and regional ones. “Are there not industries such as civil aviation, or railways, or plant construction, or banks, where the global market should be the reference market?” he asked. He said European companies in such sectors could only compete on an equal footing with rivals from China and the US “if you allow mergers, so the companies we have in these industries can achieve the [necessary] scale” (FT, 5.2.2019)
- New industrial strategy designed to create “national and European champions” that are better able to compete with tech giants in the US and Asia, and to build up German competence in critical new technologies such as artificial intelligence and electric vehicles
- Posição apoiada pela França
- Ex-Belgium PM, Verhofstadt, “o Mercado relevante geográfico deve ser mundial e não o da UE”
- Tirole e Rey: defendem a continuação da legislação atual e são contra a intervenção política na lei da concorrência

Open letter to Commissioner Vestерger

(Netherlands, Spain, United Kingdom and Belgium)

- The Commission's investigation (as reflected in the Statement of Objections issued on 29 October 2018) has found that the merger raises very significant competition concerns within a large number of markets, and is likely to lead to increased prices or lower quality products and services for consumers across the EEA. We share these concerns ...
- The Commission's investigation has found that the Parties are, and have been for some time, by far the two largest suppliers of very high-speed rolling stock in the EEA, with both holding and maintaining a broad product portfolio and significant customer base, and competing very closely for tenders.
- Barriers to entry and expansion for new or emerging players are very significant and customers have little bargaining power that could protect them against price rises. It is clear, therefore, that this is a market in which the merger raises very serious and extensive competition concerns

Fight against inequality

- The most important and long-lasting policies are education policies to provide equal opportunities for all
- The social model of EU should be preserved but strengthened
- Fiscal pressure is already at high levels in most of the countries, so the way forward is to improve the efficiency of public services and transfer systems
- E.g. targeting programs to depressed areas and disadvantaged groups
- And, use multilateral supervision to strengthen macroeconomic and development programs in cohesion countries (cut waste and avoid corruption)

Conclusions

- The threat to world peace and prosperity will be heightened if there are **no new smart policies** for improving and balancing the power among economic powers
- The financial crisis, the COVID-19 pandemics and other international crisis only hasten the speed for taking rebalancing policies
- We cannot (and should not) reverse globalization, but improve the distribution of its benefits and make it more sustainable
- As we saw it is crucial the role of International Organizations (WHO, WTO, WB, IMF) in creating the new world order
- These concerns only add to other items in the world agenda, like SGDs, fight against poverty, climate change and sustaining human life in our planet

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- THANK YOU FOR HOOKING UP