



# De-globalization?

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Raghuram Rajan



The University of Chicago Booth School of Business



# Issues

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- 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.



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- 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

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- 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

## : economic

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- 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

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- 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

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- 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

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- 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