De-globalization?

Raghuram Rajan
Issues

- Post World War II order: steady reopening
  - So long as everyone follows the rules of the game, every country gains when an individual country gains.
  - Domestic transfers will compensate losers.
  - Hegemon (the US) to cajole and enforce

- What changed with trade and investment?
  - Steady loss of jobs in developed countries, accelerated by China’s advent.
  - Hard to compensate domestic losers effectively.
    - Democratic voice louder
  - Decline of the hegemon – efficiency, resources
  - The rise of a geo-strategic rival, within the system, that does not play by the same rules.
    - USSR vs China
    - Japan vs China
Consequences: Politics casting a shadow on the economics.

- Interruption of ever-increasing integration
- Increasing use of tariffs/non-tariff barriers including boycotts and sanctions
- Impediments/prohibitions on investments
- Friendshoring/nearshoring/reshoring
De-globalization

- First FDI then trade
- The ratio of global exports of goods and services to world GDP peaked in 2008, and has trended down since
- Cross-border investment peaked in 2007 at 5.2% of world GDP and drifted down to 1.8% in 2019, the last pre-pandemic year.
- There has been a rising trend of protectionist measures enacted across the world over since the Global Financial Crisis, outpacing liberalizing measures by a factor of nearly 5 to 1.
Concerns with deglobalization:

- Increases costs and reduces scale economies
- Reduces competition
  - Could increase oligopolistic profits, inflation
- Could reduce resilience
  - Inventory/buffers
  - Diversification: geographic
  - Flexibility
  - Government mandates => correlated risks
Concerns with de-globalization: Political

- Who is a friend, and will they remain friends?
  - Uncertainty limits long term investment
- Excludes countries that do not have stable democratic system
  - Limits pathways to growth and democratization
- Over dependence and isolation are equally prone to conflict
  - Over dependence obvious
  - Isolation could increase misunderstanding
- Modest interdependence – carrot and stick
Concerns with de-globalization: Climate action

- Number of global agreements needed, harder without broad exchange
  - Emission mitigation agreements
  - Financing agreements
  - Migration agreements

- Rebuilding supply chains that run through non-friends will take time
  - Batteries require lithium, nickel, and cobalt
  - Many mined in DRC, refined in China/Russia
Ways forward

- Prevent limited “strategic” friend shoring from becoming outright protectionism

A Geneva Convention:
- Protect some goods and services from investment bans, trading sanctions or strategic disruption – rules of the game
  - Food, Energy, Medicines, Climate Equipment
- Protect infrastructure like payments

Bicycle theory: Continue liberalizing trade in new ways
- Services