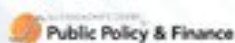


# Webinar: The future of globalization after the COVID crisis

WITH DANI RODRIK  
HARVARD KENNEDY SCHOOL

Monday, May 4, 12:30 PM ET  
Pre-Registration Required



PRINCETON ECONOMICS



**Intro:** MARKUS BRUNNERMEIER

Twitter: @MarkusEconomist

# Markus' intro

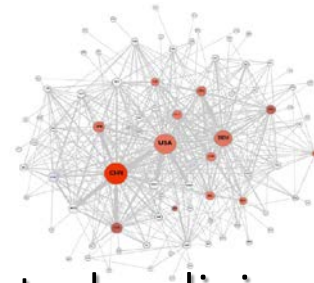
## ■ Previous/future webinars

- Michael Kremer:
- Penny Goldberg:
- Daron Acemoglu:

Vaccine development

Global value chains

On the benefits of targeted policies



## ■ Speakers



# World Order

## Rule/institution based

- Predictability
  - in a complex world
- Limits reactions to shocks
- Fewer -ve feedback loops
  - Trade wars
  - Currency wars

## Outcome based

- Flexibility
- Less symmetric
- Less stable

# World Order

## Rule/institution based

- Predictability
  - in a complex world
- Limits reactions to shocks
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  - Trade wars
  - Currency wars

- UN, WTO, IMF, WorldBank,
- Regional blocks

## Outcome based

- Flexibility
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# World Order

## Rule/institution based

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  - in a complex world
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## Outcome based

- Flexibility
- Less symmetric
- Less stable

- Rule based maybe in large countries best interests:
  - Control internal politics (national champions, etc.)
  - can shape the rules
- Rule shaping may lead to “blocks”

# Economic order

## ■ Challenge:

what are the rules

- necessary to ensure the functioning of the system
- that reflect (diverging) national preferences & identity

## ■ Areas

- Intellectual property, patents
- Competition
- Health, phytosanitary
  - GMOs, chlorinated chicken
- Environmental / social standards
- Privacy

## ■ Enforcement (?)

# Geopolitics & Economics

- Summers (2004) “balance of financial terror”
  - Create Interdependence/loss of autonomy (via e.g. global value chains)
    - Forces interaction
    - Flows of ideas/people
    - Common threats
- convergence to common values  
 makes wars more costly
- ... BUT
    - Less diversity
    - Less regional experimentation
    - Loss of identity (Grossman-Helpman, 2019)
  - Resilience
    - Depends on whether symmetric global shock or regional shock



# Geopolitics & Globalization

- “Beijing’s Bismarckian Ghosts: How Great Powers Compete Economically” (Brunnermeier, Doshi, & James, 2018)

## 1. Global Infrastructure – power projection



Berlin-Bagdad Railway



Belt Road Initiative

## 2. Fighting with Finance

## 3. Technological standard setting

- GSM, 5G Network, FAGMA vs. Alibaba/Tencent/Baidu/...



# Technology & Standard Setting



- Flow of ideas: Optimal degree of openness
  - Allow regional experimentation & limit natural monopolies
  - Open to allow cross pollination
- Size and speed matter!
- Privacy considerations e.g. 5G network

# Borders & Blocks: Legal/technological



- Technology (data) ignores national borders and creates its own borders (“networks”)
- Technology raises difficult issues of
  - competition and
  - preferences (privacy)
- Possible “weaponization” of networks (surveillance, dependence)

# Poll01: Questions

1. Should we use COVID crisis to
  - a. Rethink all of globalization and trade
  - b. Go back to status pre-crisis?
2. Will a granular approach, motivated by health considerations ultimately “kill trade” like in 1930s?
  - a. Yes
  - b. No
3. Implications for EMDE countries will be
  - a. Detrimental as technological transfers declines (Penny Goldberg)
  - b. Ok?

## End of MARKUS' INTRODUCTORY REMARKS

Now

Please ask questions in Q&A box

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# GLOBALIZATION AFTER COVID-19

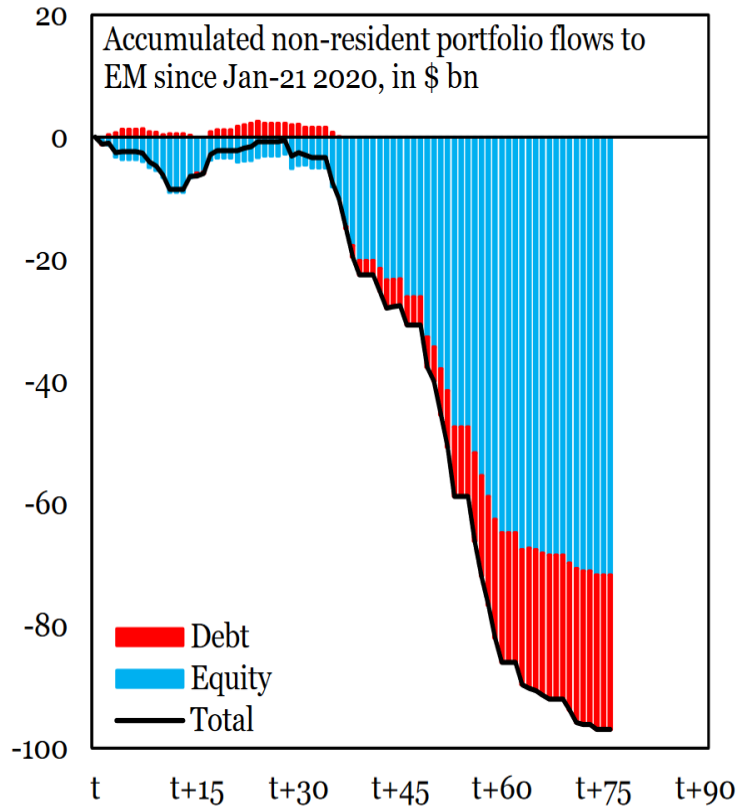
DANI RODRIK

MAY 2020



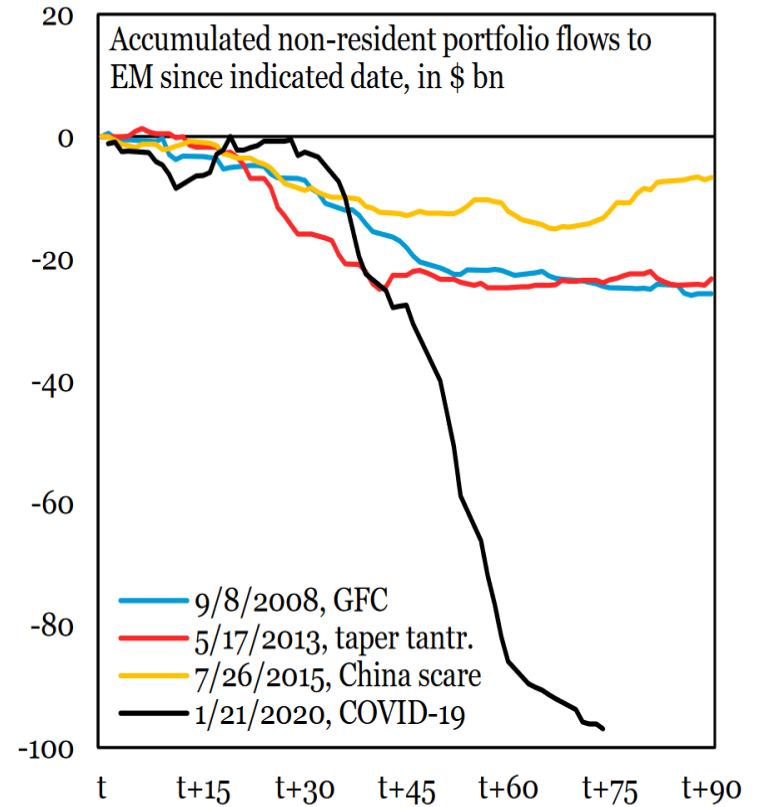
# UNPRECEDENTED CAPITAL OUTFLOWS FROM EMS

**Exhibit 5. 2020Q1 saw record portfolio outflows, ...**



Source: IIF daily portfolio flows tracker

**Exhibit 6. ... larger than in previous crisis episodes.**



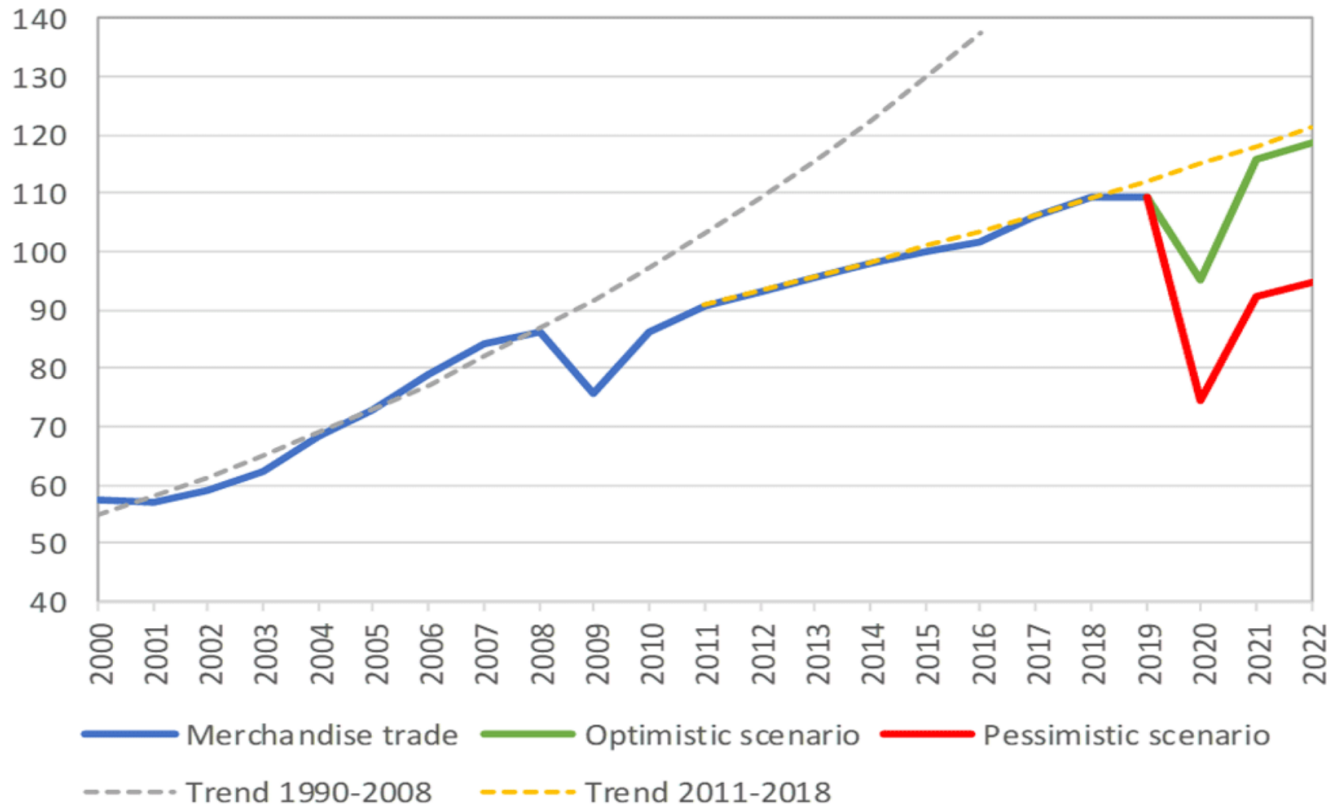
Source: IIF daily portfolio flows tracker



# SHARP DECLINE IN WORLD TRADE

Chart 1 - World merchandise trade volume, 2000-2022

Index, 2015=100

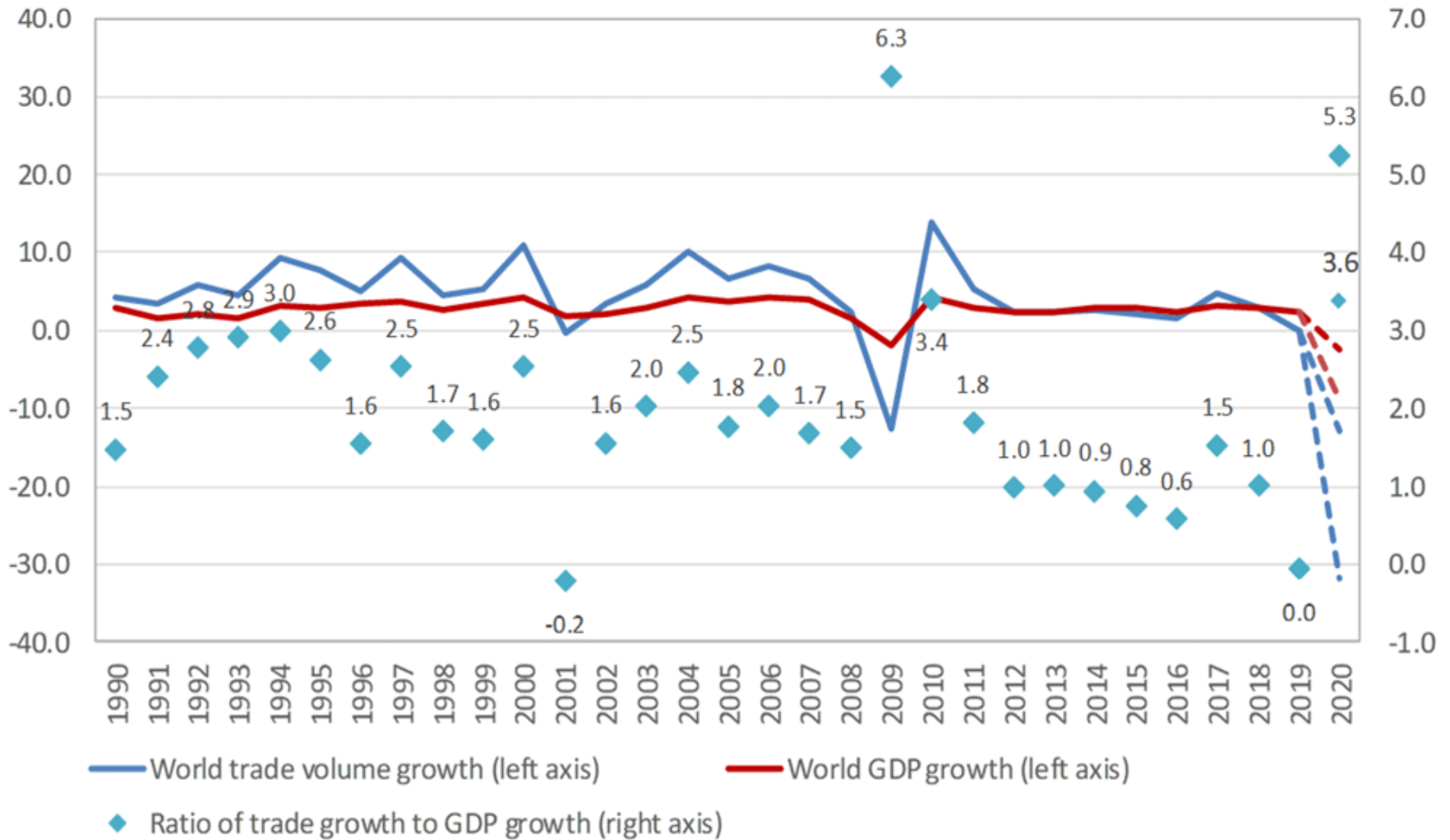


Projected decline  
between 10-35%



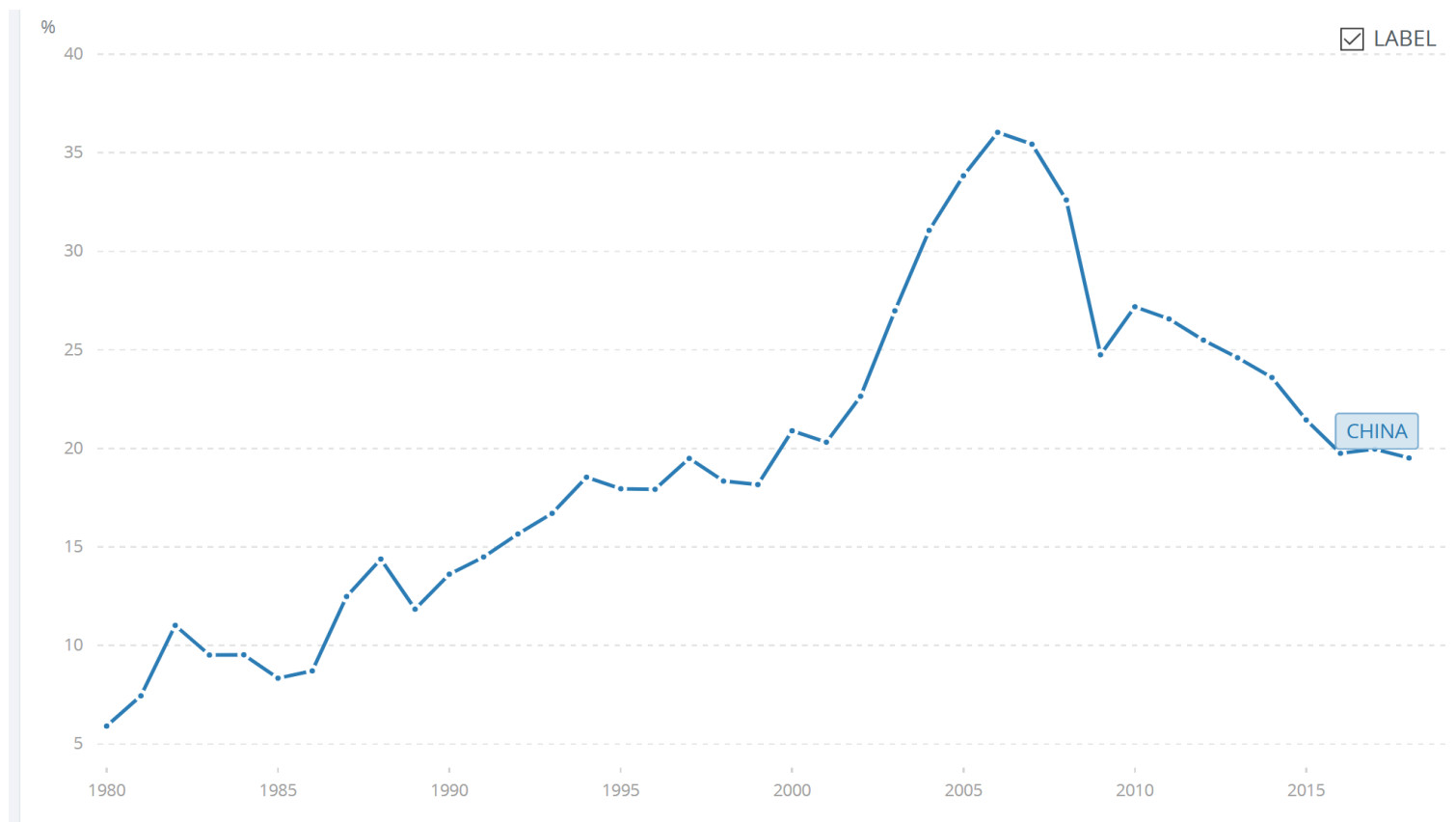
BUT DE-GLOBALIZATION IS NOT NEW...

# BUOYANCY OF WORLD TRADE HAS DECLINED



Source: WTO (2020)

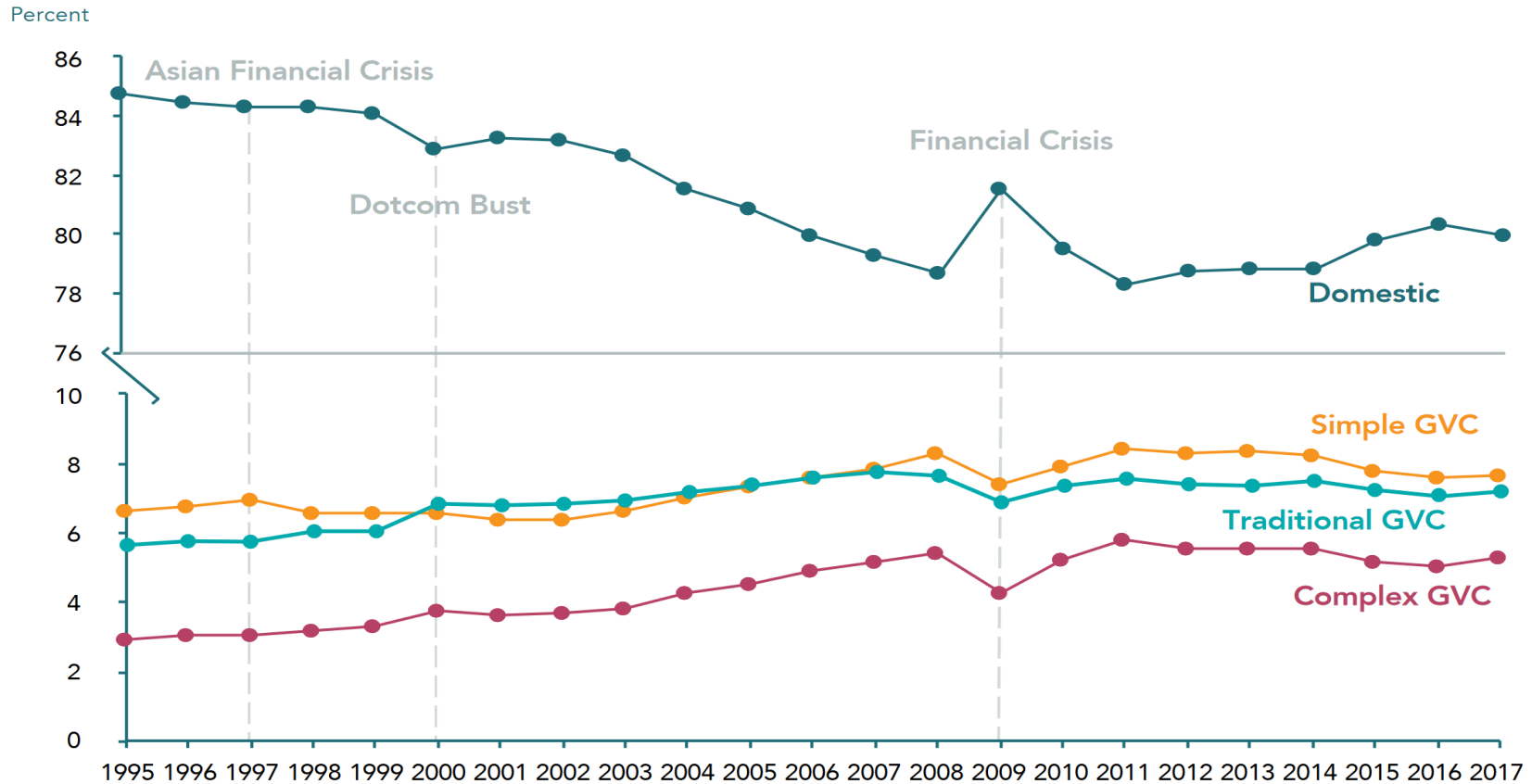
# DRAMATIC REDUCTION IN CHINA'S EXPORT-GDP RATIO



Source: World Bank, WDI

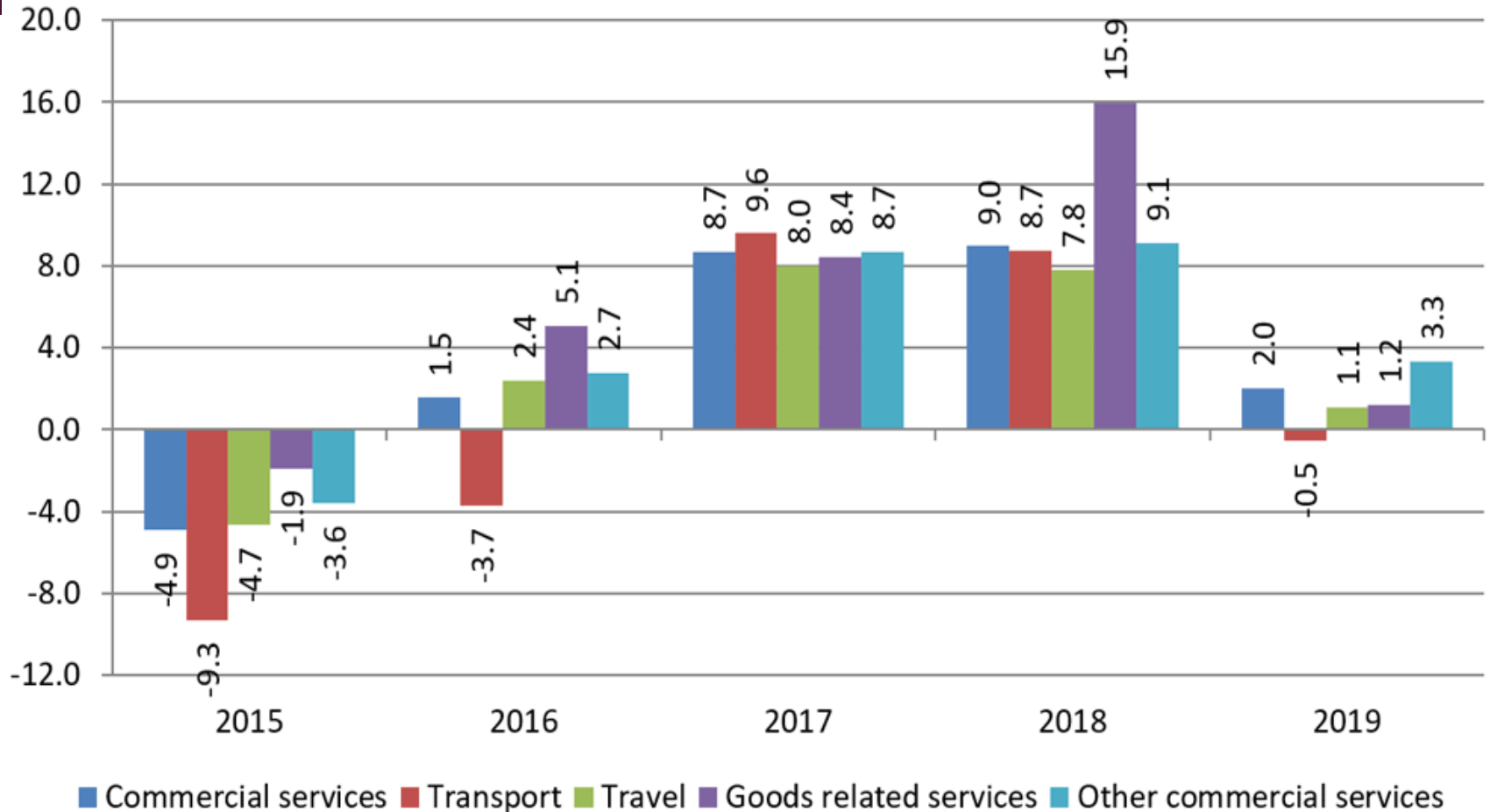
# GVC HAVE SLOWED DOWN

**FIGURE 1.2** Trends in production activities as a share of global GDP, by type of value-added creation activity, 1995-2017



Source: WTO (2019)

# SHARP REDUCTION IN SERVICE EXPORTS PRIOR TO COVID-19



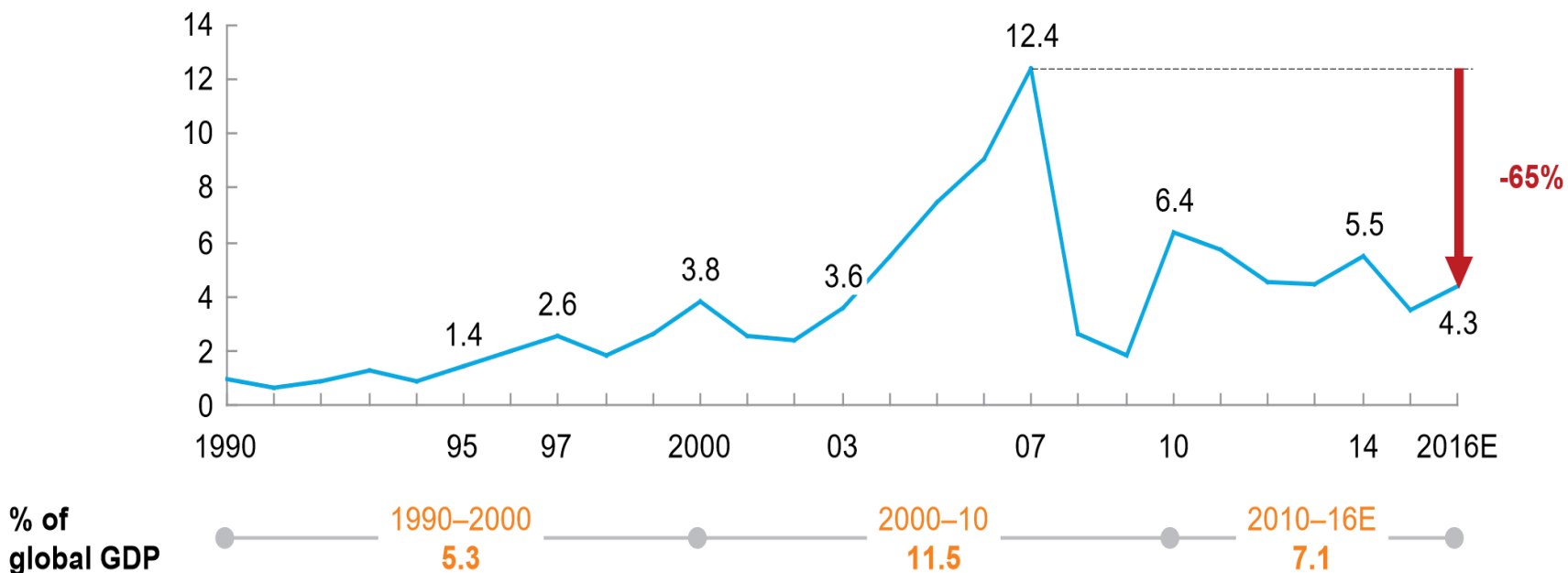
Source:WTO (2020)



# FINANCIAL GLOBALIZATION HAS NOT RECOVERED

Global cross-border capital flows have declined 65 percent since the 2007 peak

Global cross-border capital flows<sup>1</sup>  
\$ trillion



<sup>1</sup> Gross capital inflows, including foreign direct investment (FDI), debt securities, equity, and lending and other investment.

Source: MGI (2017)

# KEY POINT AND OUTLINE

A retreat from hyper-globalization is not necessarily bad if we are able to construct a more sensible globalization

- What went wrong?
- The normative logic of global regimes
- What kind of globalization should we want
- Dealing with the US-China economic relationship

# MAKING A GLOBALIZATION

- The specific economic form that today's economic globalization ('hyper-globalization') takes is not a happenstance or a necessity
- All globalizations run on rules and norms; policy decisions are key
- Some are written into explicit legislation or agreements
  - trade & investment agreements; banking laws in financial centers; OECD membership rules; *acquis communautaire*
- Others are internalized through norms of good behavior
  - as in openness to capital flows
- Q is who writes those rules, whose preferences are privileged
- We might have had alternative globalizations.
  - focusing on global health, (WHO); climate change (env. agreements); social & labor rights (ILO); LDC priorities (UNCTAD)

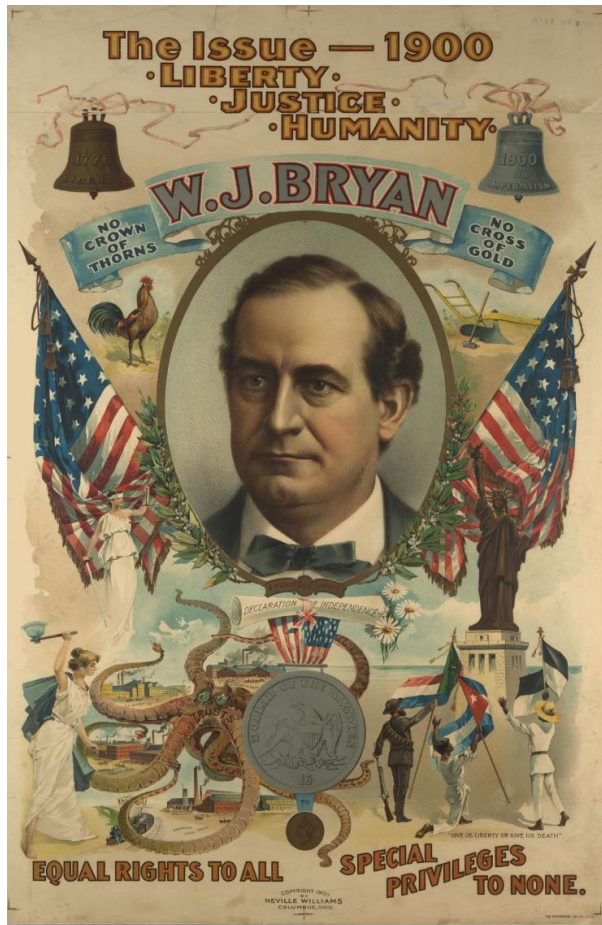
# DIFFERENT ECONOMIC GLOBALIZATIONS IN HISTORY

	aspiration				
	Capital mobility	Free trade in goods	Labor mobility	Rules that reach behind borders	Multilateral governance institutions
Gold Standard	✓	✓	✓	✓	
Bretton Woods		✓			✓
Post-1990s hyper-globalization	✓	✓		✓	✓

# WHAT HYPER-GLOBALIZATION SHARES WITH THE GOLD STANDARD

	aspiration				
	Capital mobility	Free trade in goods	Labor mobility	Rules that reach behind borders	Multilateral governance institutions
Gold Standard	✓	✓	✓	✓ Constraints on monetary/credit/debt policies	
Bretton Woods		✓			✓
Post-1990s hyper-globalization	✓	✓		✓	✓

# THE GLOBALIZATION BACKLASH UNDER THE GOLD STANDARD



“...we shall answer their demands for a gold standard by saying to them, you shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold.”

William Jennings Bryan (1896)



# STEPPING BACK: WHY GLOBAL RULES?

- Key design question: in which policy domains/for what types of policy should global rules restrain national action
- The central tradeoff of globalization:
  - Common rules
    - Have the advantage of maximizing efficiency, and predictability, reducing transaction costs, reaping the benefits of scale
    - Have the disadvantage of reducing policy autonomy, and hence inhibiting policy diversity and experimentation at the national level
- Why policy diversity is useful
  - Different preferences/needs in economic policy
  - Need to experiment when “correct” solutions are unknown
    - e.g. dealing with COVID-19

# ALMOST ALL POLICIES HAVE CROSS-BORDER SPILLOVERS

- But that does not imply that they should all be subject to global rules
- Examples:
  - educational policies
  - R&D policies
  - highway speed limits
  - gasoline taxes
- Presence (or magnitude) of cross-border spillovers are not a sufficient condition for global rules, even when they impose harm on (some) foreign countries
  - Since there are compelling reasons for national diversity
  - and political representation and accountability are still organized nationally

# TWO CANONICAL CASES THAT CALL FOR GLOBAL RULES

1. “Beggar-thy-neighbor” (BTN) policies
  - policies that provide benefits at home only to the extent they impose cost on foreign countries
    - exploiting national monopoly power through trade restrictions
    - exporting unemployment through currency manipulation
    - shifting tax base via tax havens
2. Global public goods (or “bads”) (GPGs)
  - policies where there is strong incentive to free ride on other nations’ policies
    - Environment (e.g., climate change and control of GHGs)
    - Global public health (e.g., vaccine development and information exchange)

# THE LIMITED CASE FOR GLOBAL RULES IN ECONOMICS

- In international economics, virtue is its own reward
  - free trade expands national “welfare”
    - subject to considerations of market failures and redistribution
- Therefore, strong presumption that well governed countries will choose globally optimum policies
  - examples: import tariffs, openness to foreign capital, financial regulation and stability
  - exceptions (already mentioned under BTNs): monopoly power, currency mercantilism, global tax havens
- This doesn’t mean countries don’t make mistakes
  - but when they do, they bear the bulk of the costs (e.g., trade protectionism, subsidies, GMOs)
- But there is no presumption that international rules can reliably prevent such mistakes
  - In practice international rules are as likely to privilege one set of distributive interests over others as they are to target genuine areas of governance failure (e.g., time inconsistency)

# IMPLICATIONS FOR THE KIND OF GLOBALIZATION WE SHOULD WANT

1. produces benefits to all rather than to a few
    - the larger the aggregate gains from trade the greater the possibilities of domestic redistribution
  2. disciplines beggar-thy-neighbor policies and enforces rules for global public goods
  3. otherwise leaves space for policy autonomy and institutional diversity across nations
- 
- Looked at from this perspective, our priorities since 1990s were significantly distorted
  - In particular, we should have conserved global governance for BTNs and true GPGs
    - anti-competitive behavior, tax havens
    - climate change, health pandemics, ...

# APPLYING THE LOGIC TO U.S.-CHINA TRADE

## US - China Trade Relations A Way Forward

The US-China Trade Policy Working Group  
Joint Statement

October 27, 2019

- Chaired by Jeff Lehman, Dani Rodrik, and Yang Yao
- Members: Meredith Crowley, Robert Howse, Jiandong Ju, Feng Lu, Justin Yifu Lin, Eric Maskin, Rob Staiger
- Signed by 27 others, including Philippe Aghion, Kaushik Basu, Robert Engle, Gang Fan, Robert Frank, Gene Grossman, Gordon Hanson, Ann Harrison, Kala Krishna, Ned Phelps, Alvaro Santos, Greg Shaffer, Anne-Marie Slaughter, Mike Spence, Joe Stiglitz, Michael Trebilcock, David Trubek.
- Full statement [here](#).



# NEITHER DEEP INTEGRATION NOR DECOUPLING -- “PEACEFUL ECONOMIC CO-EXISTENCE”

- Prioritize policy space for the US and China, enlarging it relative to what prevails under the status quo (whether in spirit or the law of the WTO regime)
  - allow countries considerable latitude at home to design a wide variety of industrial policies, innovation systems, and social standards
  - allow countries to use well-calibrated policies (including tariff and non-tariff trade policies) to protect their industrial, technological, and social policy choices domestically without imposing unnecessary and asymmetric burdens on foreign actors
- But also draw clear red lines around “beggar thy neighbor” policies
- This approach preserves the bulk of the gains from trade between the two economies
- But does not presume convergence in economic models

# THE FOUR BUCKETS APPROACH (I)

- Bucket 1 (The “Prohibited” Bucket): BTNs
  - country A imposes export or import restrictions with the express purpose of reaping monopoly pricing gains on world markets undermining other countries’ competitiveness. Or country A engages in discriminatory data policies that promote predatory pricing or rent extraction by national digital companies on foreign markets.
- Bucket 2 (The “Bilateral Discussions and Adjustments” Bucket):
  - These are policies that are not BTNs, but for which a mutually beneficial bargain can be worked out between the two nations that entails the removal of the policies in question. This will typically occur when Country B’s perceived losses from the policy exceed the perceived gains to Country A from sticking with the policies.

## THE FOUR BUCKETS APPROACH (2)

- Bucket 3 (The “Domestic Adjustments” Bucket):
  - Where a mutually beneficial bargain cannot be negotiated, Country A keeps its policies and Country B is allowed to undertake well-calibrated domestic policy adjustments that demonstrably aim to reduce or minimize harm to its domestic economy. For example, Country B may implement regulations on domestic firms to curtail the leakage of sensitive technological material to foreign firms. Or Country B may raise trade barriers to protect communities adversely affected by exports from Country A. The “remedy” employed by Country B must be proportionate and well-targeted at the domestic objective (i.e., it is not a threat targeting Country A or a raising of the stakes in a trade war).
- Bucket 4 (“Multilateral Governance” Bucket):
  - In this Bucket, Country A’s actions or policies (with or without any response from Country B) are likely to affect commerce with Country B in a way that is likely to cause spillover damage to the economy of Country C. It is appropriate that international norms and governance procedures be applied to manage such situations. For example, Country A may provide discriminatory trade benefits to Country B, such as by agreeing to reduce tariffs on one product from Country B without reducing tariffs on the same product from Country C.

# THE FUTURE OF GLOBALIZATION

- The good, the bad, and the ugly...