

**Biliang Hu**

# The Belt and Road Initiative and the Transformation of Globalization

**Globalization is now facing one of the biggest challenges in the history: British exit from the EU (Brexit), USA's quit from the Paris Agreement on climate change, USA also quitted from TPP agreement as well as from UNESCO. People start worry about the next moves of globalization. Therefore, we need to discuss the future of globalization seriously.**

Clearly, globalization brought very positive impact on economic, social, political and cultural developments for all the countries including the developed as well as developing economies. However, globalization also brought some negative effects, such as the income disparity among different groups of people and different countries. It has been continually enlarging, not narrowing down in the process of globalization.

How to deal with the continual globalization? Of course there are different ways. We have been seeing the rising of the nationalism, the protectionism in some of the countries, we have been seeing withdraws of some countries from the global governance institutions. At the same time, we find that China has been making great efforts not only pushing forward the continual globalization but also trying to transfer the old style globalization to the new style globalization which is what I called the transformation of globalization in the new era through the Belt and Road Initiative.

## **Globalization is an Objective Historical Process...**

...and nobody can stop it. Globalization, broadly speaking, is a kind of phenomenon of global integration of many different things, including trade, investment, people's mobility etc. [Kolodko, 2001]. It should also include the dialogue among different cultures and civilizations, exchange of knowledge and so on [Stiglitz, 2006]. Clearly, economic globalization is one of the very important areas, which means the tightened integration among countries by increasing the flow of goods, services, capital and labor.

My personal understanding is that the essence of globalization is the process in which global connectivity and global contact continue to expand (breadth) and deepen (depth). From the ideal point of view, global integration will eventually be presented. In other words, the interconnection among countries, companies, and people will continue to be strengthened, with higher degree of scope and depth. Such process, I think, is the essence of globalization. From this point of view, the emergence and development of the European Union is in line with the basic developmental direction of globalization. From the coordinated usage of resources (coal, steel, etc.), security and defense, and commodity market to the integrated labor market, capital market, even to single currency (Euro), EU is on its way to become a unity with wider scale and higher

degree of depth, so the general direction should be correct.

The process of globalization is not a new phenomenon, but rather has a long history of development. Some people even think that the ancient Silk Road can be seen as part of the globalization at that time, which implies that globalization has a history of more than two thousand years.

Once the globalization is launched, its momentum is irreversible. There are three main motivations. The first is that because of different geographical location each country has its different resource endowments, thus its comparative advantage is not the same. For example, Saudi Arabia is rich in crude oil resources, Russia and Kazakhstan produce oil and natural gas, Brazil has abundant iron ore resources, and France, South Africa, Chile, Australia, Argentina and etc. produce good wines of superior quality. China's reserves of oil, natural gas, iron ore are not much, so China needs to import to meet its demand. Thus, international trade and investment are unavoidable due to the large differences in resource endowments objectively, which are beneficial for different countries.

The second important motivation of globalization is the power of the market, which is the most fundamental driving force. Capital, labor, technology and other economic factors are ultimately to seek high returns, which, in the context of globalization, is to seek high returns on a global scale. Driven by interests factors such as capital, labor, and technology will flow to countries or regions where returns on investment are higher, through trade, foreign direct investment, or through mergers and acquisitions. Because resource endowment gap among countries is usually larger than that of domestic regions, the comparative advantage is also relatively larger, thus the benefits from

doing international businesses, theoretically speaking, are also relatively higher.

The third motivation comes from technological advances and innovations, particularly the rapid development of information technology and digital technology. These innovations will drive globalization to evolve in a higher degree of depth because of the constant innovation and improvement of information, digital technology and other technologies will continue to cut costs.

The emergence of the Internet is a revolutionary innovation. Internet has reduced the transaction costs down to almost zero for all people at a certain level, and it provides public platform and public goods for all. It is because of the Internet, a variety of "Internet +" new models appear which provide new jobs and new profit margins. With further improvement of the Internet, coupled with the development of Internet of Things, the digital economy will prosper, and as a result, the global production net will be built up which directly deepens globalization at the same time.

It is precisely because of the above three forces together, the breadth and depth of global interconnection will continue to strengthen; even for some special reasons, for example, the connectivity was temporarily slowed down and even suspended due to the impact of the First and Second World War, but afterwards a stronger momentum would rebound and recover the process. Therefore, globalization is an objective process of historical development, and its momentum and trend cannot be stopped.

### **Dividends and Drawbacks of Globalization**

Globalization is an objective, fairly long historical development process that reflects the basic trend of human development, which means that globalization represents the positive side of human

development. But this process has also been criticized by many, and even politicians have adopted hardline attitude and policy of anti-globalization. Therefore, we should give globalization a fair and objective evaluation in order to better play its advantages and limit its negative impact, so as to promote sustainable and healthy development of globalization.

On the positive side, the theoretical analysis shows that globalization is of paramount importance to economic growth in general [Barro, Sala-i-Martin, 1995; Sachs, Warner, 1995; Greenaway et al., 1998; Vamvakidis, 1998; Frankel, Romer, 1999], especially for the rapid development of developing countries [Dollar, 1992]. The main reason is that globalization continues to reduce costs, especially based on the development of Internet and digital technology, which greatly accelerates the dissemination of knowledge and ideas among different countries, thus bringing industries to expand among countries. As a result, industrialization becomes a common phenomenon, and economic structure and income in different countries show the clear trend of convergence.

In addition to the impact of globalization on economic growth, many have also studied the impact on the overall quality of life of developing countries and they generally believe that globalization has a great significance in promoting the quality of human development, especially in reducing poverty [Bourguignin, 2004; Neutel, Heshmati, 2006; Rodrik, 2002; Nissanke, Thorbecke, 2008]. J. Stiglitz's study [2006] also shows that the results of globalization will greatly improve the standard of living for all the people of the world, especially for the people of the poor countries, because they gain more opportunities from other markets – the poor countries get more foreign investments, the people from developing coun-

tries have the chances to study or work in developed countries and so on.

Based on the empirical data, we find that Foreign Direct Investment (FDI) has shown the fastest growth due to globalization. Taking the last three decades of the twentieth century as an example, in 1970s, apart from individual years, the nominal growth rate of FDI was about 30%, and the 1980s and 1990s not only continued such growth, but the nominal growth rate grew more than 30% in many years. The growth rate of the first decade since entering the 21<sup>st</sup> century was also high, except for the two years that had been seriously affected by the international financial crisis. The nominal growth rate of international trade, despite the fact that FDI had grown much more, was relatively stable at a level of nearly 8% (real growth rate was about 5%). The growth of international investment and trade has contributed directly to economic growth. In the past 40 years – except for special occasions – the nominal growth rate of the global economy has been stable at more than 6% (real growth rate was about 3%).

As for the impact of globalization the basic understanding is shared by most, that globalization has greatly contributed to global investment, trade, and economic growth. Both developed and developing countries are the beneficiaries of globalization. Developing countries has gained relatively rapid growth, and in the process global poverty can be greatly alleviated and reduced. China, for example, in the early days of its reform and opening up, was basically in the general state of poverty. After nearly 40 years of development, China's population under poverty line was reduced by more than 700 million, and the country will get rid of extremely poverty by 2020. If there is no positive support of globalization, China would be very difficult to reach such great achievement.

Globalization also brings some drawbacks and problems. The first problem is that although we claim that globalization benefits everyone, but the degree of benefit for each country is diverse, thus creating a widening income gap on a general basis. Objectively speaking, it's quite reasonable due to the impact of market forces, different people or countries, due to different level of education, resource endowment, and development basis, gain different opportunities, which will lead to an income gap [Silva, Leichenko, 2004; Rudra, 2004; Beckfield, 2006; Meschi, Vivarelli, 2009; Bukhari, Munir, 2016].

The second problem is that along with the development of the global production net some industries have been transferred to developing countries. Particularly some of the manufacturing industries have been transferred – partially due to cheaper labor and other factor costs, partially due to the bigger markets in developing countries. The developed countries are normally responsible only for a small part of the business, mainly high-end part of the business such as design, R&D, etc. Apple's global production network system is a typical example in this regard. As the global production network system continues to develop in depth, the original production process in some countries gradually moves to other countries, which causes some countries gradually form the phenomenon of hollow industry, especially the emergence of hollow manufacturing industry phenomenon [Bluestone, Harrison, 1982; Modie, Trautlein, 1985; Batholomew, Kochanowski, 1986]. As a result, the economic development of these countries undertakes a certain degree of influence.

The third problem is directly related to the second one, due to the transfer of some of the industries, particularly the manufacturing industries, out of some

countries, thus it directly causes the higher unemployment rate, and it especially makes the less-educated people difficult to find jobs. Since software development, corporate call centers, data centers and some other relevant business are often outsourced to developing countries, even people with better education in the United States and in some of the European countries, have also difficulties to find jobs [World Bank, 2017].

The fourth problem, along with the globalization of markets: more and more investments concentrate on few industries with relatively higher profits (also higher risks) worldwide, such as finance, real estate, IT consulting and so on. When the capital accumulation occurs in the very few sectors, also in the very few places to a certain extent, it may cause bubble and further it may cause economic crisis when the bubble bursts. These are the reasons why some people always blame globalization with the responsibility for several problems, and hence we see from time to time some reversal happening in the history of globalization.

## **Two Different Attitudes Towards Globalization**

Since globalization brings dividends and benefits, as well as drawbacks and problems, then how to make the choice? At present, there are two different attitudes and choices.

The first one emphasizes more on the shortcomings and problems of globalization. Countries with this attitude choose to retreat from the international multilateral organizations, multilateral governance system such as the European Union, as well as from the multilateral cooperation agreements such as the Paris Agreement on Climate Change etc. Even withdrawal from the very important global governance institutions happens, what reduces the provision of global public goods, conducts trade protection through

different forms, calls back home of investments in other countries. Some countries strictly control foreigners and immigrants from entering their own countries, and even have built or plan to build high walls between countries.

The second choice is to evaluate the benefits and drawbacks in an objective and calm manner, and strive to develop the advantages of globalization and take practical policy measures to overcome its shortcomings while firmly promoting globalization, in order to better benefit the world and the people.

### **Actively Promote the Transformation of Globalization**

Till today, the benefits to mankind brought by globalization are self-evident. More importantly, we need to achieve the re-balance of the process of globalization. I believe that under the new historical conditions, the correct attitude should be based on the new situation and problems, and we should actively promote the transformation of globalization, so that it can reach a better, more appropriate stage, level and model of development, thus the positive effects of globalization on human development will continue to be fully reflected, while limiting and restricting its adverse effects. By promoting such a global transformation, globalization will evolve, with a lot of different characteristics both in form and content. China will play a vital role in advancing such a global transformation. The process and the new type of globalization after the transformation will have certain Chinese characteristics.

As for how to determine the direction of this transformation, I think we should improve the situation by properly addressing the current problems, while at the same time further playing advantages and positive aspects of globalization. The fundamental problems in the process of

globalization are mainly manifested in three aspects:

1) Due to the influence of “Washington Consensus” sweeping the world, the degree of privatization, liberalization, and marketization continues to deepen. However, there appear “market failure” in some countries, which calls for effective monitoring and management of the process. In some cases situations are out of control, for example, the innovation of financial derivatives and the monitoring of financial institutions did not play a very good role.

2) The poor management capacity of some countries, especially less-developed ones, lead to political instability and sometimes to social unrest. There is often a lack of infrastructure construction, education is underdeveloped, and the problem of “government failure” emerges.

3) There are some serious problems in the aspect of global governance, which are mainly manifest as inability of existing global governance system to meet the needs of reality, therefore the ability and efficiency need to be improved through reforms.

In view of these major problems in relation to global development, the basic idea of promoting global transformation should be to establish a strong and effective tripartite system, including the construction of a more effective market system globally, and further to improve the efficiency of the allocation of resources worldwide. Meanwhile, improve government management capacity, including domestic policy coordination, government affairs management capacity and the ability to monitor and manage globalization, which requires timely management and correction. According to G.W. Kolodko [2014a] *New Pragmatism theory*, the higher level of globalization, the more ef-

efficient government – sometimes also bigger government – is required, and I agree with his idea in this regard. Third, there is a need to build a more effective global governance system through cooperation, including reforms, and adding new global governance institutions. This is similar to what G.W. Kolodko's *New Pragmatism theory* refers to as “reinstitutionalisation of globalization”.

Based on the current problems and the basic ideas of transformation, the direction of globalization transformation should include several aspects:

- to be more open;
- to be more inclusive;
- to thrive for most positive effects;
- to build a better global governance system to better guide the transformation, and achieve sustainable development of globalization.

### **Promoting Globalization Transformation through the Belt and Road Construction**

Globalization needs to have a “big push” to promote its transformation. From the current point of view, one of the important pushing forces to achieve the successful transformation is the implementation of the Belt and Road Initiative proposed by China. Why the Belt and Road Initiative can achieve the successful transformation?

In short, the concept, principles and practices of the Belt and Road construction are highly aligned with the basic direction of the transformation. First of all, they share the same concept. The basic idea of the Belt and Road is openness. This initiative and its construction create an open system without boundary, no discrimination, welcoming all who willing to participate in to the cooperation through appropriate ways.

Second, they share the same target. The Belt and Road Initiative's ultimate goal is to eradicate poverty as soon as

possible and achieve common prosperity. This is exactly the same as the goal of inclusiveness and common prosperity of the transformation. Again, the principle can be used for reference. The basic principle of the Belt and Road Initiative and its construction is to achieve shared growth through discussion and collaboration. This principle can be learned, because current process of global transformation and development does not reflect such idea. There are some joint efforts to promote globalization, but the efforts are insufficient and fragmented, so the transformation should learn from the principle.

Finally, the spirit of the Belt and Road Initiative is in line with the essence of globalization. Five types of connectivity (policy, infrastructure, trade, finance and people to people) reflect the basic spirit of global connectivity, which is precisely the essence of globalization. In the process of promoting the transformation and development of globalization, this essential feature should be maintained and carried forward.

So, how to achieve the transformation of globalization through the Belt and Road? The following aspects need to be given special attention in the current circumstances, and we should strive to achieve the effective docking of them. First, the concept, objectives and principles of building the Belt and Road can provide the institutional basis for the transformation and development of globalization. The current framework of globalization is essentially a continuation of the previous rounds of globalization, with no major changes, whether trade cooperation, investment cooperation, technical cooperation, etc., are based on the previous framework for cooperation. Building the cooperation of the Belt and Road is a brand new way of international cooperation. It is worthwhile to learn from the concept of openness, inclusiveness, mutual benefit and balance and apply it to

the process of transformation of globalization. Especially through cooperation to build the Belt and Road, ultimately creating the community of shared destiny should be the overall goal and direction of transformation of globalization.

Second, the Belt and Road project can support the activation of global economic momentum, to support the world economy to get out of sluggishness, and to achieve the integrated growth among countries. From China's current economic strength and the situation of policy communication and coordination with relevant countries, the construction of the Belt and Road can immediately activate global economy from three aspects to support the economic globalization transformation and development:

- First, use infrastructure construction that is mature and ready to be launched, to increase investment and stimulate global investment growth, so as to increase employment opportunities;
- Second, through the promotion of trade and investment facilitation negotiation process and system improvement, to promote trade and investment growth among China and relevant countries;
- Third, we need to promote international financial cooperation and innovation for China and other countries to find good international investment opportunities, and use these funds to activate the relevant countries to develop resource development, enhance human capital etc., so that to

achieve integrated growth and mutual benefit among countries. China will provide samples and experience for the transformation and development of globalization by actively promoting the construction of the “green, healthy, intellectual and peaceful Silk Road”, which implies a kind of balanced overall development, just as what G.W. Kolodko [2014b] mentioned in his *New Pragmatism theory* as triple balanced: economic, social and ecological.

- Fourth, through the construction of win-win cooperation of the Belt and Road construction, the supply of new global governance can be provided for the transformation of globalization. In order to promote the construction of the Belt and Road and promote the long-term development of developing countries, China together with countries should base on objective needs of the new period of development, through joint efforts, and increase the number of institutions involved in global governance and institutional supply.

China has also set up a the Silk Road Fund specifically to support the construction of the Belt and Road projects and has already invested in a number of projects related to transportation and energy infrastructure construction, which has a certain positive significance for the improvement of the existing global financial governance system, and the promotion of the transformation of globalization.

### References:

1. Barro R.I., Sala-i-Martin X. [1995], *Economic Growth*, New York, McGraw Hill.
2. Batholomew W.P.A., Kochanowski J.P. [1986], *The Decline of Manufacturing in the Midwest: A short-run or -long-run problem*, “Indiana Business Review”, Vol. 7(12).
3. Beckfield J. [2006], *European Integration and Income Inequality*, “American Sociological Review”, Vol. 71(6), p. 964-985.
4. Bourguignon F. [2004], *The Poverty-Growth-Inequality Triangle*, Indian Council for Research on International Economic Relations Working Papers, New Delhi.

5. Dollar D. [1992], *Outward-Oriented Developing Economies Really Do Grow More Rapidly: Evidence from 96 LDCs, 1976-1985*, "Economic Development and Cultural Change", p. 523-544.
6. Frankel J.A., Romer D.H. [1999], *Does Trade Cause Growth?*, "American Economic Review", Vol. 89(3), p. 379-399.
7. Greenaway D., Morgan W., Wright P. [1998], *Trade Reform, Adjustment and Growth: What Does the Evidence Tell Us?*, "Economic Journal", Vol. 108(450), p. 1547-1561.
8. Kolodko G.W. [2001], *Globalization and Transformation: Illusions and Reality*, TIGER Working Paper Series No. 1, Poland, Warsaw.
9. Kolodko G.W. [2014 a], *The New Pragmatism, or economics and policy for the future*, "Acta Oeconomica", Vol. 64(2), p. 139-160
10. Kolodko G.W. [2014 b], *Whither the World: The Political Economy of the Future*, Palgrave Macmillan, Houndmills, Basingstoke, Hampshire.
11. Meschi E., Vivarelli M. [2009], *Trade and Income Inequality in Developing Countries*, "World Development", Vol. 37(2), p. 287-302.
12. Modic S.J., Trautlein D.H. [1985], *Perils of De-industrialization (Part 1). Where have all factories gone?*, "Industry Week".
13. Neutel M., Heshmati A. [2006], *Globalization, Inequality and Poverty Relationships: A Cross Country Evidence*, IZA, Institute for the Study of Labor Discussion Papers, 2223.
14. Nissanke M., Thorbecke E. [2008], *Introduction: Globalization-Poverty Channels and Case Studies from Sub-Saharan Africa*, "African Development Review", No. 20(1).
15. Rodrik D. [2002], *Institutions, Integration and Geography: In Search of the Deep Determinants of Economic Growth*, Cambridge, John F. Kennedy School of Government, Harvard University, Mimeo.
16. Rudra N. [2004], *Openness, Welfare Spending, and Inequality in the Developing World*, "International Studies Quarterly", Vol. 48(3), p. 683-709.
17. Sachs J.D., Warner A., Åslund A., et al. [1995], *Economic Reform and the Process of Global Integration*, Brookings Papers on Economic Activity, No. 1, p. 1-118.
18. Silva J.A., Leichenko R.M. [2004], *Regional Income Inequality and International Trade*, "Economic Geography", Vol. 80(3), p. 261-286.
19. Stiglitz J.E. [2006], *Making Globalization Work*, US, W.W. Norton & Company.
20. Vamvakidis A. [1998], *Regional Integration and Economic Growth*, "World Bank Economic Review", No. 12(2), p. 251-270.
21. World Bank [2017], *Unemployment*, International Labour Organization, ILOSTAT database, <https://data.worldbank.org>, retrieved in March 2017.

---

Professor **Biliang Hu**, Dean of the Belt and Road Research Institute,  
Beijing Normal University, China.