Macro Roundup Artcile

Headline: Globalization and Growth In A Bipolar World

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Tweet: The US and China have accepted a deterioration in efficiency in exchange for an improvement in security, reflected in declining FDI flows between the two countries and diversion of supply chains through countries like Vietnam and Mexico. @B_Eichengreen

Summary: Bilateral trade between the world's two largest economies has been slowing relative to global trade. Protectionist measures have led to some reshoring of the final stages of production but also to rerouting of trade through third countries. Capital and foreign direct investment flows between the U.S. and China have declined precipitously due to a combination of government controls and political uncertainties. But the fact that total U.S. inward and outward FDI has remained buoyant points to the existence foreign investment diversion to other countries. Likewise, China, even while investing less in the United States, has been ramping up investment in and running growing trade surpluses with countries like Vietnam and Mexico that export significant volumes to the United States, including conceivably goods produced using Chinese parts, components, and technology. In sum, U.S.-China tensions have led to some loosening of economic links between the two countries but not to the end of globalization. The governments in question have accepted this deterioration in efficiency in return for what they hope will be an improvement in national security. Related: Foreign Direct Investment is Exiting China, New Data Show and The Global Economy Enters an Era of Upheaval and China Is Quietly Reducing Its Reliance On Foreign Chip Technology

Primary Topic: China

Topics: Academic paper, China, GDP, Trade (not deficits)

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