Exchanges at Goldman Sachs
Is (De)globalization Ahead?
Adam Posen, President, Peterson Institute for International Economics
Dani Rodrik, Professor, Harvard Kennedy School of Government
Jim O’Neill, Former Chairman, Asset Management Division, Goldman Sachs
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Allison Nathan  With the dual crises of COVID and Russia's invasion of Ukraine, globalization is arguably facing its biggest test of the post-Cold War era. So, could we see a reversal of the globalization trends that have been in place for the last several decades? And what would that mean for society, the economy, and markets? These questions are top of mind.

[MUSIC INTRO]
**Allison Nathan:** I'm Allison Nathan and this is Exchanges at Goldman Sachs. Today we have a special episode of Exchanges that leverages our Top of Mind series. In this series, we bring together voices inside and outside of Goldman Sachs to discuss the macro issues on the minds of our clients. Today, deglobalization is top of mind.

We first speak to Adam Posen, President of the Peterson Institution for International Economics. He doesn't believe that globalization is coming to an end. But he does think that the pandemic and the war in Ukraine will accelerate a trend that's already underway, the fragmentation of the world into two blocks: one aligned around the US and one around China.

**Adam Posen:** In my view, what's going on is what I call the [UNINTEL]. That it's not just it's moving one way or it's moving backward. It's not one concept. It's a multi-layered interaction between economies and societies. There's trade. There's investment. There are financial flows. There are idea flows. There are people. There are business relationships. There are networks.
And in some places, globalization continues to expand. We've seen the RCEP and the CPTPP trade deals in Asia. In some places, it contracts as we're seeing around Russia right now. The Peterson Institute team has done some work that the US has been withdrawing from globalization for 20 plus years. Again, it depends on what measure. If you're looking at immigration, basically since the mid-'90s we've been getting less and less welcoming of immigrants. If you look at trade, basically since 2000. For foreign investment, a little later.

But roughly, starting around 2000, on every dimension the US either went into reverse in terms of economic openness or flat. And if you look at the rest of the world, and in particular we looked at the other high-income democracies, so, Western Europe, Japan, South Korea, Australia, Singapore, Canada, Israel, and the US was the only one moving backward. Even the UK until you got to Brexit was moving towards more openness, more trade, more investment, and more immigration.

But I do think things are changing. We are arguably moving into a world where there is going to be much more
deliberate alignment into Chinese and American economic blocks. That won't include everybody. But a number of countries either voluntary or not are going to be increasingly forced to choose. And so, to me, that accelerates the corrosion.

Again, it doesn't prevent certain countries from deciding whether it wants to do a deal with Europe or China. It doesn't prevent an individual business from getting bigger. But I think we are on a more accelerated path of having holes in the fabric of globalization. I think those holes are getting better and more frequent.

**Allison Nathan:** But Dani Rodrik, professor at the Harvard Kennedy School of Government disagrees that recent crises mark a turning point for globalization. Instead, he argues that the world has been steadily retreating from globalization ever since the global financial crisis and will likely continue to do so.

**Dani Rodrik:** There has been a trend towards deglobalization ever since the global financial crisis. If you look at many trade indicators after 2008, you will see that
the general buoyance of trade has fallen. The expansion of global value chains has pretty much stopped.

To some extent, it's countries turning inwards. So, I think China is the most obvious and most significant illustration of that. China has significantly receded its reliance on exports. The export the GDP ratio has fallen by something like 15 percentage points of GDP since the heights reached just before the global financial crisis.

Another facet of this is just simply that most of trade is in manufacturing. Although, in services, trade has clearly increased. And before the pandemic, the general shift in demand was away from goods and manufacturers and towards much more services, much of which are not traded. So, there was this secular shift. As countries and people get richer, they tend to demand services that are typically much more provided locally and are less tradeable. So, there is a natural pattern of economies becoming more self-reliant.

To some extent, it's also a process of regionalization I think probably the most dominant force for global value chains
has been a process of more regional blocks of [UNINTEL]. These are not necessarily exclusionary. They don't shut off non-block members. But there has been a tendency towards, even before the pandemic, of essentially three blocks of global value chains emerging. One around North America. One around Europe. One around China and East Asia. So, these were already preexisting trends before the pandemic and before Ukraine.

These are ongoing structural secular trends that I think are likely to be deepened by the developments of the last few years. But I don't think that we're moving back to the 1930s. I don't think a significant decoupling of the world economy or significant disintegration is in the cards. We're just talking about a natural, in many ways, a desirable retrenchment from what I've called hyper globalization, the kind of globalization we had in the last few decades.

My guess is that we will try to find a happy medium that avoids some of the excesses of hyper-globalization, then the dangers of [UNINTEL].
**Allison Nathan:** But Jim O'Neill, former Chairman of Goldman Sachs Asset Management is sceptical of the idea that the world is deglobalizing at all.

**Jim O'Neill:** At the moment, there is no evidence to support this fashionable notion of deglobalization. Last year, global trade growth accelerated sharply, so much so that it was back above the trend line of what was going on pre '08. So, a lot of people aren't looking at any evidence. They're just talking based on their emotive feel for life or confusing the problems the global governance and the facts that the [UNINTEL] are clashing with the western world with the world not carrying on in international engagement and trade. So, I'm very, very dubious about this view.

**Allison Nathan:** And O'Neill believes that the western response to Russia's invasion of Ukraine and China's evolving role in the world will lead to an evolution of global trade and capital flows that could see more, not less, globalization ahead.
You called it the masterstroke when central bank reserves in Russia were frozen. What implications will that really have?

**Jim O'Neill:** For somebody that's traveled the journey I have on international monetary affairs, it is absolutely fascinating. And I'm going to keep an open mind to all sorts of different possibilities. Look, it raises the question as to which has been the predominant wisdom since the '98 Asian crisis. Why do all these places just keep on accumulating foreign exchange reserves? Why would you do that so much anymore?

What it would ultimately mean is that some of these big reserve holders would actually end up spending more in their own countries.

**Allison Nathan:** If countries focus less on accumulating reserves, and focus more on domestic spending, is that in a sense an angle of deglobalization?

**Jim O'Neill:** Well, I think it would present a different angle of globalization. The biggest driver of how much a country
does in trade is usually the pace of its domestic demand. So, if this were the new brave world and all these countries are going to start spending more at home, what would happen is a lot of them start importing a lot more instead of exporting as much. And some other parts of the world, possibly the US, might start exporting more relative to what it imports. And so, it would be a very different pattern of globalization and world trade. But I find it hard to understand why it would be consistent with weaker global trade. It might actually result in an acceleration in global trade.

**Allison Nathan:** What about capital flows? How does that sit in here?

**Jim O'Neill:** It is factually true that global capital flows have slowed dramatically over the past decade. But that's primarily because global banks, particularly the really big US commercial ones, have been regulated in a different way so that the global banks have become less present all over the place. But that doesn't really equate to strong evidence of a decline in underlying global capital flows.
It's very complicated because if you look at what's been going on with foreign direct investment, you're seeing very big shifts within different places. So, the era of huge Chinese FDI into the United States has slowed dramatically because of US policies deliberately choosing to stop them. But you still get it going in some other parts of the world. One Belt One Road. And so, in many other parts of Asia, you see Chinese capital going to them.

And again, there's a danger that this just gets analyzed from a far too narrow, usually Western lens, and assumes that what's happening to me is what's happening to the world in general. But it's just evolving and changing patterns all over the place. One Belt One Road. If that thing ever becomes truly successful, which it, unfortunately for them, doesn't look like it, that in itself could have massive positive consequences for trade and capital flows amongst Asian and Eurasian countries.

Allison Nathan: O'Neill sees this continuation of globalization as a good thing for the world. Although, he believes that the losers from globalization need to be better compensated. Here he is again.
**Jim O'Neill:** For the world as a whole, there are absolutely no two ways about it. Globalization, the past 20 - 30 years, has been extremely positive. We have taken hundreds of millions of people out of poverty in many parts of the emerging world. However, there wasn't enough done to compensate the losers of certain parts of globalization. And business doesn't think enough about its broader purpose.

I've become a big believer in what I call profit with purpose. We've had all this stuff going on for 20 odd years. But global produce services essentially declined at the same time. And so, workers haven't really received very strong real wage incomes. And yet, profit growth has just gone on and on and on. And there's not really been a lot of investment that's followed it.

So, something has gone wrong. But I don't think it's globalization that has delivered more benefits for mankind than negatives.

**Allison Nathan:** Posen agers that globalization has been generally great for the world. And he thinks it's been given
too bad a rap for job losses and rising inequality in developed economies.

Adam Posen: I think globalization largely has been great. And this became very contentious in the US. When I talk about the US moving backward on globalization for 20 years, it's because there's been increasing political consensus and popular ideas that globalization has been bad for people in the US and bad for working people in particular. And the evidence, frankly, remains the opposite.

There are people who have lost their jobs due to Chinese competition in the manufacturing segment. But even on the largest estimates of the size of the job loss due to China, we end up coming up with numbers like one out of every 150 jobs lost in a given year in the US were arguably due to China. Those are real people. But they're not any more or less special than the other 149 people for every one of them.

And then when you look at the positive side, the way our universities were subsidized, and our research was
populated by having lots of foreign students and workers come to our universities. The way there's more choice because of our integration into the world economy. The way there's been more innovation because we have global networks of ideas. And you look around the world outside the US and some of the countries that did better than us over the last 20 years were doing better in traceable ways to having more immigration and more foreign investment.

**Allison Nathan:** So, you don't see the trade-off between domestic priorities and globalization?

**Adam Posen:** I think, if anything, it goes the other way on three counts. First that it ends up being an excuse for people who don't want to address our domestic problems in the US, which are very real. Inequality of public race. Of racism and sexism. Of employment opportunities being waylaid. Of drinking water being clean. These are real issues. But blaming it on globalization gives everybody an excuse to do nothing.

The second thing is in the US that as we deglobalize, we've seen more concentration of industries. Meaning places
where there are monopolies or oligopolies that don't feel the pressure of competition. And they charge more. And even corruption. [UNINTEL] has been on the rise in the US for the last 20 years while we've been deglobalizing.

And then the third thing is that in polling data, anti-globalization voting and behavior are correlated very highly with things like being authoritarian, being nationalist, and being racist, frankly. And it's not everybody who's anti-globalization by any means. But statistically, it's all there in the data.

So, on values, on not being an excuse, on our own wellbeing, I think the arguments against globalization are just wrong.

**Allison Nathan:** Rodrik, on the other hand, welcomes a retrenchment of the hyper-globalization of recent decades which he argues left behind severe economic destruction in some parts of the world while policymakers stood by and did little to help. Here he is again.
Some people argue that globalization has been unfairly blamed for some of the income inequality, burdens of the middle class, and so forth. What is your response to that?

**Dani Rodrik:** I think it wasn't just hyper-globalization, it was general aptitudes towards markets and the relaxing of regulations and standards within nations that jointly produced a lot of the economic insecurity and rising inequality that we see in the advanced economies of the world. But I think hyper-globalization was symptomatic of that general frame of mind.

When we go back to the 1990s and 2000s and the way in which leading politicians talked about hyper globalization as a kind of force of nature, something, a physical fact that we cannot change, whether it was Bill Clinton or Tony Blair in the UK, signaling to their electorate essentially that, you know, you just have to grin and bear it. And there was nothing you can do about this. The winds of globalization left you behind, ravaged your communities, and resulted in good jobs disappearing as companies outsourced, as Bill Clinton put it, it was like the economic equivalent of a force of nature. Like wind and water. There's no way you could
actually resist it. Or as Tony Blair put it at the time, you know, you might as well debate whether autumn should follow summer.

So, I think the whole attitude of our political leaders, including quite interestingly as in the examples I mentioned, leaders of the center-left, the forces that were created by globalization not only in the long run would be beneficial for all, and I think that has demonstrated to be false, empirically we know that there were severe ravages and economic destruction caused in those parts of the world where they were left behind by these forces of global competition without policymakers doing really much to address those concerns.

And I think what happened is that this created a big disconnect between the anxieties and economic concerns and the economic insecurities of a lot of people, including the basis of parties on the left. Which in turn, allowed authoritarian populists and the far right to capitalize on those worries.
**Allison Nathan:** But do you think hyper-globalization has actually been a net positive in the world, even if there have been losers among it?

**Dani Rodrik:** I mean, the greatest beneficiary of hyper-globalization was clearly China. But there's an interesting paradox there. On the one hand, we can say that look, we might feel bad for the lower middle classes or the workers in regions left behind in Europe or in the United States. On the other hand, you had a billion people lifted out of extreme poverty in part because of the ability of China to leverage the world economy.

But the paradox here is that China played the globalization game, not by hyper-globalization rules. So, it's precisely by pursuing a set of policies that were contradictory to the spirit of hyper-globalization that they did so well. What do I mean by this? China had extensive industrial policies and subsidies for its infant industries. And you were not supposed to do that under the WTO rules. They managed the exchange rate. Well, you were not supposed to do that under the new rules of financial globalization. They had controls on capital movements across the border. Well,
you're not supposed to do that under the rules of financial globalization. They violated intellectual property rights and many of the other rules of the WTO in spirit, if not exactly in the letter.

So, the paradox is that China did so well not because it followed the tenets of the hyper-globalization period. But precisely because it was essentially free-riding on the openness of other countries.

Allison Nathan: As hyper globalization retrenches, Rodrik looks forward to a better model of globalization potentially taking its place. But he cautions that such an outcome isn't guaranteed.

Dani Rodrik: The kind of globalization we had since the 1990s, was a regime where we made certain choices in the direction of globalizing certain things and not globalizing other things. So, we chose, for example, to globalize the economic rights of corporations and financial institutions. But we did not think of globalizing labor rights. We chose to negotiate global minimums for, you know, cap
[UNINTEL] for banks or for intellectual property. We did not negotiate global minimums for greenhouse gas emissions.

We could have designed globalization around the World Health Organization emphasizing the global public good that public health is. Instead, we designed globalization around the WTO, the IMF, and the OECD.

Now, just because we are moving away from hyper-globalization doesn't mean necessarily that we're going to get better globalization in its stead. It's entirely possible that we'll move into an uglier form of globalization where a combination of economic nationalism and geopolitical concerns push us into a highly fragmented world where none of us is either safer or better off economically. But there are going to be better models of globalization.

Allison Nathan: Given their differing points of view, it's no surprise that our guests also disagree on the economic implications of the shifts in globalization they expect.

Goldman Sachs' economists see a potential shift in supply chains as globalization retrenches as one more reason to
expect that inflation will be higher in coming years than before the pandemic. But Posen argues that deglobalization and particularly greater US/China fragmentation may not necessarily be inflationary and could actually herald a return to the low inflation dynamics of recent decades. Here's Posen again.

**Adam Posen:** Look, I totally hope I'm wrong about US/China conflict and how divisive it is. But I think that the change in China's regime and the change in the US with the general isolationism that has beset the Democratic party as well as the Republican party do fundamentally change the game.

And so, even though it is going to be probably quite economically costly, I do think that we cannot expect or plan for the same level of economic integration as we now have, at least not for a few years. And so, the world becomes a lot messier.

So, what does that mean for inflation? As a former central banker, my tendency, my first instinct is to sort of separate this and just say, well, inflation is about what you do with
monetary policy. And if the Fed and other central banks tighten as needed, then inflation's not going to be an issue. And that probably is right.

There are a couple of other avenues though where the type of world I'm talking about, the type of regime shift I'm discussing does matter for inflation. So, one is, as many people point out, presumably part of why we had low inflation the last 20 years is because China came onto world markets and was producing a lot of cheap goods and creating competition, creating new sources of supply. I think that's fair.

But I think that's moot because, A, China had moved sufficiently far up the value chain and much of its population had increased enough in wages that it wasn't like we were getting continuous, ongoing price drops from China the way we were, say, from 2000 to 2008.

And secondly, I think it's moot because in the end China, of course, was also a source of demand. It wasn't just a source of supply. And so, on that basis, growth, and demand from China had an offsetting effect. But
presumably, some removal of competition and the supply from China will have an inflationary effect in some areas.

The second thing which I think is more profound is I fear that this process of deglobalization is just going to reinforce the slowdown in productivity growth and slower trend growth we've seen for the last couple of decades in the US [UNINTEL]. What Larry Summers has referred to as secular stagnation. And this is really, for me, the really big question.

Is the end of the current process we're in that we go back to secular stagnation? Or is the end of the current cycle we're in that, no, inflation is maybe not horrific, but endemic and recurrent and we're out of secular stagnation with a different set of problems? And I think the jury's still out on that.

My instinct is that I think we do end up back in secular stagnation in part because deglobalization worsens the productivity trend.
Allison Nathan: That said, Rodrik is less convinced that trends in globalization will be a major driver of inflation and growth in the coming cycle, which he instead thinks will be determined primarily by domestic economic policies.

In this world that you envision where we're not going back to the 1930s, but we are pulling back from the hyper globalization of the last several decades, what will trends in growth, productivity, and perhaps most importantly, inflation look like given the debate that's ongoing about whether the inflationary pressures we're feeling now will be sustained or whether we'll end up back in a secular stagnation?

Dani Rodrik: So, assuming that we do not fall into a cycle that moves us back to oligarchy, assuming that that presumption holds, then I think 95 percent of the outcomes with respect to what you're asking will be determined by our domestic economic policy. So, at best, what our international economic policies and what globalization can do is provide a kind of enabling
framework that allows countries to pursue their domestic economic agendas.

So, with respect to economic growth, productivity, and inflation, you know, much of it will depend on the quality of our economic policies. And I think there we do need different and new priorities. There is a reason that productivity performance in the advanced countries has been so poor recently, even though, you know, AI and new technologies and a knowledge economy are all around us. A lot of that has to do with the fact that these new technologies are not being disseminated within the economy, that they remain much more the province of a relatively thin layer of companies and high performers or regions.

And therefore, a key challenge as we go forward is whether we're able to achieve our productivity growth and our inclusion challenges at the same time. Because they've now become, to a very large extent, overlapping. The only way we can achieve greater productivity growth is by ensuring that the benefits of these new technologies disseminate throughout the rest of society. That means that we're able
to absorb more and more of our labor force and relatively less skilled workers into the productively more advanced sectors of the economy. That will require us to think about technology and investment policies that are much more favorable to the skills and the capacities that those workers bring in.

So, at the extreme, paying less attention to automation and labor replacing technologies. And thinking much more in terms of labor augmenting and labor enhancing technologies.

The only way we can actually achieve a lasting and real improvement in equity and opportunity is by precisely the same mechanisms. That ensures that every worker, every household, and every region of the country has the capacity to participate in a more productive economy. Not by handouts and social policy and transfers, but by actually giving people meaningful and good job opportunities. And so, quality employment and good jobs are going to be, I think, the answer, both to the productivity growth challenge and the social inclusion challenges. So, thinking of what that good jobs strategy is, I
think, is critical. And as I said, 95 percent of that will have to be done through domestic policies.

**Allison Nathan:** With questions about deglobalization and its economic implications sure to remain in focus, we'll continue to closely watch its evolution from here.

I'll leave it there for now. If you enjoyed this show, we hope you follow on your platform of choice and tune in next week for another episode of Exchanges at Goldman Sachs. Make sure to like, share, and leave a comment on Apple Podcast, Spotify, Stitcher, Google, or wherever you listen to your podcasts.
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