Global Public Policy in the Post-COVID Era

Professor Andrés Velasco
(School of Public Policy, LSE)

Professor Andrés Velasco opened the session by sharing three lessons and three challenges for global public policy from the experience of confronting the COVID crisis.

The first lesson is the lack of preparedness to deal with crises on a global or national level. As a macroeconomist who studies financial crises, he concludes that we will never be fully ready for "the next crisis", because "the next crisis" never looks like the previous ones. In this COVID crisis, despite the warnings from scholars and professionals about the risk of pandemics, it still caught us unprepared. Thus, we should prepare more for the candidates of "the next crisis," such as climate change. The second lesson is the international nature of the crisis, which calls for cooperation through international institutions. The COVID crisis has revealed that the WHO and regional health organizations are too small and underfunded to deal with the problems. The commitments and contributions from major countries to these institutions also seemed to be less strong and less enthusiastic than they had been. Stronger international institutions are needed to confront big crises in future. The third lesson concerns the role of government. Although markets are incredibly helpful in normal times, many of them freeze and stop working in the times of crises as large as a pandemic. As a result, government has to be an insurer of last resort. When nobody can borrow, government can borrow. Government can also provide pandemic reliefs in forms of cash transfers, health expenditures, and wage subsidies. But there is a caveat: since all these measures require money, government needs to reserve the fiscal space and borrowing capacity needed to do what has to be done during a crisis.

Going forward, Professor Andrés Velasco set out three key challenges for public policy. The first is to promote global integration. He worries the risk of allowing geopolitics to get in the way of global integration in the aftermath of the COVID crisis. The second challenge is to improve the international financial safety net. Looking into government performance during the pandemic, he finds striking differences between rich and poor countries. Economically advanced countries were able to spend 15 points of GDP on average in pandemic reliefs and stimulus, while this figure dropped to 7 and 3 points for middle-income and low-income countries respectively. The contrast shows that human sufferings were much more intense in poorer countries. It also highlights the importance of building a bigger and more effective international financial safety net. The final challenge is to provide global public goods to combat future crises, such as preventing global warming and controlling diseases. One of the key steps is to reform international organizations such as the World Bank for better financing and international cooperation.

Protectionism and Inequality in the Era of Global Value Chains

Professor Yu Zheng
(School of International Relations and Public Affairs, Fudan University)

Professor Yu Zheng explored the potential dynamics between protectionism and inequality in the era of Global Value Chains. He noted that the decade-long growth in globalization levels slowed down sharply after the 2008 Global Financial Crisis. Debates about the setback of globalization have focused on the rise of income inequality. Some argue that globalization is the main culprit of rising inequality, as the expansion of the Global Value Chain changed the power relations between capital and labor, and concentrated the gains of globalization in a small number of superstar workers, superstar firms, and superstar cities.

The surge of new protectionist policies followed the 2008 crisis. Economists have a consensus that protectionism would do more harm than good because it would cause economic recession, welfare losses, and inequality. Against this background, China served as an abnormal case. Since 2008, China has increasingly implemented protectionist policies with subsidies accounting for more than 90% of the instruments. During the same period, China is moving toward more upstream participation in GVCs. Meanwhile, the country's income inequality has slightly declined since 2010, both in terms of Gini and percentile ratios, which is quite against conventional wisdom.

Prof. Yu Zheng tested the relationship between inequality and protectionist policies via two-way fixed effects models using a large-N country-year data set containing relevant indicators for 117 developing countries from 2007 to 2009. The results of the regressions showed that protectionist policies have negative effects on income inequality, and there may be a nonlinear relationship between protectionist policies and income inequality. Dividing protectionist policies into different types brought more intriguing results: Subsidies are negatively associated with inequality whereas tariffs are positively associated with inequality in developing countries. In all the above regressions, GVC participation showed a positive and significant effect on reducing income inequality.

Professor Yu Zheng pointed out that the quantitative results may suggest that subsidies tend to be a more efficient solution for redistribution and that developing countries are more likely to use subsidies rather than welfare programs to counteract the inequality-enlarging effect of globalization.

The findings shed light on the studies about the effects of protectionism. Despite the concern over globalization backlash, rising protectionism has not produced the deleterious effects so often predicted. Participating in GVCs and implementing some protectionist policies would contribute to the decline in inequality. Since 2008, subsidies have become an effective protectionist instrument for China and developing countries to handle substantial changes in the global trade system. In the post-COVID era, multilateralism would be predicated upon active domestic intervention to revitalize the social contract.

Economic Surplus and Fiscal Burden in Aging China

Professor Ke Shen
(School of Social Development and Public Policy, Fudan University)

Prof Shen Ke shares her thoughts on economic surplus and fiscal burden in aging China. She begins by introducing the situation of China in terms of population structure changes.

She depicts that China is going through the accelerated aging process with the share of people above 65 increasing a lot in the past decades. The major reason is that, on the one hand, baby boomer generation (people born in late 1960s) is going to the older age. On the other hand, there is a lunge in the annual birth in China. For example, between 2016 and 2021, annual births still dropped by nearly 40% in five years.

The accelerated rise in the share of older adults will largely affect the future economic surplus of China. In the period of 2002-2014, the lifecycle surplus in China, which refers to the differences between labor income and consumption, has been gradually increased. What leads to this trend is not only the supply of huge volume of working age labors, but also the faster increase in labor income than the increase in consumption. However, with the accelerated aging process and the increase in consumption, the lifecycle surplus started to decline after 2014. She further points out that if we look at the age profile of the lifecycle surplus in China in 2014, we will observe that the starting age of surplus was 21, and the ending age was merely 56. So, the duration of individual lifecycle surplus was only 35 years in 2014, shortened by 3 years as compared with 2002. This indicates that for the youth below age 21 or the older above age 56, their labor incomes are not sufficient to fully cover the consumptions, which makes them become the de facto dependencies. Compared to the traditional dependency ratio, which treats the youth below 18 and older adult above 65 as dependencies, this new calculating method suggests that the traditional one may underestimate the burden on Chinese society. Based on predictive simulations, Prof Shen also finds that if the age profile of per capita lifecycle surplus remains constant as that of 2014, and the only changing factor is the age structure of population, China may use up the economic surplus in 2050. If we further assume the continue rise of the ratio of consumption to labor income, the lifecycle surplus will be exhausted even sooner.

Aging population will also affect the financial burden in the fields of education, healthcare and pension. Prof. Shen finds that, if the Age-specific Benefit Generosity (BGR) remains constant, the share of public spending in these fields in GDP will rise from 10.1% in 2015 to 23.2% in 2050. If the BGR gradually converges towards the average level of OECD countries in 2009 by 2030 and then remain constant, the ratio of public spending in these fields to GDP will reach to 32%, which is larger than the share of general government revenue (nearly 30%) in 2015.

What needs more attention is that the annual growth rate of fiscal revenue started to decline at a faster pace than economic slowdown. And the growth rate of government spending continues to outpace that of government revenue.

In general, Prof Shen concludes that slowing growth of fiscal revenue, rapid population aging and welfare expansion may impose fiscal constraints in the coming decades. This is a common challenge to the aging society in general, not unique to China. With population aging and rising consumption, the economic surplus will be depleted in front of the eyes of the current young generation. Finally, she proposes several policy options to address these challenges. First, the government may consider increasing retirement age and extending the years of contribution, or improving the rate of return on investment of pension fund, Second, making health care more efficient represents an alternative way. Third, boosting innovation to realize longer-term economic growth and improving fiscal capacity should also receive more policy attention.

From Vertical to Horizontal Priority Setting in Healthcare Globally: Funding and Procurement Mechanisms

Professor Ranjeeta Thomas
(Department of Health Policy, LSE)

Dr. Ranjeeta Thomas from Department of Health Policy, LSE highlighted the challenges of healthcare priority setting for low- and middle-income countries (LMICs) in the post-COVID-19 era, and explored the ways forward. Population, health and economy have been decimated by the COVID-19 pandemic, leading to severe constraints on healthcare spending. Limited healthcare spending calls for prioritizing diseases and services in order to maximize the efficiency of the allocation of healthcare budgets. Universal health coverage (UHC) will prompt a shift for healthcare services from vertical to horizontal priority setting. Vertical priority setting refers to allocating resources and making decisions for vertically funded projects, while horizontal priority setting refers to allocating limited resources between healthcare interventions and healthcare services, or strengthening investments in healthcare systems.

There are multiple challenges in moving to horizontal priority setting. One is the existing supply and demand arrangements. Public health interventions and services in many LMICs rely heavily on vertical funding driven by external funders in specific areas, with very little flexibility in cross-resource allocation. The second is the low bargaining power of decentralized procurement. LMICs have inadequate access to essential medicines and products. They lack of organization on the demand side, and have limited negotiating capacity and procurement scale, resulting in high prices for healthcare products. The third is the decentralized supply chains. Supply chains include procurement, distribution and delivery processes and are often vertically aligned in funding lines. The repeated purchase of different services hinders the planning and implementation of a unified health benefits program.

To this end, based on the critical tasks of strengthening equitable services and controlling important diseases, countries need to coordinate funders and national health insurance schemes first. The cooperation between funders and countries is the way forward. Funders and UHC schemes or national health insurance schemes play a very important role in ensuring equitable access to services. UHC or national insurance schemes may actually ignore important disease burdens among minority groups, while funders often focus on high-priority diseases and conditions.

Second, improve procurement and supply chain management. To accommodate horizontal priority setting, countries need to optimize their procurement processes and supply chains, and align their purchases with each country’s needs to reduce costs and limit supply shortages, thus ensuring quality, prices, supply, safety and efficiency. For example, a number of countries in the Caribbean have long used pooled procurement of quality medicines, combining the quantities required by each with the prices negotiated by groups.

Third, jointly invest in healthcare systems and global health security. The recent Ebola outbreak in the Democratic Republic of the Congo and the ongoing COVID-19 pandemic highlight the importance of global health security and robust healthcare systems in responding to health crises. Countries should invest in improving global health security and reduce the need to rely on external funding in emergency situations through preparedness to prevent and manage outbreaks and epidemics.

In conclusion, countries can achieve UHC by seeking funding and sourcing products in the healthcare system through horizontal priority setting. Apart from recognizing that healthcare resource allocation schemes are country-specific, the exchange of information between countries can also help to improve implementation capacity and coordinate international healthcare resource procurement, thereby supporting the horizontal priority setting.

Boosting Births:

Can China learn from the UK and other European Countries?

Professor Xizhe PENG
(Fudan Institute on Ageing)

Professor Xizhe Peng from Fudan Institute on Ageing, discusses the possible paths for China to establish a fertility support policy system by drawing on the family policy experiences from the UK and other European countries. He elaborates on the seriousness of China's aging problem by citing information on population structure, changes in birth policies, and data on the birth population and birth rate in China. He proposes that China's fertility promotion policy can draw on measures such as parenting services, financial aid, and parental leave in European countries. Furthermore, China should make more policy efforts in childcare services for preschool children, parental leave for couples, welfare for the elderly and children, and gender equality.

The aging problem has become a major concern for China. The population aged over 65 years has shown an upward trend since 2000, reaching 200.59 million in 2021, accounting for 14.2% of the total population. In 2000, the population aged over 65 years was 88.72 million, making up 7% of the total population, and in 2010, it increased to 119.34 million, comprising 8.9% of the total population. China's total fertility rate has been below the world's average total fertility rate since 1974. The situation was exacerbated when the Chinese government began to impose a strict one-child policy to halt rapid population growth in 1980. Although the Chinese government gradually relaxed the one-child policy with the two-child policy being adopted via three stages in 2011, 2013, and 2015 and the three-child policy being introduced in 2021, the total fertility rate did not increase. Furthermore, the number of birth and birth rates has indicated a declining trend since 1980 in China.

China can learn from the family policies of the UK and other European Countries to contain the serious aging trend. In the UK, working parents of three- and four-year-olds enjoy a total of 30 hours of free childcare per week for 38 weeks of the year or the equivalent number of hours across more weeks per year. Employees can get up to £500 every 3 months (up to £2,000 a year) for each child to help with the costs of childcare. This goes up to £1,000 every 3 months if a child is disabled (up to £4,000 a year). Besides the childcare services, a family with children under 16 or under 20 usually gets financial support every four weeks if the children stay in approved education or training (£21.80 per week for the eldest or only child, and £14.45 per child for any additional children). Furthermore, the statutory maternity leave is 52 weeks; and Statutory Maternity Pay (SMP) is up to 39 weeks, where mothers get 90% of their average weekly earnings (before tax) for the first 6 weeks and £156.66 or 90% of their average weekly earnings for the next 33 weeks. Men are also entitled to up to 2 weeks of paid paternity leave, paternity pay, and shared parental leave and pay. In some European countries, such as Sweden, Norway, and Iceland, public spending on family services accounted for more than 2% of GDP in 2017.

The 20th National Congress of the Communist Party of China pointed out that the government should establish a fertility support policy system and promulgate a national strategy to actively deal with the aging of the population. In 2022, 17 government departments of China jointly issued “Guiding opinions on further improving and implementing positive fertility support measures”, and listed 20 specific supportive policies, covering child education, housing, parental leave, and social security. Regional fertility support policy systems have been worked out by local governments based on local socioeconomic conditions. There are some plausible policy choices for China. First, the government should provide affordable and accessible childcare services for pre-schoolers. Second, parental leave entitlements should be available for all couples, regardless of employment status. Third, benefits and services should be provided for the elderly and children within households. Fourth, policies and measures should be initiated to protect women’s development rights and promote gender equality.

International Technology Competition

Professor Keyu Jin
(Department of Economics, LSE)

What should government industrial policies look like in the current environment of increased competition between the two large economies: China and the USA? To address this question, based on a on-going study, Dr. Keyu Jin introduces some preliminary findings from a point of view of the economic framework she proposed in one of her ongoing studies. The question is about what government policies should look like in the intense competition between two large and different economies, the US and China. In this talk, she introduced the data and some primary findings of her joint research with another researcher on this topic.

First, she briefly introduced the historical background of global technology competition. After World War II, the United States and the Soviet Union launched the movement of space race which triggered the rapid development of programs to support the innovation of the US. And even still in the 1970s and 1980s, Japan, Germany and France rapidly caught up with the US, which is manifested by the high growth of patents over that particular period.

Dr. Jin further mentioned that currently, one of the most topical issues between China and the US is technology competition after the recent event that Biden launched export controls and export bans on semiconductors. Competition in technology has always been there. The interesting thing is that now we have a world of trade and technological spill-overs and there is a variety of policies that countries engage but typically we think about industrial policies or trade policies or innovation policies. It tends to cast this framework with countries' series of international competition in technology that affects things like trade, etc. Dr. Jin raised a question of what the right kind of policies should engage in international technology competition.

Textbook industrial policies do not take fierce international competition into account. The traditional economic framework contains unrealistic assumptions of full market efficiency and open borders. In reality, policies that are introduced are often designed for one country to gain at the expense of another even if the resulting global welfare is reduced. Typically, trade policies are conducted with the aim of increasing welfare inside one country without taking into account the effect this will produce on its neighbour. What we find in our research is that when there are endogenous innovation improvements, one country can implement policies that can deter improvements in the other country's innovation policies.

To provide the answers, she introduced an economic framework proposed in her ongoing study. She found a beggar-thy-neighbor effect, which is a kind of gaining at another country's expense if a country wants to maximize its own national welfare. There are policies that a country can engage and the policies allow the country to gain at the expense of another country even though global welfare has reduced. The starting point of the framework is that there may be some optimal policies to deter another country's technological advancement that is both global welfare reducing and welfare gaining for the country that has these policy options. The reason why she is interested in this topic is that we do know a lot about trade, capital flow, and innovation policies within a closed economy and endogenous economic framework but as technology itself evolved over time, there have not been as many as substantive and rigorous frameworks of evaluating international technology competition.

We have seen that there are optimal trade policies that will have an impact on other countries' innovation capabilities. The current USA controls imposed on its semiconductor industry is not the optimal way of addressing its competition with China. A reduction in the comparative advantage of a developing country (in this case, China) can be also detrimental for the developed country (in this case, USA). Setting exports controls in the way USA has done, will reduce the demand for US semiconductors in China and stimulate internal innovation in China by increasing demand for domestically produced alternatives.

Subsequently, she summarized two major findings in her research. The first point is about comparative advantage. That is, if a developing country seizes innovation growth in the comparative advantage of an advanced economy, that is welfare-reducing for the advanced economy, so not all developing country growth is good for welfare. the second result is doing something from the government's perspective is always better than doing nothing. Therefore, even if the models are totally efficient and there are no externalities, there is still room for optimal trade policy. The reason is that the country can use trade policies to affect another country's demands.

Sino-EU economic relations: status quo, causes and prospects

Professor Chun Ding
(School of Economics, Fudan University)

Prof. Ding shares his research on the status quo, causes and prospects of Sino-EU economic relations.

Prof. Ding depicts the current situation as “warm economy and cold politics”. Over the past decade, Sino-EU bilateral trade in goods and service grows steadily. In 2021, China is the largest trade partner and import source of EU, and China’s service trade with EU account for about 30% of total Sino-EU trade. The bilateral OFDI (Outward Foreign Direct Investment) grows at about 10% annual rate. The CR Express（China Railway Express） reached more than 180 cities in 23 countries in Europe. Despite the consistently positive economic relations, political relations between the two sides are growing colder. The two sides have controversial opinions over social ideas and values. The politicization of economic issues is becoming more obvious, and the EU has set up more countermeasures and technical barriers to decrease the excessive dependencies on China.

A number of causes are summed up for this situation. By integrating and comparing RSCA Index (Revealed Symmetric Comparative Advantage Index), ESI Index (Export Similarity Index) and other indexes, Professor Ding Chun analyzed the differences between China and Europe in terms of international competitiveness in manufacturing industry, which shows that the rise of China and the increasingly competitive relationship between China and Europe are the main reasons for the current situation. In the context of the Covid Pandemic, concerns about the stability of the Chinese market and supply chain are increased. The ideological and political-economic structural differences, the pressure and inducement from the United States, the impact of populism and xenophobia, and the changes in the geopolitical landscape, especially the impact of the Russia-Ukraine conflict are all main reasons to form the current Sino-EU economic relation. In the research of many institutions, the European public opinion towards China tends to be negative.

For future Sino-EU economic relations, Prof Ding holds a cautiously optimistic opinion. Economic relations are still the pillar of bilateral relations at the moment, and China-EU cooperation has a good foundation of institutional guarantees and new growth drivers. However, the increasing international competition, the political shift of the EU towards China and the US-EU policy towards China will affect the development of this relationship. In the current situation of “warm economy and cold politics”, we should insist on seeking common ground while reserving differences.

Prof. Ding concluded that the "economic cold war" between China and Europe is evitable, because there is no conflict of core economic interests and no geopolitical contradictions between China and Europe. The demand for cooperation is much higher than competition. Although the competition between the two sides in the economic and trade field will continue to intensify due to the rise of China, it is more in line with the respective interests of China and the EU to deepen cooperation in economy and make China's vast market potential and supply chain contribute to a win-win situation. Cooperation rather than confrontation will remain the mainstream of economic relations between the two sides. Both China and the EU support globalization, multilateralism, and free trade. They can strive to achieve innovation in concepts, mechanisms and policies and actively explore new areas of cooperation. Seeking common ground while reserving differences and continuing to promote economic and trade cooperation is still the future development direction of China and the EU.

Safeguards for Trade Rule System to Govern Cross-border Data Flow: from the Perspective of China

Professor Duoqi Xu
(Law School, Fudan University)

Professor Duoqi Xu discussed safeguards for trade rule system to govern cross-border data flow from the perspective of China.

She first pointed out that the existing multilateral trading system has fallen into a dilemma in responding to the governance of cross-border data flow: first, a new “Digital Divide” has been formed because of the significant differences in data governance paradigms among major trading powers such as the United States, China and the European Union; second, in the absence of special provisions in the existing WTO system, the development of bilateral or regional trade agreements has accelerated the formation of special international rules for cross-border data flow, which has intensified the fragmentation of the multilateral trade rules system.

Professor Duoqi Xu then analyzed China’s approach to promoting cross-border data flow in multilateral trade agreements and introduced her proposals.

China's initiative to join RCEP implies a change in China's attitude towards cross-border data flows, with more integrated consideration of security and development, and a more positive attitude towards cross-border data flows in the context of the digital economy. Not only that, China has officially announced to the public that it will actively promote the accession to CPTPP and RCEP and unswervingly promote a high level of openness. As a strategic deployment to participate in global economic governance, China has always opposed protectionism and unilateralism and upheld the multilateral trading system with the WTO as the core, while also insisting on rule-oriented and joint rule-making by the international community to improve global governance.

Therefore, during the important period of digital trade rule formation, China should further adhere to the multilateralism position, actively use the multilateral negotiation function of WTO, and promote the improvement of the multilateral trade rule system with plurilateral agreement negotiations on e-commerce topics.

China has been actively participating in the negotiation of plurilateral agreements such as Joint Statement Initiatives (JSI) for e-commerce. Regarding China’s position on rules for cross-border data flow in JSI for e-commerce, it is recommended that security and development should be further integrated, and a pragmatic and flexible approach should be adopted to safeguard China’s interests in the rules on cross-border data flows. The three main areas include the following:

First, insisting on data protection provisions and establishing a mutual recognition mechanism.

Second, the simultaneous provision of data flow and exception clauses.

Third, special and differential treatment provisions for developing countries and LDCs shall be provided.

To fully implement the overall national security concept, Professor Xu suggest China adhere to the integration of the two major issues of development and security, and be good at using the results of development to strengthen the foundation of national security strength, but also good at shaping a security environment conducive to economic and social development.

The first is to unify key policies, including the conditions for accessing and sharing data.

Secondly, it is reasonable to use the "whitelist" and "negative list" tools.

Thirdly, China will develop operational implementation rules for cross-border data flow and data governance compliance guidelines (more detailed classification and grading data governance scheme).

New Development Assistance in the Post-pandemic World: The NDB & AIIB in Latin America

Professor Alvaro Mendez
(Global South Unit and Department of International Relations, LSE)

Dr Alvaro Mendez, from the Global South Unit and Department of International Relations, LSE, gave a speech about his research on New Development Assistance, which is a brand new analytical framework jointly developed by scholars from LSE and Fudan. Specifically, the research employs two cases—the Asia Infrastructure Investment Bank (AIIB) and New Development Bank (NDB)—and investigates the role of agency of these two banks in Latin America and the Caribbean (LAC).

Dr. Mendez shared with us some of his research findings. First, these two actors (AIIB and NDB) are playing a crucial role in the post-pandemic world as development entrepreneurial agents in the global south. China's policy banks have been lending to LAC countries since 2005; among all the recipients, Brazil, Ecuador, and Venezuela are the top three countries. Lending at that time is usually associated with conditions such as guaranteeing China access to recipients' natural resources. AIIB and NDB, nonetheless, have changed the dynamics of funds originating from China. Compared with their counterparts in the West, the two banks, AIIB based in Beijing and NDB based in Shanghai, are perceived as imposing less conditionality and are thus seen as trustworthy partners by local countries.

Second, AIIB and NDB differ in their strategy of membership expansion. The logic of attraction has been more visible in the case of AIIB expansion in LAC. Countries are attracted by the prestige of being an AIIB member. By 17 November 2022, AIIB has six membership countries, five of which joined after April 2020. Meanwhile, the logic of prescription has been more prevalent in the case of NDB expansion. Based on its own criteria, NDB targets specific countries and convinces them to join its membership circle. For example, they invited Uruguay to be a membership country in this way. Among NDB's global member countries, Brazil is the second largest recipient of approved project loans, only next to India.

Third, for the participants in LAC, New Development Assistance via the AIIB and NDB is viewed positively and is perceived as an opportunity to get funds for infrastructure without conditionality. LAC countries see both as essentially Chinese institutions and associate membership of these two banks with more trading opportunities with China. Although existing before the covid crisis, LAC countries' interests in these two banks have greatly increased since 2020 when the covid pandemic swept across the globe. Numbers of both banks' membership countries have increased massively after 2020. Through their New Development Assistance via AIIB and NDB, China has demonstrated that it is well equipped to have important Global Governance institutions of its own.

In Q&A part, the audience raised a question asking whether the relationship between NDB and World Bank is competitive or complementary. Dr. Mendez responded that they are more complementary, even though US, the largest supporter of World Bank, is against NDB.