

New International Economic Situation

Jiunn-Rong Chiou, Professor of the Department of Economics, National Central University

Abstract

Over the past five years, the global economy has been impacted by the U.S.-China economic conflict, the COVID-19 pandemic, the Russia-Ukraine war, and the personnel and policy changes in China, which have further resulted in the restructuring of global supply chains, conflicts between democracy and authoritarianism, inflation, the rapid shifting of international capital, and the decline in growth momentum.

Global manufacturing activity is weakening. There are signs of easing inflation and resilient economic performance in the U.S. Europe is entering a mild recession. China is experiencing a slowdown in its recovery from the COVID-19 pandemic. Many emerging markets continue to struggle with heavy debt burdens and high interest rates. At present, the major issue facing the global economy is whether or not the world can continue to avoid the serious consequences of threats including inflation and a slowdown in global trade. The answer lies in the rigidity of inflation and its threat to the real economy, as well as supply chain restructuring as a result of the global "de-risking" dichotomy. In addition, the cooperation projects that the world must undertake will also profoundly impact the development of the global economy in the medium and long term.

Profound Impact of Inflation

One of the reasons for the severe global inflation over the past two years is the supply-side impact. In the face of severe inflation, central banks around the world, led by the Fed, are not only disregarding the risk of the economic recession, but are also even trying to leverage on the recession to curb inflation, which is likely deteriorating. Inflation is slowing down, and the global economy is not in recession—despite being not far off a recession. —Inflation is seriously affecting the purchasing power of low-and middle-income people in various countries, resulting in a deterioration in income distribution and a decline in the global consumption momentum. This in turn affects the momentum of international trade. This is evidenced by various forecasting institutions worldwide predicting that the global trade growth rate will be lower than the economic growth rate this year.



At present, the U.S. financial market is still with abundance of capital, and coupled with the rigidity of inflation, it is still uncertain as to whether inflation has been curbed and ended. Furthermore, there are also many long-term supply-side impacts that would make it difficult to lower commodity prices. For example, the Carbon Border Adjustment Mechanism and Border Carbon Adjustment (CBAM, BCA) in Europe and the U.S. in response to climate change as well as carbon taxes imposed in various countries are all reasonable and necessary costs, which would then contribute to rising commodity prices in the long run. Moreover, the restructuring of the global supply chain means that global production will no longer seek low costs as the main consideration, which will push up commodity prices as well.

New Trend in the International Division of Labor Arising from the Restructuring of the Global Supply Chain

The U.S.-China trade war and technology war have triggered global supply chain restructuring. The U.S. President Joe Biden, who took office in 2021, further changed President Trump's bilateral policy, actively developed multilateralism, and attracted important alliances against China, thus drawing support among Western countries to the U.S.'s China strategy. After Russia's invasion of Ukraine, due to the alliance between Russia and China and their shared authoritarian philosophies, the Western world has not only paid more attention to the economic security and risks, but has also begun to strengthen its alliance of democratic values.

During this period, the U.S. has shifted from the clean network program of the late Trump administration to the Chip 4 of the Biden administration. With the Russia-Ukraine war, the confrontation and dichotomy between democratic and authoritarian countries have become increasingly obvious. Based upon the Indo-Pacific strategy against China, the Indo-Pacific Economic Framework for Prosperity (IPEF) led by the U.S., is considered as an "economic version of NATO," which is intended to create a new global supply chain, signaling the beginning of the "New Cold War." The Biden administration's containment strategy against China by uniting various countries was concluded at the G7 Summit held in May this year. The G7 Leaders' Communiqué emphasized the need to counter China's "economic threats" and proclaimed that it was not an issue of "decoupling" with China, but "de-risking." As of now, "de-risking" has become the main tenet of the technology war between the U.S. and its alliances in Europe and Asia against China in the future.

Supply chain restructuring triggered by the confrontation between Western countries and China has been further deepened by the COVID-19 pandemic and the Russia-Ukraine war. The global supply chain disruption due to the pandemic and war,

and the shortage of major livelihood, medical, and industrial supplies in various countries have swiftly overturned the concept of globalization, which has long been focused on comparative advantages and lowering costs while ignoring political and economic risks. Many countries and enterprises are hoping to increase their self-manufacturing of daily necessities and key parts and components. TSMC, which has been actively invited to set up plants in various countries, is an example of the rising call of "not being over reliant on other countries."

Supply chain restructuring has led to the phenomenon of "short-chain." The consideration of "de-risking," which places more emphasis on security, will correct the dysfunction of the international economic market caused by over-reliance on comparative advantages. This trend has emerged from reflections on the China strategy rather than the short-term impacts of the pandemic and the war. It will certainly last over the long term. On the other hand, global supply chain restructuring is inevitably affected by geopolitics. To protect their supply, international capital has shifted away from China and has invested in countries including Mexico, India, and ASEAN countries to establish new production bases. Such structural trends will reshape the global production landscape, and it will be difficult for China to return to the high economic growth rates of the past.

The Urgent Need for International Cooperation

With respect to global trade, U.S. Secretary of the Treasury Janet Yellen advocated a global minimum tax system in 2021, which is designed to levy a 15% corporate tax on large multinational firms. It addresses how countries used tax deductions to compete for investment, and highlights action against injustice and the importance of cooperation led by major countries.

In addition to trade, there are many other important public issues that require international cooperation, such as carbon reduction actions and net-zero transformations to curb global warming. Regarding global health, the outbreak and spread of the COVID-19 pandemic has severely impacted countries around the world. The actions and consequences of China in response to the pandemic have cost many countries thousands of lives and significant socio-economic losses. It has also helped the world realize the enormous difference between democracy and totalitarianism. Another obvious example is the energy and food crisis triggered by Russia's invasion of Ukraine. These two incidents have been shaping the formation of the international alliance of values among Western countries and also the new Cold War. The priority under this conflict of values is to defend the universal values of democracy and human rights, recognizing that national security and health are more important than economic figures. 