VRIJE UNIVERSITEIT AMSTERDAM

VU Research Portal

Reform of the international economic order

Ding, Haoyuan; Jin, Yuying; Koedijk, Kees; Ma, Chang

published in
Journal of International Money and Finance
2022

DOI (link to publisher)
10.1016/j.jimonfin.2022.102692

document version
Publisher's PDF, also known as Version of record

document license
Article 25fa Dutch Copyright Act

Link to publication in VU Research Portal

citation for published version (APA)
Ding, H., Jin, Y., Koedijk, K., & Ma, C. (2022). Reform of the international economic order: Uncertainty and economic policy coordination. *Journal of International Money and Finance*, *127*, 1-3. Article 102692. https://doi.org/10.1016/j.jimonfin.2022.102692

General rights
Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal

Take down policy
If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

E-mail address:
vuresearchportal.ub@vu.nl

Download date: 16. Feb. 2025

Journal of International Money and Finance 127 (2022) 102692

Contents lists available at ScienceDirect

Journal of International Money and Finance

journal homepage: www.elsevier.com/locate/jimf

Editorial

Reform of the international economic order: Uncertainty and economic policy coordination

Haoyuan Ding [a,*], Yuying Jin [a], Kees Koedijk [b,c], Chang Ma [d]

[a] College of Business, Shanghai University of Finance and Economics, Shanghai, China
[b] School of Economics, Utrecht University, Utrecht, Netherlands
[c] CEPR, London, UK
[d] Fanhai International School of Finance, Fudan University, Shanghai, China

ARTICLE INFO

Article history:
Available online 17 June 2022

ABSTRACT

This special issue contains a selection of articles on globalization and fintech. The contributions provide new insights on reform of the international economic order, paying special attention to uncertainty and economic policy coordination. They will certainly help improve our understanding of these topics.

© 2022 Elsevier Ltd. All rights reserved.

In the aftermath of the Covid-19 pandemics, the world economy slowly adjusts to its pre-crisis norm. The unfolding crisis contains profound lessons for future international economic order. Today's global economy faces very different challenges, including globalization vs. de-globalization, fintech, climate change, inequality, etc. Policymakers have conducted various economic policies to facilitate the post-crisis recovery, aiming at a resillient and inclusive path. Yet, in a world with lots of uncertainty and highly integrated economic structure, policy coordinations are extremely important.

This special issue contains a selection of articles which were presented virtually at the conference hosted by the Institute of International Economic Cooperation, College of Business, Shanghai University of Finance and Economics (SUFE) on Nov 20th, 2021. The general theme is *Reform of the International Economic Order: Uncertainty and Economic Policy Coordination* with a special focus on China.

The special issue inclues nine contributions related to issues in current economic order and related policymaking. One key feature in modern economic system is the increasing interdependence across countries. Shangjin Wei in his keynote speech emphasizes the importance of understanding the rise in complex global-value-chain (GVC) activities that involve a production chain across multiple countries. In their paper "*Global Value Chains over Business Cycles*", Wang, Wei, Yu and Zhu propose a new measure for global value chains participation and study its dynamics with global business cycles. Specifically, they decompose the production activities into three parts, one for domestic demand only, one for final product export (traditional trade), and the other for exports/imports of intermediate goods and services. The last part is to measure GVC activities. Based on whether those activities cross borders once or more, they also contruct simple (only once) and complex (more than once) GVC measures. They perform their decomposition in two ways, one from a producer's perspective (based on forward industrial linkages) and the other from a user's perspective (based on backward industrial linkages). Based on those measures, three stylized facts emerge in the data. First, the composition of production activities has changed significantly since 1995, with GVC playing a more important role nowadays. Second, relative to domestic production activities, GVC moves

* Corresponding author.
E-mail addresses: ding.haoyuan@mail.shufe.edu.cn (H. Ding), jyyshang@mail.shufe.edu.cn (Y. Jin), c.g.koedijk@uu.nl (K. Koedijk), changma@fudan.edu.cn (C. Ma).

https://doi.org/10.1016/j.jimonfin.2022.102692
0261-5606/© 2022 Elsevier Ltd. All rights reserved.

strongly with global business cycles, especially for complex GVC activities. Third, the more intense the GVC participation, the faster the economic expansion during a global boom and also the larger the national downturn during a global recession.

The world has experienced increasing globalization, both in terms of international finance and trade. What are the effects of globalization? Two contributions in this issue investigate this question. In the paper "*The Effects of Financial Integration during Crisis*", Tang and Yao analyze the role of financial integration in affecting the comovement of consumption, investment and output across countries. They find that the relationship between financial integration and business cycle syncronization differs during the tranquil period and financial crises. Financial integration is negatively correlated with consumption and output synchronization during normal period. However, the relationship turns positive during crises. The empirical findings suggest that financial integration indeed promotes risk-sharing during normal times but might propograte contangion during crises. To rationalize the empirical findings, the authors also set up a two-country model with global banks. The model emphasizes the role of shocks in understanding the effects of financial integration on business cycle comovements.

In addition to financial globalization, trade globalization also has profound impacts. China's experience in accessing WTO is a poster child to analyze this question. Zhou, He, Ni and Pang, in their paper "*Trade Liberalization and Regional Labor market Dynamics: Evidence from China's WTO Accession*", study the effect of China's WTO access on local labor markets. They construct a Bartik-type instrument to measure the trade liberalization shock for China using both the industry-level tariff change and the initial city-level industry share. They then look at the Chinese local labor market response to the trade shock. They find a reduction in average wages and a growth in employment after the liberalization. However, the positive effects on informal employment only exist in the short run while they exist in the long run for the formal employment.

To understand globalization, it is crucial to understand international capital flows, in particular their responses to uncertainty. Two contributions explore this question using the uncertainty shock from the Brexit referendum and the China's access to WTO. Gao, Hu, Wang and Wang in their paper "*Brexit and Global Fund Capital Reallocation*" study the cross border asset allocation decision by global funds, i.e. portfolio equity flows, in response to huge uncertainty during the Brexit referendum. They find that the relative portfolio shares allocated and thus capital flows to the U.K. decline significantly after the Brexit, compared to other European countries. They further confirm that the decline in capital flows results from uncertainty with the Brexit as opposed to lower market correlation.

Uncertainty also affects other types of capital flows. In their paper "*Trade Policy Uncertainty and Foreign Direct Investment: Evidence from China's WTO Accession*", Bao, Deng, Sun and Sun look at the effect of trade policy uncertainty on FDI flows. They take advantage of the industry-level variation in trade policy uncertainty reduction associated with China's access to WTO and then investigate the response of inward FDI flows afterwards. Their main finding is a boost in inward FDI associated with a lower trade policy uncertainty. This result is interesting as it links the cross-border financial flows to the trade policy uncertainty. They further investigate the economic channel and find that their results are consistent with an expansion of multinational firms in serving a larger export market following the policy uncertainty reduction.

In a world with increasing globalization and uncertainty, what is the effectiveness of policies? Two contributions are related to this question and analyze health and economic policies respectively. In their paper "*Pandemic and Containment Policies in Open Economy*", Liang, Shi, Tang and Xu study the effects of four different containment policies in a two-country model with firm entry-exit, SIR virus transmission, and production network. They find that the workplace closure policy is the most effective in pandemic management while the social distance is a beggar-thy-neighbor strategy. Emergency healthcare investment minimizes the death rate at the lowest economic expense while partial border closure raises trade costs and reduces global imbalance. In addition to analyzing the effect of individual policy, they also emphasize the importance of policy coordination. They find that real world policies are worse than the cooperative policies but are considerably closer to the second-best policies in the "prepare-for-worst" scenario.

One feature of Chinese financial liberalization is its preference for FDI flows over other types of financial flows. How to better attract FDI using policies? In their paper "*FDI and firm productivity in host countries: The role of financial constraints*", Han, Wang and Wang analyze the effectiveness of FDI policies in a two-country model by incorporating the FDI firms' financial advantages. The first insight is that FDI firms' financial advantage is a key factor affecting their productivity. Intuitively, there is a tradeoff between financial advantage and entry cost for foregin firms to compete with local firms for the market. If FDI firms have a relatively higher financial advantage with respect to entry cost, only a lower productivity cutoff is needed to enter the local market. In that case, the average FDI firm productivity is lower. Such a prediction is supported both in a Melitz-type model with financial frictions and Chinese data. Based on those findings, they investigate the effectiveness of different FDI policies. Their analysis adds a caveat for FDI restriction/subsidy policies (domestic policies to improve the financial market efficiency) as they might affect the incentive of low productivity FDI firms (domestic firms) to enter the market.

One important player in the reform of future economic form is fintech and decentralized financing. Two contributions belong to this topic. In his keynote speech, Franklin Allen provides a comprehensive review on fintech, cryptocurrencies, stablecoins and central bank digital currencies. In their paper "*Fintech, Cryptocurrencies, and CBDC: Financial Structural Transformation in China*", Allen, Gu and Jagtiani first discuss the recent development of fintech in China such as credit scoring, digital banking, fintech credit, investment services, and marketplace lending. They then discuss the recent research on cryptocurrencies and stablecoins and focus more on the central bank digital currencies (CBDC). China is significantly ahead of other countries in issuing CBDC, i.e. e-CNY. Intensive discussions are around the specific designs of CBDC including the role of the central banks and implications for monetary policy and financial stability. As cryptocurrencies and digital assets have grown exponentially and become more complex, there is also a call for regulation. Different countries adopted differnet approaches and no overarching and centralized regualtory frameworks have been formed. The lack of regulatory clarity at

the national and international level will argubly create risks and uncertainty. The authors thus discuss potential challenges and obstacles for current financial regulation.

Cryptocurrencies also respond to uncertainty. In their paper "*Cryptocurrency Price Discrepancies under Uncertainty: Evidence from COVID-19 Pandemic*", Chen, Qin and Zhang analyze the price discrepancies in cryptocurrency markets across countries and test the safe haven assumption using Covid-19 as a natural experiment. Their key variable is a price ratio for Bitcoin between different countries. If law of one price holds, one should expect the ratio to be one. Clearly, this might not be the case due to various real world frictions. Rather than investigating the source of the price ratio differences, the authors focus on the price response to the Covid-induced uncertainty along with lockdown policies. They find that countries with a higher hit by Covid-19 and an implementation of lockdown policies experience a higher price dispersion. They also conduct several analyses to confirm that the price response is consistent with a "safe haven" assumption.

The contributions in the special issue have enhanced our understanding in globalization and fintech. With the world converging to a new economic form along with considerable uncertainty, more research is needed. It is clear that we can learn from China's experience in many aspects. Yet, other countries' experience is also useful. It is important that policymakers share their perspectives in a timely manner with academia. Given that the world faces so many challenges ahead such as climate change and geopolitical tensions, policy coordination at both the national and global level will be inevitable and extremely important.