

# Some Comments on International Fragmentation

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# Causes

- Brexit
- US- China trade tension
- Russia's Invasion of Ukraine
- Covid-related trade friction

# Evidence

- International finance
  - World External Assets (percent of world GDP)
  - World FDI liabilities (percent of world GDP)
- International trade
  - World imports: values and volumes
  - World imports and commodity prices

# Interpretation

- Trade diversion
  - Increase in shares of Mexico and Vietnam in the US imports
  - Increased Chinese exports to and investment in Mexico and Vietnam
- Friend-shoring/ Ally-shoring
  - Higher FDI among countries that are more geopolitically aligned
  - allocate a larger share of their portfolio to countries with closer geopolitical preferences

# The Case of Korea: Friend-shoring

- Trade

- Exports to the US is increasing, while exports to China is decreasing
- But no significant change in term of imports
- Trade deficits with China have worsened since October 2022.

- FDI

- Korean companies have invested much more in the US than in China
- The number of new corporations established by Korean companies in China has sharply decreased since the outbreak of the US-China trade war

# The Case of Korea: Trade

year	China		US	
	Export	Import	Export	Import
2017	142120 (24.8)	97860 (20.5)	68610 (12.0)	55125 (11.5)
2018	162125 (26.8)	106489 (19.9)	72720 (12.0)	58868 (11.0)
2019	136203 (25.1)	107229 (21.3)	73344 (13.5)	61879 (12.3)
2020	132565 (25.9)	108885 (23.3)	74116 (14.5)	57492 (12.3)
2021	162913 (25.3)	138628 (22.5)	95902 (14.9)	73213 (11.9)
2022	155789 (22.8)	154576 (21.1)	109766 (16.1)	81785 (11.2)
2023 (Jan-Apr)	39076 (19.4)	49142 (21.7)	36018 (17.9)	25168 (11.1)

# The Case of Korea: FDI

	China		US	
	No of New Corp.	Amount (\$ million)	No of New Corp.	Amount (\$ million)
2017	538	3,225	552	15,326
2018	490	4,806	548	11,236
2019	466	5,865	661	15,774
2020	245	4,512	521	15,172
2021	264	6,734	628	27,946
2022	194	6,589	687	27,769

# Question: Effects of Geopolitical Risk

- How serious?: strong or weak
- How long?: transitory or structural

# Question: Consequence of Geopolitical Risk

- Divided global economy: two, three or four blocs?

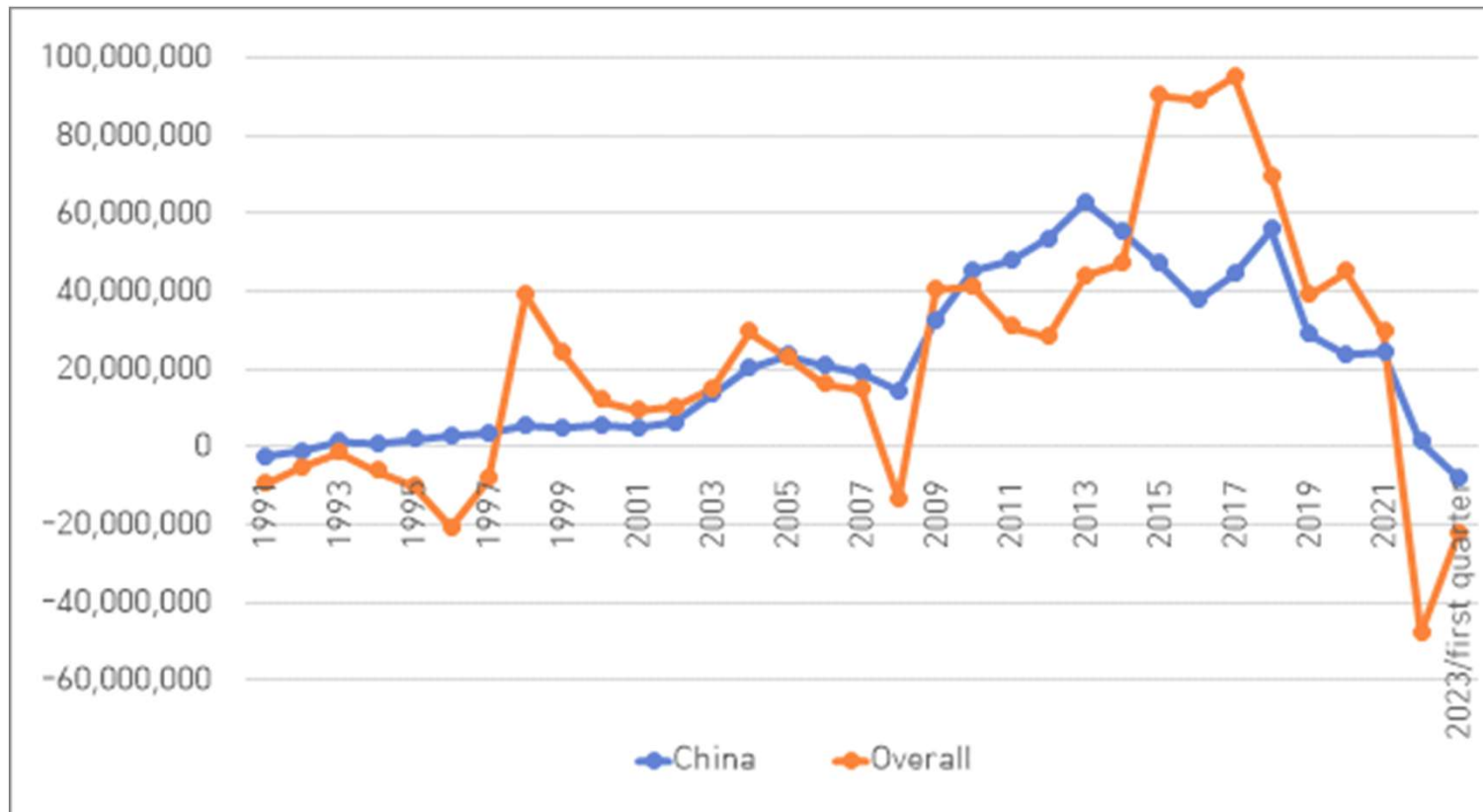
		US Bloc	China Bloc	Nonaligned	
Model Region	GDP Share (Percent)	Two Blocs + Nonaligned EMDE Regions		Nonaligned EMDEs Join China Bloc	Nonaligned EMDEs Join US Bloc
United States	16.0				
China	17.5				
EU+	15.6				
Other AEs	13.8				
India and Indonesia	9.6				
Southeast Asia	4.0				
LAC	6.5				
ROW	17.0				

- IMF, World Economic Outlook: A Rocky Recovery (2023), p.103.

# Question: Risk Management

- Trade deficits
- Depletion of foreign exchange reserves
- Volatility of foreign exchange rate
- Manufacturing hollowing out

# The Case of Korea: Trade balances



# The Case of Korea: Exchange rates

