

A New Economic Globalization to Reshape the World Order

Policy Brief

Authors:



Henry Huiyao Wang
Founder and President,
Center for China and
Globalization (CCG)



Mabel Lu Miao
Co-founder and Secretary-
General, Center for China
and Globalization (CCG)

Social media:
Twitter:
@HuiyaoWang
@CCG_org

Institution:



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INTRODUCTION

“Hyper-globalization” ended when geopolitical conflicts, a sluggish global economy and climate change brewed discontent within the world order. To address collective global issues, it is imperative to enhance the economic connections between countries and regions smartly and to reshape global economic governance. As the practitioner and beneficiary of globalization for over 40 years, China will continue to contribute to global economic governance and embrace the new wave of globalization.

KEY ISSUES

A STRUCTURAL CHANGE

Globalization has come to a new crossroads after 40 years of unprecedented economic prosperity in the world. “Global Governance 1.0,” the international system based on the UN and Bretton Woods institutions, has been confronted with various challenges ranging from changing geopolitics, rapid technical advancement, and global societal and economic transformations to the accelerating pace of climate change. As Nobel Economics Laureate Joseph Stiglitz famously said in “Globalization and its Discontents,” “Globalization is not working for many of the world’s poor. It is not working for much of the environment. It is not working for the stability of the world’s economy.”¹

To answer the prevailing discontent with globalization, one should understand what has recently happened to the turbulent international order. The simplest answer is: the world is undergoing structural change.

A MULTIPOLAR WORLD

The world is now more multipolar, as it has witnessed the rise of developing countries

in the past four decades. Nowhere is the shift to multipolarity more evident than in the rise of Asia, given that its economy is now bigger than the rest of the world combined. The simple reality is that no single power can dictate global norms and rules by itself. The existing US-led system, designed for a world where power is concentrated in the hands of one superpower, is increasingly becoming untenable.

MORE INTERDEPENDENCE

However, the multipolar world is also more interdependent. Rising interdependence stems from two related sources. The first is cross-border flows of people, goods, capital, ideas, and data that tie the interests of different countries together through global supply chains, cultural flows, and global finance. The second is the rise of transnational challenges – usually known as non-traditional security threats, such as the COVID-19 pandemic – that heavily disrupt the global supply chain. Our current system of global governance was designed in an age when the most salient security threats that countries faced were those emanating from other states. Deepening cross-border linkages and shared global threats mean that global governance should facilitate collective responses to transnational challenges.

DIGITAL ECONOMY

This growing interconnectedness is visible in the rise of transnational data flows and the global digital economy. In 2021, the digital economy’s added value from 47 major economies made up 43.7% of their combined GDP, marking a 15.6% year-on-year increase, according to the report from China’s Academy for Information and

Communications Technology (CAICT).² The pandemic accelerated this digitalization, and even though its full implications for global governance are not yet clear, they are surely profound and manifold.

Unfortunately, the booming global digital economy encounters a threat from geoeconomics, which focuses on the use of economic tools to advance geopolitical objectives. Economic relations are increasingly a source of friction undermining international cooperation and global governance. The COVID-19 pandemic further increased calls to “re-shore” production, with some governments intervening to draw supply chains home. As Pascal Lamy, former Director-General at the World Trade Organization (WTO), has pointed out, in the aftermath of the pandemic, a certain degree of precautionism – legitimate safeguarding of citizens’ needs – was to be expected.³

RIISING REGIONALISM

As global trade rules fray, a patchwork of regional deals – as vehicles for deeper liberalization – has emerged. First was the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), launched in 2018. Then came the new free trade agreement between the US, Mexico and Canada (UMSCA), which came into force in 2020, followed by the African Continental Free Trade Area (AfCFTA), which started trading in 2021. The latest achievement is the activation of the Regional Comprehensive Economic Partnership (RCEP) in 2022.

To reform the less functional “Global Governance 1.0,” we need to accommodate these dynamic regional solutions and increase their coordination so that they work together harmoniously. More importantly, we need to exploit the latest technical de-

velopments and take advantage of these interdependencies for the benefit of our well-being.

MAIN CHALLENGES AND OPPORTUNITIES

The current world order was already shifting into an uncertain period when rising geopolitical tensions between the world’s largest economies daunted the international community. US-China relations are seemingly sliding into the self-fulfilling prophecy of the “Thucydides Trap,” as Harvard Professor Graham Allison described it.⁴ Russia’s “special military operation,” which began in 2022, signaled the collapse of the Yalta system founded after WWII. A dichotomy of democracy vs autocracy, a ghost of the Cold War mentality, is becoming increasingly dominant within some great powers’ narratives. The common challenge posed to the world is neither the inaction on disasters or conflict nor the shedding of shared responsibility, but mutual hostility in the minds of human beings.

A MORE INCLUSIVE, INTEGRATED AND FLEXIBLE GOVERNANCE

To adapt to these realities, a new global economic governance will need to embody three principles.

1. It needs to be more inclusive. It should better represent the voices and interests of emerging economies and mobilize a new set of actors to work on global problems.
2. Global economic governance needs to be more integrated. Complex, cross-cutting challenges need to be addressed in an integrated manner, accounting for links between different sectors and issues based on strong

connections between global and regional organizations, international financial institutions, and other global alliances and institutions.

3. Finally, our post-pandemic world calls for more flexible global institutions. Rather than sticking to large, unwieldy member-driven formats for all purposes, global mechanisms should be tailored to the job at hand. For some purposes, such as kick-starting the process of reforming key global institutions, a smaller group of powers may be preferable. For other tasks, it may be more suitable to forge a broad and inclusive group of nations and other stakeholders.

THE UNIQUENESS OF CHINA

China has a unique role in leveraging global governance. Its persistent development in the past half-century has not only enriched the diversity of world history but also rewritten the world economic map. Furthermore, as it became increasingly aware of the importance of sustainable development, China helped nurture the momentous Paris Agreement, along with the world’s leading economies. By proposing its carbon peaking and carbon neutrality goal in 2020, China also helped consolidate the global consensus on climate change.

The outbreak of COVID-19 and Russia’s war in Ukraine in 2022 severely undermined the joint effort of the international community to restructure globalization. China, on the contrary, demonstrated its economic resilience in the pandemic while managing to reconnect with the world at the end of 2022. It quickly resumed its face-to-face diplomacy with the interna-

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tional community, and its leadership frequently visited the major stakeholders in global geopolitics. Meeting with US President Joe Biden at the G20 Bali Summit, President Xi Jinping reassured the world of his intention to reset the framework for Sino-US relations. As the first anniversary of the war in Ukraine was approaching, China published the Global Security Initiative Concept Paper and China’s position paper on the Political Settlement of the Ukraine

Crisis. In the latter, China reiterates its opposition to armed attacks against nuclear power plants and its warning that “nuclear weapons must not be used and nuclear wars must not be fought” has been applauded by the international community.⁵

All of the above efforts might be squandered if other countries are unwilling to respond. China cannot work alone, and multilateralism is key for international cooperation. 2023 will witness flourishing international dialogues to revive the collaborations on bilateral and multilateral mechanisms. We are expecting that, in the coming summits of the BRICS, the G20, the G7, and the Asia-Pacific Economic Cooperation (APEC), shuttle diplomacy will bring fruitful achievements to help restore a fair and just world order.

RECOMMENDATIONS AND CONCLUSIONS PROMOTE WTO REFORM

As bilateral or multilateral investments and trade agreements are on the rise, the WTO continues to be a core promoter of investment and trade facilitation, reducing tariff and non-tariff barriers and eliminating differential treatment in international trade. A reform of the WTO would boost the confidence of the international community in the multilateral trading system and multilateralism. In the future, we hope that all parties will promote WTO reforms and that the WTO will once again fully play its role in maintaining and mediating international multilateral trade.

RESURRECT THE CHINA-EU COMPREHENSIVE AGREEMENT ON INVESTMENT

China and the EU share extensive common interests and a solid foundation for cooperation, but over the past two years,

the two sides have reached an impasse on the Comprehensive Agreement on Investment (CAI), which has been hailed as China’s second round of reform and opening up. To overcome this impasse and in an effort to revive the CAI, China’s National People’s Congress ratified the International Labour Organization’s 1930 Forced Labour Convention and the 1957 Abolition of Forced Labour Convention in April 2022. Resuming communications may mean that the two sides can negotiate and lift sanctions, allowing the CAI to go into effect as soon as possible and bringing an economic boom to Chinese and European enterprises.

MULTILATERALIZE THE BELT AND ROAD INITIATIVE

The Belt and Road Initiative (BRI) must be reconfigured as a multilateral endeavor for global governance and development. Since it was launched in 2013, the BRI has become a vector of globalization, growth, and investment in many regions. In addition, the initiative has helped build the so-called “soft” infrastructure, such as education, healthcare, and other services. When the time is right, China can propose cooperation in infrastructure between the BRI, the EU-led “Global Gateway” program, and the US-led “Build Back Better World” (B3W).

UPGRADE THE ASIAN INFRASTRUCTURE INVESTMENT BANK TO THE GLOBAL INFRASTRUCTURE BANK

Over the last six years, the Asian Infrastructure Investment Bank (AIIB) has established itself as an effective multilateral development bank (MDB) and successfully integrated into international financial ar-

chitecture. With a fresh capital injection and expanded membership, the bank would be well placed to expand its remit and become the Global Infrastructure Investment Bank (GIIB). This would involve inviting new members to play a major role, including countries in other regions, such as Africa and Latin America. In addition, the GIIB could form a special body for multilateral actors, including MDBs and regional organizations, to enhance coordination between existing infrastructure initiatives worldwide.

CHINA SHOULD MOVE TOWARD JOINING THE CPTPP

China should move toward joining the CPTPP, a higher standard FTA geared to advanced economies. Joining the 11-member CPTPP would push back against decoupling and protectionism, and provide an external impetus for the next phase of reform and opening. The CPTPP’s principles are well aligned with China’s goals to improve Intellectual Property Rights (IPR) protection and reform state-owned enterprises (SOEs). In the long term, an enlarged CPTPP could provide a blueprint for reforming the WTO and getting the global free-trade agenda back on track. Chinese membership could help reduce friction and the rise of geoeconomics by aligning China more closely with progressive global trade norms.

ESTABLISH GLOBAL DIGITAL ECONOMY NORMATIVE AGREEMENTS AND REGULATIONS

The digital economy is a key engine and an important trend in world economic development. A new framework must be established that can support the safe and

healthy growth of the global digital economy. On June 12, 2020, Singapore, Chile, and New Zealand signed the Digital Economy Partnership Agreement (DEPA); perhaps the Group of Twenty (G20) could also further explore the regulations related to digital trade based on the Osaka Declaration on Digital Economy. The establishment of an International Data Alliance (D20) composed of the world’s 20 largest digital economy companies should also be

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considered to enhance the G20’s ability to better promote global governance in the digital economy.

COOPERATE ON GREEN DEVELOPMENT

Green development requires new business models and forms of collaboration across the industry. Green issues may offer a more promising field to forge consensus and meaningful reform. In particular, China could work with other partners to promote the creation of a dedicated UN institution focused on climate change as a unique crisis that affects many areas of global cooperation. The UN already plays a leading role in addressing climate change through the UN Environmental Programme (UNEP) and the UN Framework Convention on Climate Change (UNFCCC).

CONCLUSION

Global governance needs to be more inclusive and geared to twenty-first century problems like climate change and addressing inequality by boosting free trade, overcoming the global infrastructure gap, and closing the digital divide. The year the book "Globalization and Its Discontents" was published was probably the heyday for China's longstanding economic growth, owing largely to the dividends of the country's reform and opening up, and its entry into the WTO to engage in the international trade system, which stimulated domestic consumers' confidence and expanded exports for the next two decades. China has been a beneficiary of globalization, and its economic growth has shifted from take-off to maturity and the age of high mass consumption. However, retrospectively, one will find that China too faces challenges, with pressures at home and questions about how other countries will respond to its rise. However, it is in the interests of both China and other countries that the world's most populous country plays a leading role in shaping the next iteration of global governance.

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- ² CGTN. (2022). Digital economy becomes new growth engine for China and other G20 members. http://www.ehangzhou.gov.cn/2022-11/16/c_282384.htm, (last accessed on March 21, 2023).
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- ⁴ Graham Allison. (2018). *Destined For War: Can America and China Escape Thucydides's Trap?*. Boston: Mariner Books.
- ⁵ Gilbert Achcar. (2023). There's No Settlement of the War in Ukraine Without China. *The Nation*, March 17, 2023. <https://www.thenation.com/article/world/china-ukraine-settlement/> (last accessed on Mar 21, 2023). See also Alwihda Info, (2023). China to keep playing constructive role in peaceful settlement of Ukraine crisis. https://www.alwihdainfo.com/China-to-keep-playing-constructive-role-in-peaceful-settlement-ofUkraine-crisis_a121613.html, (last accessed on Mar 21, 2023) and Kazinform (2023). Kazakhstan welcomes China's position on political settlement of Ukraine crisis, Foreign Ministry, February 25, 2023. https://www.inform.kz/en/kazakhstan-welcomes-china-s-position-on-political-settlementof-ukraine-crisis-foreign-ministry_a4040005, (last accessed on Mar 21, 2023).