

Hypo-Globalization and the outlook for Sino-American relations

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Globalization in the truest sense has expanded over millennia. It will only reverse amid civilizational disasters. However, the post-Cold War era of “hyper-globalization” is long gone.¹

The slow-growth, low-inflation 2010s witnessed the emergence of de-globalization. In the wake of COVID-19, global trade is recovering to its post-2008 trend but it is nowhere near recovering the post-1990 trend (Chart 1).

Chart 1. Hypo-Globalization

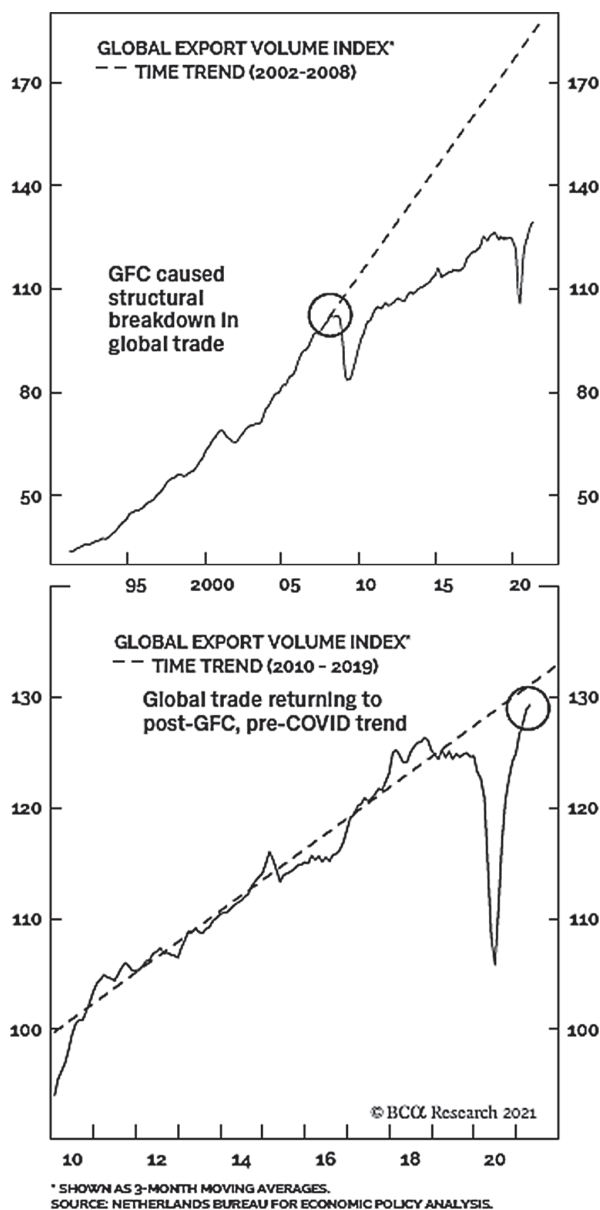
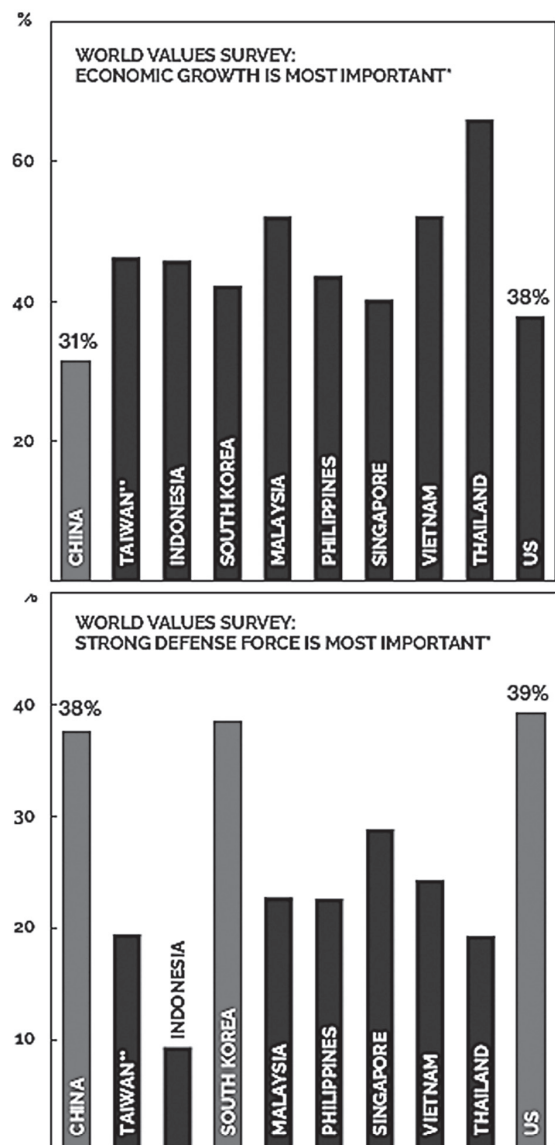


Chart 2. Do Nations Prefer Growth? Or Security?



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* THE SHARE OF RESPONDENTS CHOOSING ... AS THE FIRST CHOICE TO THE QUESTION OF, "WHICH ONE OF THESE YOU CONSIDER THE MOST IMPORTANT?".

** TAIWAN TERRITORY.

SOURCE: WORLD VALUES SURVEY (7TH WAVE) - CHINA 2018, INDONESIA 2018, MALAYSIA 2018, PHILIPPINES 2019, SINGAPORE, SOUTH KOREA 2018, TAIWAN ROC 2019, THAILAND 2018, USA 2017, VIETNAM 2020.

Trade exposure has even fallen within the major free trade blocs, like the EU and USMCA (Chart 2).

Yet with vaccine-making capabilities and gargantuan fiscal stimulus, global trade will recover in the coming decade. Hence we coined the term “hypo-globalization” to capture the new predicament, in which globalization is set to rebound but not to its previous trajectory.² We now inhabit a world that is under-globalized and under-globalizing, i.e. not as open and free as it could be.

A major factor is the US-China economic divorce, which is proceeding apace. China’s latest state actions – in diplomacy, finance, business, and technology – underscore its ongoing disengagement from the US-led global architecture. The US, for its part, is now on its third presidency with protectionist leanings. American and European fiscal stimulus are increasingly protectionist in nature, including rising climate protectionism.

Bottom Line: The stimulus-fueled recovery from the global pandemic is not leading to re-globalization so much as hypo-globalization. A cyclical reboot of cross-border trade and investment will occur but will ultimately fall short of global potential due to a darkening geopolitical backdrop.

Still No Stabilization In US-China Relations

A giant window of opportunity is closing for China and Russia – they will look back fondly on the days when the US was bogged down in the Middle East and South Asia. The US’s current withdrawal from “forever wars” in Afghanistan and Iraq incentivizes Beijing and Moscow to act aggressively now, both at home and abroad.

Investors tend to overrate the Chinese people’s desire for economic prosperity relative to their fear of insecurity and domination by foreign powers. China today is more desirous of strong national defense than faster economic growth (Chart 3). The rise of Chinese nationalism is pronounced since the Great Recession.

Chart 3. Trade Intensity Slows Even Within Trade Blocks

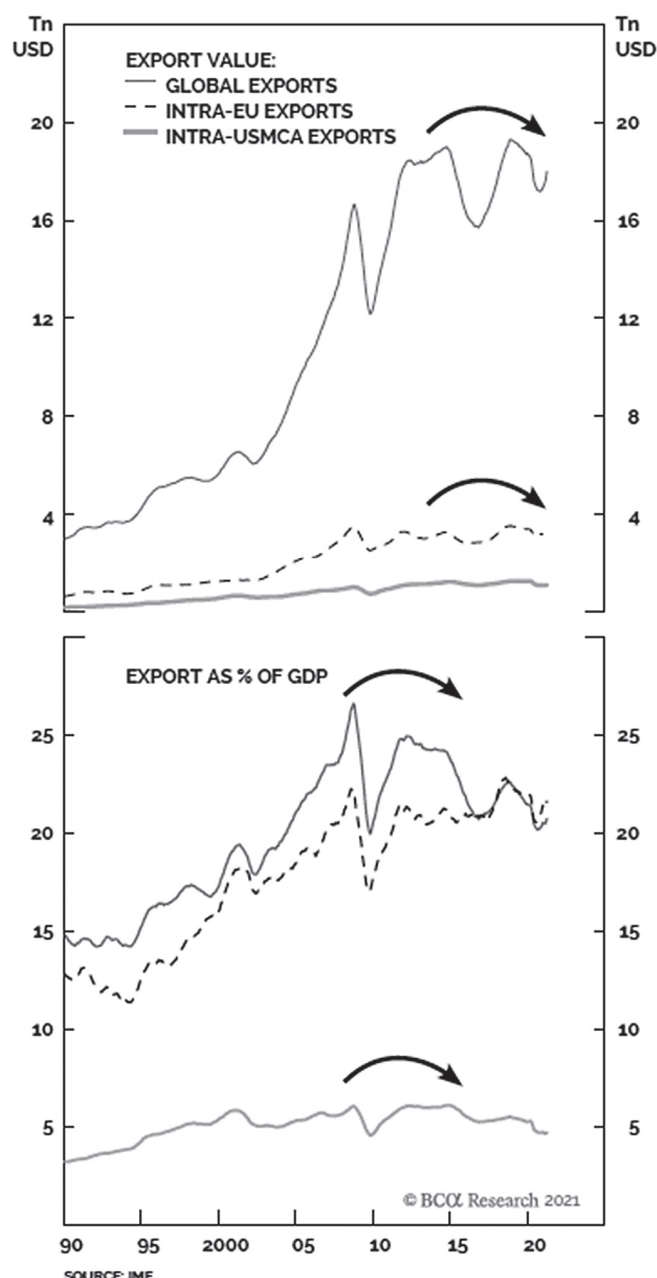
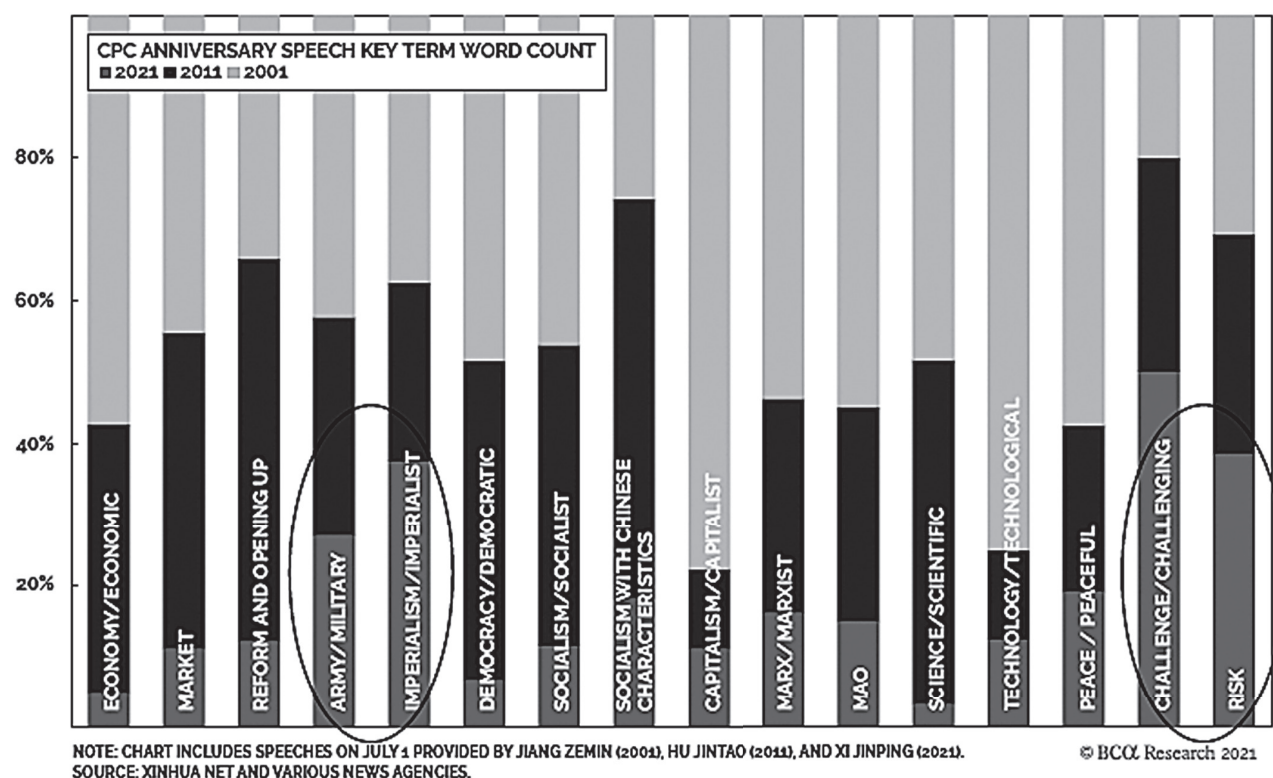


Chart 4. Xi Jinping's Centenary Speech Signed Nationalist Turn



President Xi Jinping confirmed this trend in his speech for the Communist Party's first centenary on July 1, 2021. Xi was notably more concerned with foreign threats than his predecessors in 2001 and 2011 (Chart 4).³

China has arrived as a Great Power on the global stage and will resist being foisted into a subsidiary role by western nations.

Meanwhile US-China relations have not stabilized. The latest negotiations did not produce agreed upon terms for managing tensions in the relationship. A bilateral summit between Presidents Biden and Xi Jinping has not been

scheduled. When it occurs, investors should not mistake successful summitry for a resolution of fundamental clash of interests over China's rise and US attempts to prevent the formation of a Chinese empire in Asia Pacific.

Foreign Minister Wang Yi has produced a set of three major demands: that the US not subvert "socialism with Chinese characteristics," obstruct China's development, or infringe on China's sovereignty and territorial integrity (Table 1). The US's opposition to China's state-backed economic model, its export controls on advanced technology, and its attempts to negotiate a trade deal with the province of Taiwan all violate these demands.

Table 1. China's Three Demands From The United States (July 2021)

CHINA'S THREE BASIC DEMANDS AS BOTTOM LINES FROM UNITED STATES	
DEMAND 1	<p>The United States must not challenge, slander or even attempt to subvert the path and system of socialism with Chinese characteristics.</p> <p>美国不得挑战、诋毁甚至试图颠覆中国特色社会主义道路和制度。</p>
DEMAND 2	<p>The United States must not attempt to obstruct or interrupt China's development process.</p> <p>美国不得试图阻挠甚至打断中国的发展进程。</p>
DEMAND 3	<p>The United States must not infringe upon China's state sovereignty, or even damage China's territorial integrity.</p> <p>美国不得侵犯中国国家主权,更不能破坏中国领土完整。</p>
SOURCE: XINHUANET.COM.	

None of these policies will change soon. China is doubling down on technological acquisition, manufacturing prowess, and the intimidation of Taiwan.

The removal of US support for China's economic development – combined with China's own crackdown on the private economy, from tech entrepreneurs to the wealthy – will take a substantial toll on sentiment within China and among global investors.

US President Joe Biden and four executive departments have explicitly warned investors not to invest in Hong Kong or in companies with ties to China's military-industrial complex and human rights abuses. The US now formally accuses China of genocide in the Xinjiang region.

Bottom Line: There is no stabilization in US-China relations yet. This will keep the risk premium in Chinese currency and equities elevated. The Sino-American divorce will combine with China's aggressive policies at home and abroad to create a persistent driver of hypo-globalization.

1. See Marko Papic, *Geopolitical Alpha: An Investment Framework For Predicting The Future* (Hoboken: Wiley, 2021). For “hyper-globalization,” see Dani Rodrik, *The Globalization Paradox: Democracy and the Future of the World Economy* (New York: Norton, 2011).
2. See my “Nationalism And Globalization After COVID-19,” *Investments & Wealth Monitor* (Jan/Feb 2021), pp13-21, investmentsandwealth.org.
3. Our study of Xi's speech is not limited to this quantitative, word-count analysis. A fuller comparison of his speech confirms this analysis.



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Matt is currently BCA Research's Strategist, Geopolitical Strategy. He oversees the firm's coverage of market-relevant geopolitical, political, and policy developments across the world. Prior to joining BCA Research in 2015, Matt worked as a Senior Analyst at Strategic Forecasting, Inc (Stratfor) and in various academic and publishing roles. Matt holds an MPhil from the University of Cambridge and a PhD from the University of Texas at Austin.



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