

## Globalization at a Crossroads

Cutting Through the Noise Series

April 2019

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Since his election, President Trump has led the shift away from globalization in a dramatic fashion, turning his disdain for time-honored institutions like the UN, EU, WTO and even the FOMC into personal political leverage. With the role of the US as the champion of globalization left unattended, the rise of populist leaders around the world is spreading for all to see. In particular, autocratic leaders Xi, Putin and Kim are embracing the strategy of ‘divide and conquer,’ taking advantage of a world increasingly divided, whether it is politics, immigration, commerce or technological advancement.

Including the recent summit held with Putin, Kim has been busily meeting with many leaders over the past year, most notably president Trump, Xi of China and Moon of South Korea. Until Trump was elected into the White House, North Korea had to face a united front of the world whose stance on North Korea's saber-rattling was unequivocal and resolute. The diminishing unity can be seen in many areas including China's Belt Road Initiative, 5G telecom adoption and international trade sanctions.

### China Gaining Clout on the Global Stage

While China is battling the US on the trade front, the divide and conquer strategy is benefitting President Xi's long-term political and economic ambitions. Last month, President Xi visited Italy and celebrated the agreement for the Belt Road Initiative (BRI), previously called “One Belt One Road” project. Italy is the first western nation of significance to agree to the project, one which was initiated in 2013 by President Xi. Since that date, the BRI is gradually being recognized as much as a political project as it is an economic one. As an economic policy tool, BRI is a form of fiscal stimulus for China where its expertise in infrastructure can be put to use outside the mainland and provide jobs for its people and profits for its companies.

But it is also a vehicle for exerting China's political influence in countries in need of investment and infrastructure. Even before the BRI, China's investments and expansion into Africa were noticeable for their political motives. Last month, in response to Italy's support for the BRI, the French President Macron declared the end for “time of European naïveté” towards China. Macron suggested plans to toughen rules on Chinese investments and proposed amendments

## China's Belt Road Initiative (BRI)

Source: Shutterstock (2019)

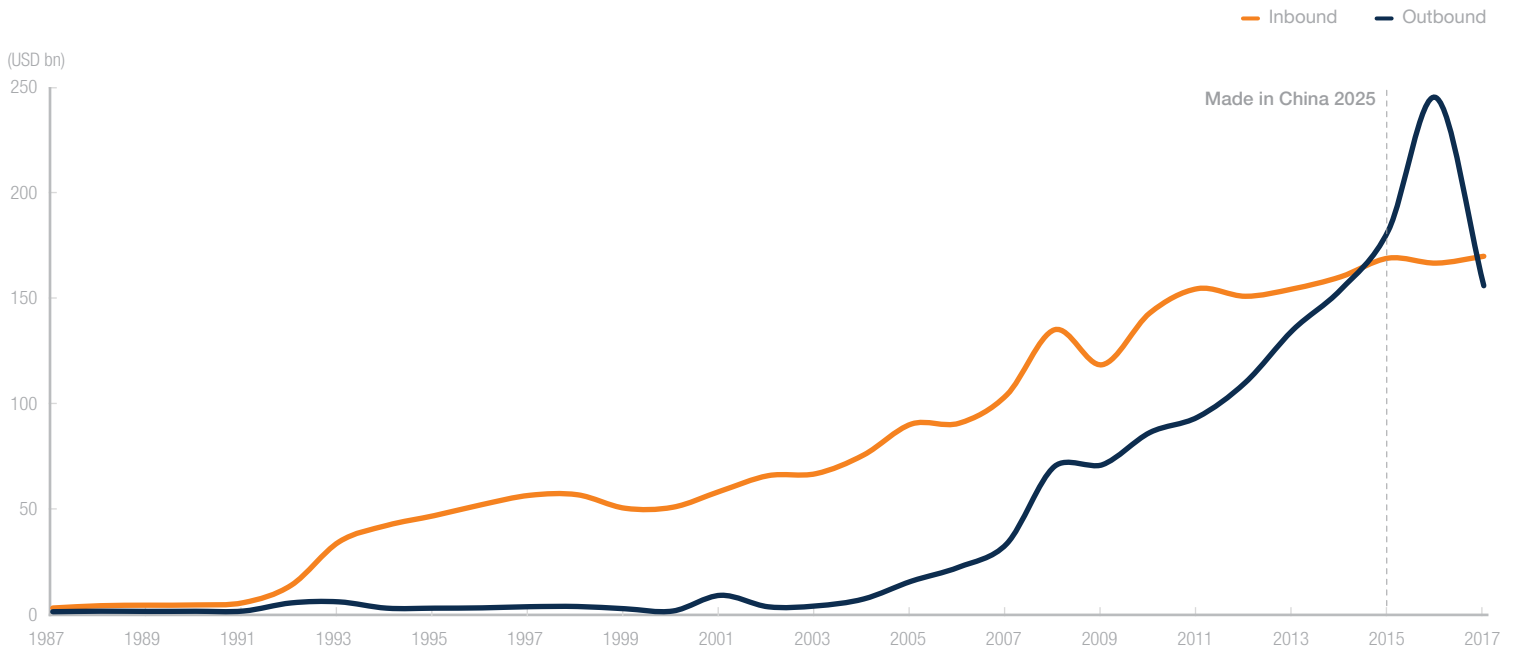


to the EU anti-trust rules to facilitate mergers between large European groups in the face of mounting concerns over China's global ambitions. This week Russia's President Putin is attending the second BRI Forum held in Beijing amidst talks of linking the BRI with Russia-initiated EAEU (Eurasian Economic Union). Established in 2015, the EAEU seeks to facilitate trade between its members comprising of Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan.

The recent series of events with regards to Huawei further consolidates the case that the world is becoming increasingly divided – as its 5G equipment was being banned by the US and many of its allies like Canada, Japan and Australia. Especially, Australia was one of the first to side with the US in banning Huawei from its 5G bidding in August 2018. Not coincidentally, earlier this year Australian coal shipments began seeing delays at China customs for “environmental checks.” On the flip side, Germany's telecom regulator recently declared that Huawei is eligible to participate in the bidding for their 5G rollout. Additionally, Eastern European nations including Poland, Czech Republic and Hungary have voiced their support in including Huawei for their respective rollouts.

## China's Aggressive Overseas Acquisitions

Source: UNCTAD Data Center



## Hailing New Days of Political & Business Affiliation

As for South Korea, it got the first taste of stealth trade sanctions from China back in 2016 when it decided to deploy THAAD (Terminal High Altitude Area Defense), a missile defense system designed to intercept ballistic missiles, against China's wishes. Due to rising tensions from North Korea's missile and nuclear test, the US and South Korea decided to put the system in place against China's claim that its real purpose was lying in surveillance on China.

Since the initiative, South Korea has continued to see numerous trade sanctions which have led to many Korean companies to rethink their commitment to China. For instance, Lotte Group which supplied the land for the deployment of the THAAD system has decided to withdraw its China operations after years of difficulties since then. Hyundai Motor Company, one of the rising auto brands in China, just a few years ago has seen its market share shrink by half since the THAAD tension.

## China's "Steath" Trade Sanctions

Source: Heritage Foundation Research

Date	Target	Provocation	China's Action	Result
Sep 2010	Japan	Japanese government arrested the captain of a Chinese fishing boat that collided with its coast guard in contested waters of the East China Sea	Chinese government halted exports of rare earth minerals to Japan	China resumed exports of rare earth mineral to Japan on 19th November for the first time in almost two months
Oct 2010	Norway	The Oslo-based Nobel Prize committee honored a Chinese human rights activist, Liu Xiaobo, who is also a jailed Chinese dissident	China cut imports of Norwegian salmon	Norway's market share of salmon exports to china has plummeted from 92% in 2010 to just 29% in the 1H18
Apr 2012	Philippines	The Philippines government attempted to arrest Chinese fishermen in disputed waters of the East China Sea	Chinese government suspended imports of Philippine bananas	The Philippines' bananas exports to China fell by 27% from 650,000MT to 473,000MT in 2012
Sep 2012	Japan	Japan's government made the \$26.2mn purchase of three uninhabited islands in the East China Sea from private owner	Protestors vandalized properties of Japanese companies, including a dealership of Toyota and Honda	Toyota's new vehicle sales in China dropped 48.9% in September from a year earlier in 2012
May 2016	Taiwan	President Tsai Ing-wen omits mention of one-China principle in a speech	Chinese government banned group tours to Taiwan	The number of Chinese visitors dropped by 18% in 2016 (-33% since May 2016 to Feb 2017)
Nov 2016	Mongolia	Mongolia hosted a visit from Dalai Lama	China imposed fees on Mongolian imports	1) A transit fee of \$1.45 each time a Mongolian vehicle passes through the border 2) \$1 per ton for any goods delivered from Mongolia
Mar 2017	South Korea	South Korea conglomerate, Lotte Group, agreed to let the US and South Korean government build an antimissile system (THAAD) on its golf course	1) Chinese government banned group tours to South Korea 2) Chinese government forced shut-down of south Korea businesses operating in China	1) The number of Chinese tourists fell by 61% yoy from March to October 2017 2) Chinese officials closed 77 of the 99 Lotte Mart stores in China
June 2018	The U.S.	Donald Trump ordered to imposed 25% tariff on \$50bn worth of Chinese goods	Chinese government orders to impose the equal amount of tariffs on its US imports in retaliation	Trade war on-going

## Huawei 5G: Exclude vs. Include

Source: Institute of ICT Planning and Evaluation (IITP)



Ever since China entered the WTO, economies like South Korea and Australia have enjoyed political affiliation with the US alongside economic integration with China. However, the rising trade and political tensions between the US and China are presenting those countries with a dilemma to choose one over the other. We believe that the mixing of politics and business is a trend that will proliferate over the next decade. The days of countries signing up for single multilateral agreements such as the WTO and its members adhering to a common rule and standards are seemingly being replaced by a series of bilateral agreements with differing conditions.

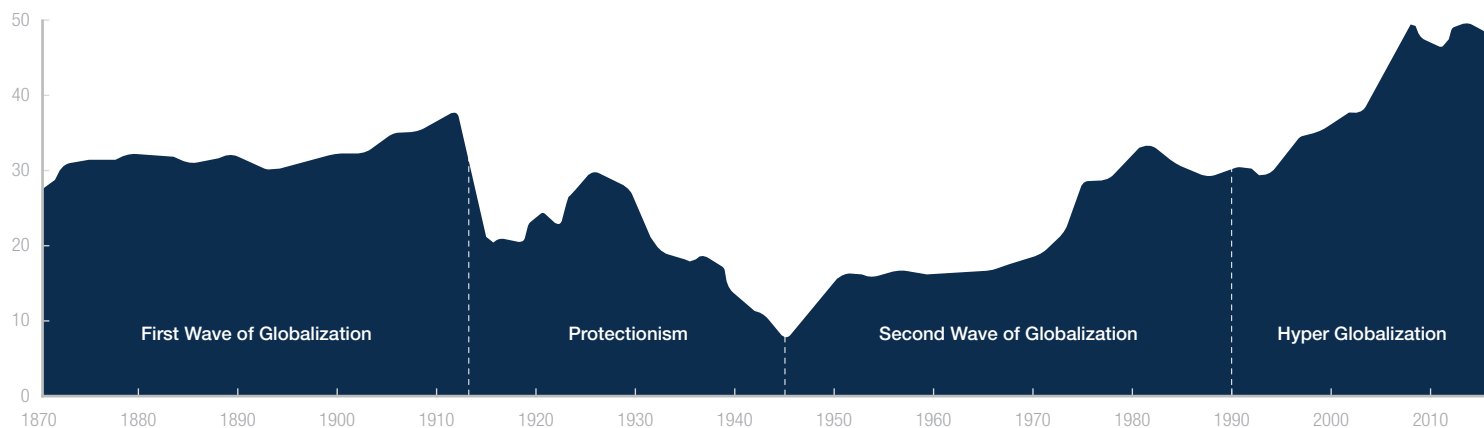
## Facing the New Phase of Globalization

The champion of globalization, the US, is a significant reason for the reversal, thanks to President Trump. In coming years, difficult decisions face nations such as South Korea and Australia that now may no longer claim to be friends of both the US and China. The divide and conquer strategy is likely to be adopted by other leaders like Putin and Kim, who for many decades had to combat the united front of the West epitomized by organizations like the UN and NATO. Their meeting is additional proof that the world loses overall from a divided world, but there could also be some surprising winners from the trend.

## History of globalization

Source: NBER Macroeconomy Database

(trade openness, 3yr-ma, %)



Note: trade openness = exports + imports as % of GDF for 17 economies using GDP-PPP weights

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