Globalisation far from permanent

It's under attack by growing nationalism, militarism and the many forms of xenophobia

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Barrier to globalisation: *A guard outside the regional administration building in the Ukrainian city of Slavyansk; Russia's recent behaviour suggests that the 'projects and politics of militarism and imperialism' are not over yet.* PHOTO: AFP

BROWSE through any major study about globalisation, and about globalism, the ideology that celebrates the liberalisation of the international economy, and there is a good chance that the author is quoting John Maynard Keynes's description of the world that vanished as a result of the Great War of 1914.

"The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and expect their early delivery upon his doorstep," Keynes recalled, adding that the same Londoner could "at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages".

Reading Keynes' accounts of the growing interdependence that characterised the international economy in the late 19th century and the years that preceded World War I, one would be forgiven for imagining that these are reports about the way our contemporary global economy has been operating since the early 1990s, characterised by the (relatively) free flow of products, technology, finance, labour, and ideas. Indeed, Keynes could be writing about a New Yorker sipping his cappuccino while ordering from his or her iPhone an electronic device from a retailer in Shanghai or buying online shares in a new Russia-based company.

And perhaps the New Yorker in 2014, not unlike Keynes' Londoner in 1914, would regard "this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable". Indeed, the "projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions and exclusion, which were to play the serpent of the paradise, were little more than the amusements of his daily newspaper and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internalisation of which was nearly complete in practice".

More likely, today's New Yorker would project a certain level of scepticism towards the notions that were as popular in 1900 as they were in 2000, that major military conflicts, religious wars, and economic nationalism have become passé.

Indeed, such ideas that could be placed under the rubric of the End of History – that the nation-state was crumbling in the face of the forces of globalisation; that liberal-democracy and the free markets were about to sweep the world; that the Internet was going to create the conditions for political freedom across the planet; that countries with McDonald's would not go to war against each other – have been overridden by reality since the globalism euphoria of the 1990's.

In fact, against the backdrop of a series of economic and political watershed developments – the 2001 terrorist attack on the World Trade Center; the invasion of Afghanistan and Iraq; the Great Recession; the euro crisis; the growing power of nationalism, ethnicity and religion – the political-intellectual pendulum has been swinging in the other direction. Globalism as a set of bullish ideas about the transforming effect of economic and political liberalisation is not so "in" as it used to be a few years ago.

If anything, the growing diplomatic and military tensions between the US and Russia over the future of Ukraine, where a civil war seems to be brewing, recall the international crisis that helped start the First World War. Then there are those territorial disputes in East Asia involving China, Japan and North Korea; the growing influence of nationalist, anti-immigration and anti-European Union (EU) movements in Europe, and lest we forget, the never-ending ethnic and sectarian wars spreading across the Middle East. That's not the way the End of History was supposed to look like.

Moreover, Russia's recent behaviour suggests that the "projects and politics of militarism and imperialism" are not over yet, while there are no signs that the globalisation and the new information technologies are democratising China. At the same time, the US and its western allies have expressed their displeasure with Russian and Chinese policies by imposing economic sanctions against them. Such moves could in turn erode the foundations of globalisation.

In his new book *The Road to Global Prosperity*, Michael Mandelbaum of the Johns Hopkins University School of Advanced International Studies argues that despite these and other hurdles, globalisation remains alive and well. Prof Mandelbaum notes, among other things, that despite the devastating crisis that the global economy has gone through in recent years, no major political movement or ideology has come up with a alternative agenda to challenge the free market fundamentals, and he insists that technological advancement will continue driving global economic integration.

Prof Mandelbaum may be too bullish in his assessment that globalisation as a process and globalism as an ideology will continue reigning supreme in the coming decades. Even if one assumes that the current clashes over sovereignty and territory in Eastern Europe and East Asia will not turn into new world wars or that economic nationalism will not rear its ugly head and shatter the global economic system, it is doubtful that we are going to experience a rerun of the globalisation boom of the 1990s any time soon.

Just see how difficult it has become for an American president to rally Congressional support for an ambitious trade liberalisation agenda or, for that matter, for ratifying a four-year-old deal to restructure the International Monetary Fund.

Or how the major economies have failed to embrace a common policy approach aimed at reviving the global economy.

To apply Keynes' observations again, the contemporary New Yorker should not assume that economic globalisation has become "normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant". Nationalism and militarism, as well as the many forms of xenophobia, are not going to disappear any time soon. The main task of policymakers in the coming years will be to find ways to contain and manage them.

Australia's RMB hub ambitions: more urgency needed

By **VIVIANNE ARNOLD**
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AUSTRALIA'S bilateral trade with China is worth more than A$100 billion (S$116.8 billion) annually, and as the use of the renminbi becomes more common it is inevitable that much of that trade will be financed and paid for in renminbi.

With that currency shift comes a major new opportunity for Australia as a renminbi trading hub, but the danger is that the Australian financial industry will be too slow to capitalise on what is a seismic shift in global currency movements.

In aspiring to be a renminbi trading hub, Australia has three advantages: major bilateral trade flows with China, a sophisticated financial system desperate to export its expertise to the world, and since 2013, the ability to directly trade Australian dollars for renminbi with a central bank's currency swap to provide liquidity.

Put the three together and you should have a major renminbi trading hub, but Australia needs to get its financial architecture configured rapidly so that it doesn't miss out.

Australia has long held ambitions to be a regional financial centre, and successive governments in Canberra have spent significant time and money on understanding how this might be achieved.

Currently, there is the proposal for the Asian regional funds passport which will be trialled by four countries from 2016. Add the renminbi opportunity and Australia has the potential to realise this long held ambition.

There is some stiff competition out there. Already, London accounts for more than 60 per cent of renminbi trading outside of China and Hong Kong, according to data from international payments provider Swift, and that percentage is rising.

So how much does that leave for everyone else?

Understandably, Singapore has been quick to identify the trend. The Lion City signed a renminbi trading agreement last year and is rapidly on track to become the next largest renminbi hub in the region outside of Hong Kong.

In 2013, the Industrial & Commercial Bank of China was appointed the renminbi clearing bank for Singapore, and the central banks of the two countries expanded their swap arrangements that year to create 300 billion yuan in liquidity. Global corporates, among them BHP Billiton, are making Singapore their regional headquarters along with 4,000 Chinese companies. All this creates a financial ecosystem which supports greater renminbi trading. China is happy to see an increasing percentage of its trade with Singapore settled in renminbi and as one senior regional banker put it last year: "Commodities are the reason why the RMB scheme is going global."

All this should be creating a sense of urgency among Australian banks, and also the government. Few countries – certainly in the Asia-Pacific – have such large trade volumes with China as Australia does. It follows on, therefore, that Australian banks should be among the leaders in renminbi trading, but while Westpac and ANZ are among the global banks with renminbi licences, that may not be enough.

Australian corporates, for example, will increasingly need to raise funds in Hong Kong in renminbi, the so called *dim sum* bonds. New Zealand agri conglomerate Fonterra has issued two *dim sum* bonds in the last three years, but no Australasian bank has been a lead manager on either deal. Soon, corporates from Australasia will be tapping the so-called Panda bonds from onshore mainland markets.

Australian capital markets' capability needs to extend to an ability to arrange these deals, not just for Australasian corporates but for corporates from around the world. Australia will require better access to the Chinese capital markets, and needs a RQFII (RMB Qualified Foreign Institutional Investors) allocation for institutional investors to help grease those wheels. And ultimately, as renminbi trading matures and China's capital controls come off, there may need to be an official renminbi settlement bank in Australia.

A swap agreement for A$30 billion – the fifth largest – is already in place between the Reserve Bank of Australia and the People's Bank of China, so the liquidity is there for the renminbi to be available to all authorised deposit taking institutions through a standing facility.

Sydney restaurants and merchants are already taking renminbi payments through the increasingly ubiquitous Union Card scheme, which is following the Chinese diaspora and the growing number of Chinese travellers everywhere they go. If easy renminbi trading can exist at such a grass roots level, then why can't Sydney be a significant regional hub for the renminbi on a much bigger scale?

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Put all tables back in CEA annual report

By **ROBERT J SAMUELSON**

IN this age of Big Data, the Obama administration seems determined to make it hard for average Americans to get little data.

Recall that in 2011, the Census Bureau decided to eliminate "The Statistical Abstract of the United States", first published in 1878. This was the nation's best compilation of figures on hundreds of topics, ranging from birth rates to forest fires to wage rates to voting patterns. The Census Bureau said it couldn't afford the Stat Abstract (the savings were trivial, about US$3 million) and that most figures were online.

True. But this doesn't mean that people can get them easily. You have to know where online (the sources were dozens of government agencies, many private industry groups and survey organisations). You also have to know how to manipulate the databases to retrieve the desired statistics. Overcoming these problems often requires a large investment of time and much frustration.

The lesson wasn't learned.

The US President's Council of Economic Advisers (CEA) has now committed the same blunder. For decades, the annual report of the CEA has contained an enormously valuable statistical annex of about 100 tables; in the 2013 report, there were 112.

In 45 years of reporting, I have relied on the CEA's statistical annex as a basic source of economic information. Nothing else approached its ease of use, clarity and length of the statistical series, often covering four or five decades. The latest CEA report eliminates three-quarters of the tables. It calls this purge a "streamlining" and offers the same explanation: the data is online.

Here are some tables that got the axe: historical stock market prices; farm output and productivity; average maturity of Treasury debt securities; labour force participation rates by demographic group; national income by type of income (wages, salaries, profits, rents, etc); US trade by geographic markets. The list goes on.

Again, websites are not good substitutes for the old-fashioned tables. True, the CEA usefully prints sources for all the eliminated tables. The implication is that it's a snap to duplicate them from the Internet. Not so.

Take the first table on my list above: stock prices. For starters, there are four sources for the table: the New York Stock Exchange; Dow Jones & Co; Standard & Poor's Financial Services; and the Nasdaq Stock Market. Beginning with the New York Stock Exchange, I type *https://nyse.nyx.com* and get its home page. There's no obvious link to data back to the 1960s and earlier.

I click on "NYSE composite", the desired price index. This provides *today's* index move. Again, no obvious link to historical data. It's not clear how long it would take to reconstruct a table that the CEA had routinely produced.

To be fair, the CEA faces budget pressures (it says its budget is down about 20 per cent from the peak) and some historical statistical series are revised after being printed in the annual report. Also, the CEA has a monthly publication, *Economic Indicators*, that provides data going back a decade for some of the statistics. But these are footnotes that do not justify the CEA's wholesale statistical slaughter.

The remedy here is obvious: undo the deed. Given human nature – which loathes admitting error – this seems unlikely. – *The Washington Post Writers Group*

LETTER TO THE EDITOR

Brokerage firms need to cut transaction cost

SINGAPORE Exchange (SGX) is providing new incentives to boost liquidity in the local market, including reduced clearing fees, with more discounts for illiquid stocks. SGX charges 0.04 per cent clearing fees on trades done through the exchange, subject to a cap of $600. This will be cut to 0.0325 per cent with effect from June 1, 2014, and the $600 cap will also be removed. The reduction is a "hefty" 18.75 per cent discount, which might hit SGX earnings. However, if demand is price elastic enough, the increase in volume should offset any earnings decline.

Stock brokerage firms should also benefit if lower fees draw more retail investors into the market.

SGX clearing fees currently make up about 12 to almost 18 per cent of total transaction costs, with stock brokerage fees taking the lion's share. There is room to slash the brokerage fee since it makes up around 80 to 85 per cent of total transaction costs. The other cost component is the SGX trading fee of 0.0075 per cent. All costs listed above are before 7 per cent GST. In addition, most stock brokerage firms impose minimum brokerage fees of $18 to $40, depending on the trading platform – online or broker-assisted.

I trade US stocks through one of the US brokerages with a Singapore office here and pay only US$9.99 per trade regardless of trading value. I do not pay anything else, including clearing fees, trading fees and custodian fees.

I wonder if our stock broking industry could shift towards this pricing model in future? Could our current high brokerage costs be due to the practice of contra trading, with brokerage firms having to provide credit to clients to trade in shares? In foreign exchanges, shares are bought and sold through the same stock broker, with no counter-party risks from the standpoint of the brokerage firm, except for the margin facility granted. The latter in any case is compensated through interest pricing.

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Recently, I noticed that one local stock broker is offering a flat fee and lower brokerage commissions for investors who open a cash prepaid account via which they can trade shares only with the cash deposited in the account. If we can get more retail participation into the local stock market, all industry players will benefit in the long term.

The first step should be to cut transaction costs. SGX has fired the first salvo and it is now left to the brokerage industry to match the support.

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