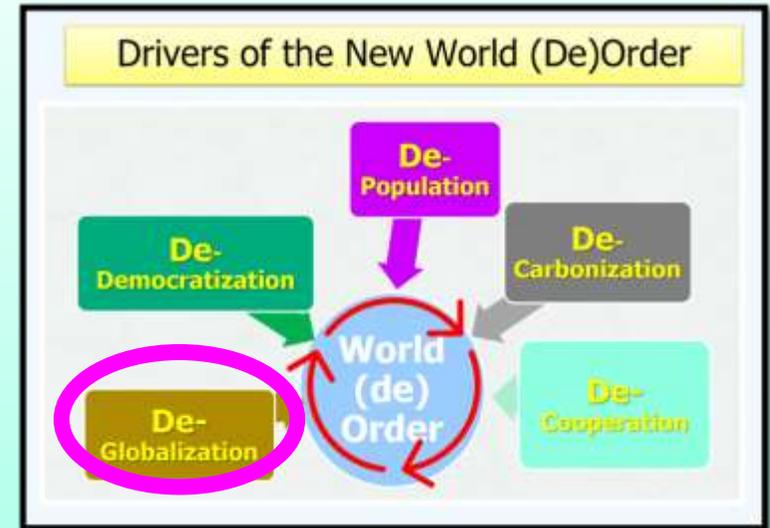


# The Emerging New World Order

## Class 3 (Nov 1): De-globalization and World Order



### Topics

- I. How did the world become rich?
- II. Is best of times over?
- III. Is globalization dead?
- IV. Will de-globalization affect world order?

Joe Coffey

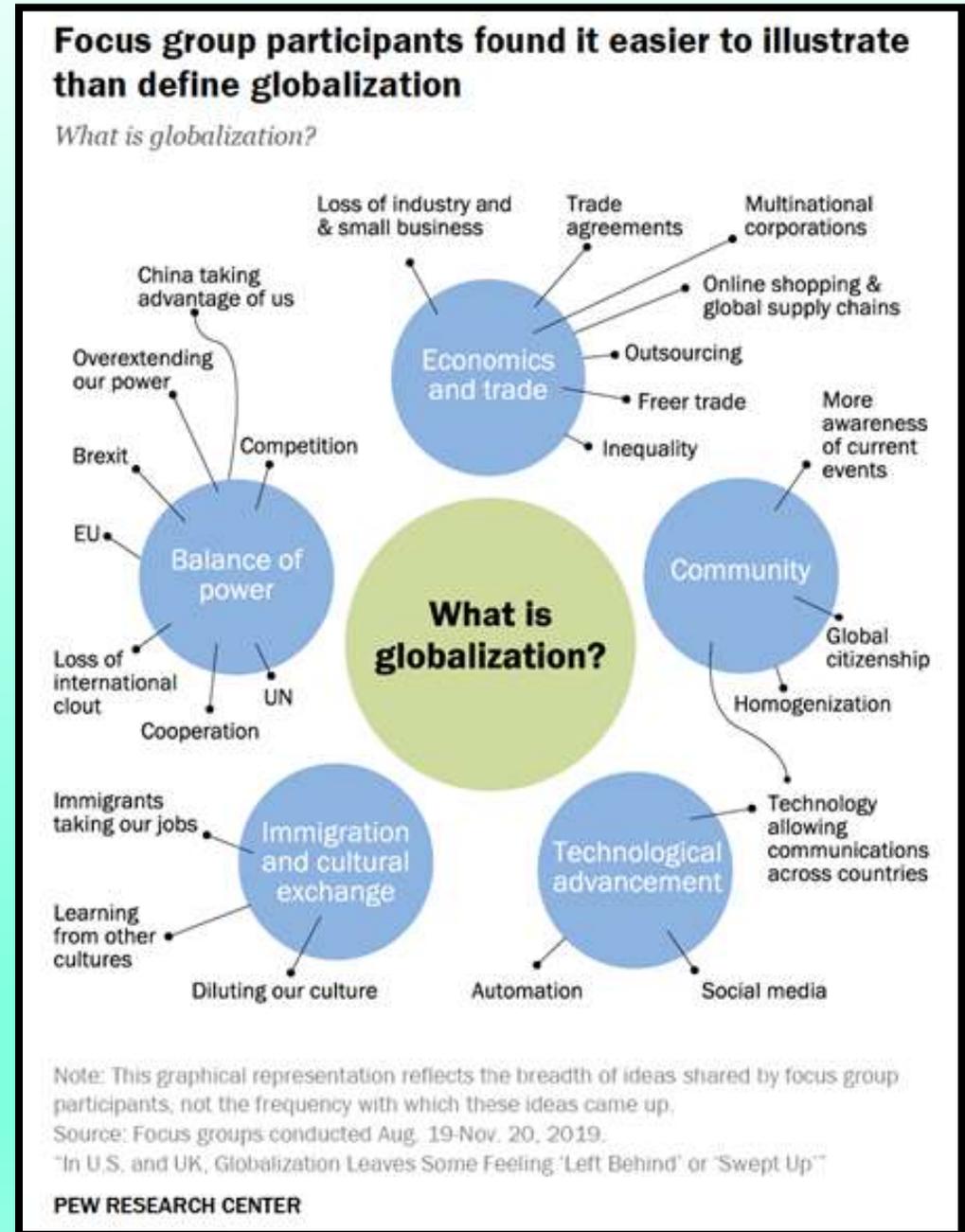
[joecoffey@outlook.com](mailto:joecoffey@outlook.com)

[coffeynotes.com](http://coffeynotes.com)

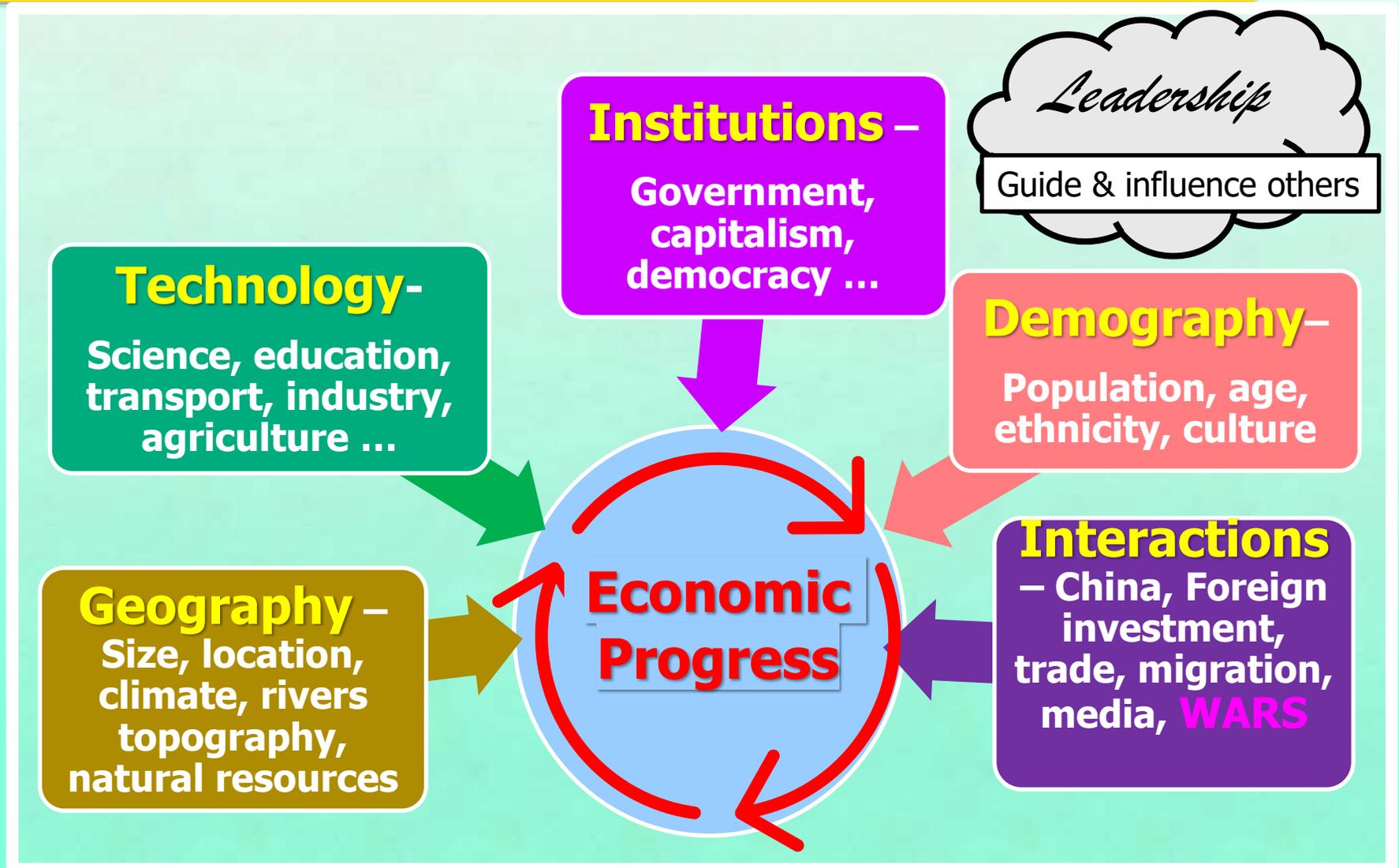
Globalization, along with Russia's war on Ukraine and conflict with China, are today's hot topics

# 1<sup>st</sup> : What is globalization?

- **Globalization** is the interaction & integration among people, companies, & governments worldwide
- Basic movements of:
  - Trade and transactions
  - Capital and investment
  - Migration of people
  - Dissemination of knowledge, culture, politics & genes



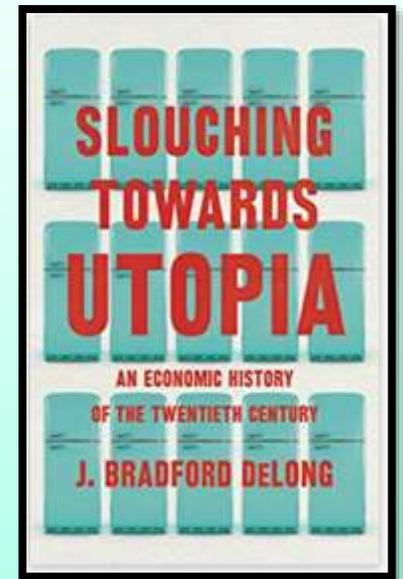
# I. How did world become rich?



A combination of interacting factors

# *Slouching Towards Utopia*

- Before 1870, life was Hobbesian: “solitary, poor, nasty, brutish, and short”
- Then came increased progress as invention accelerated and repeatedly transformed US economy
- Globalization was a main driver of getting rich:
  - Migration enabled millions to raise their standard of living
  - Global investment put them to work
  - From the laboratory poured modern technology
  - And trade provided the resources and markets
- We slouched toward utopia until 2008 Great Recession
- Around 2010 US & world began to slow & fracture

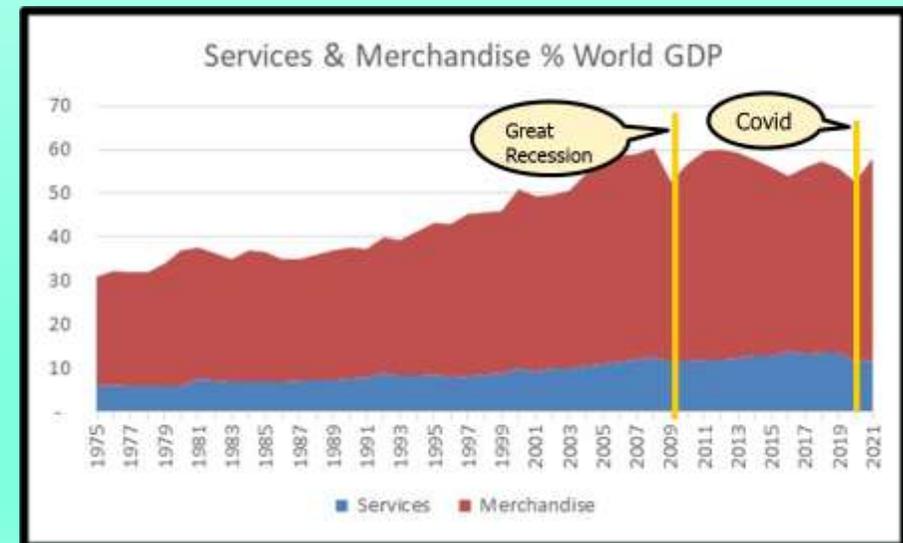
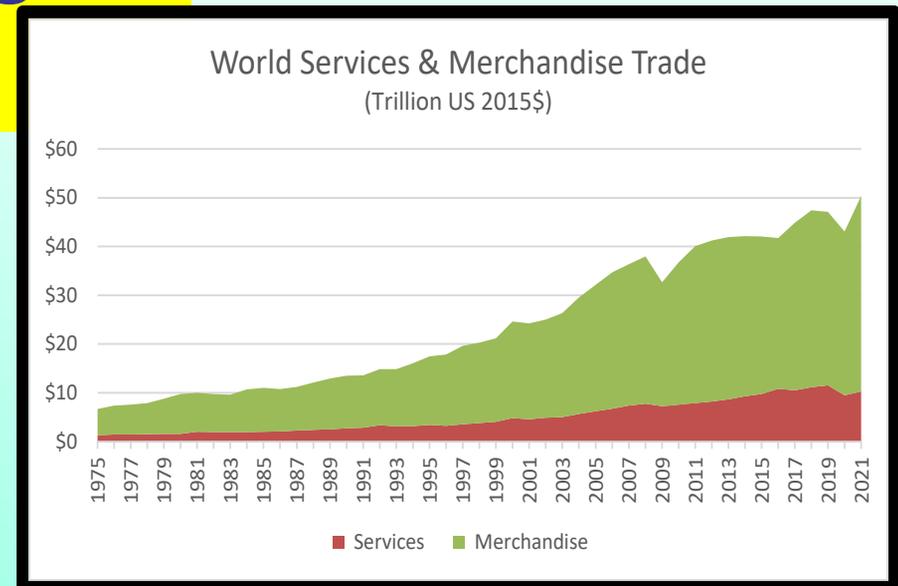


# Why the phenomenal transformation? Globalization!

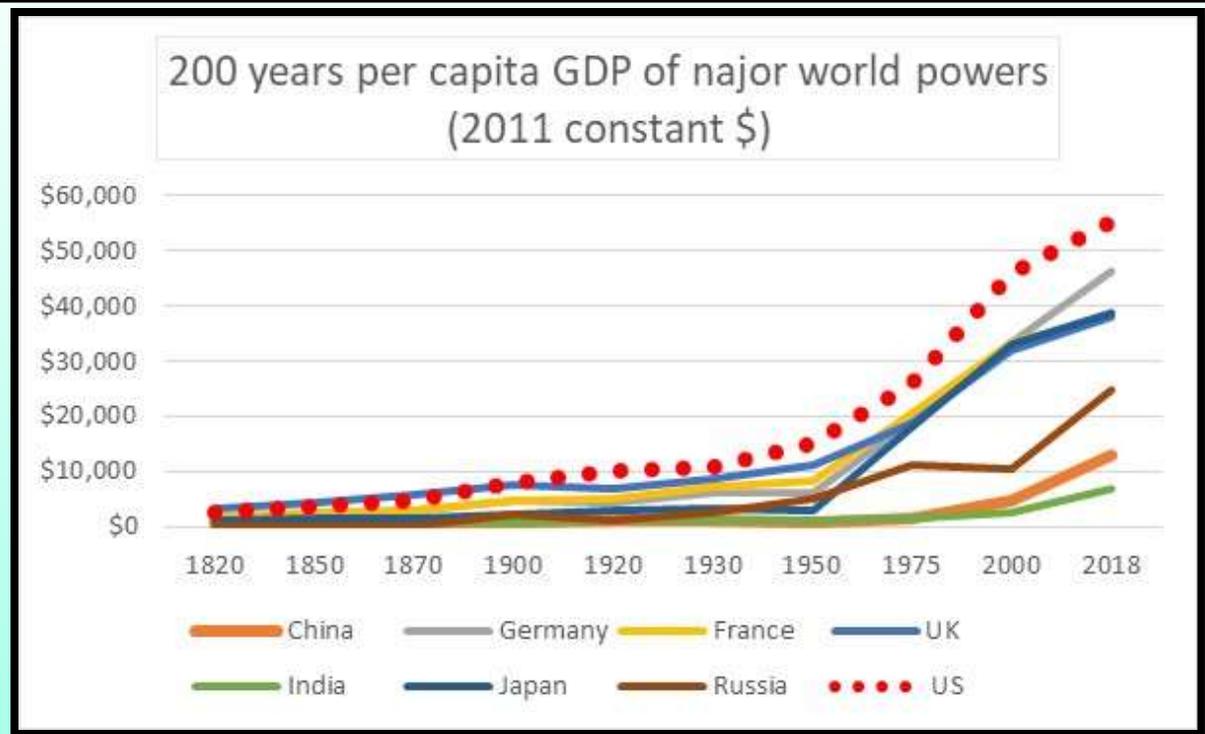
- In 1800 only 2% of world GDP was traded
- Most people never went more than 25 miles from their birthplace and 90% were engaged in agriculture
- International travel times averaged 1 mph, same as Roman times – a slow walking pace
- Took 13 days for news of Lincoln's assassination in 1865 to reach London -1.2 mph
- Travel was not only slow but dangerous and costly
- For millennia, nothing moved faster than a horse

# Trade expanded & changed the world economy

- Integration of national economies into a global economic system led to rapid growth in world trade
- World trade now 40 times larger than a century ago & 7 times larger than 1975
- World trade has grown faster than GDP - until 1980s, was were 20% of GDP vs. 50% now

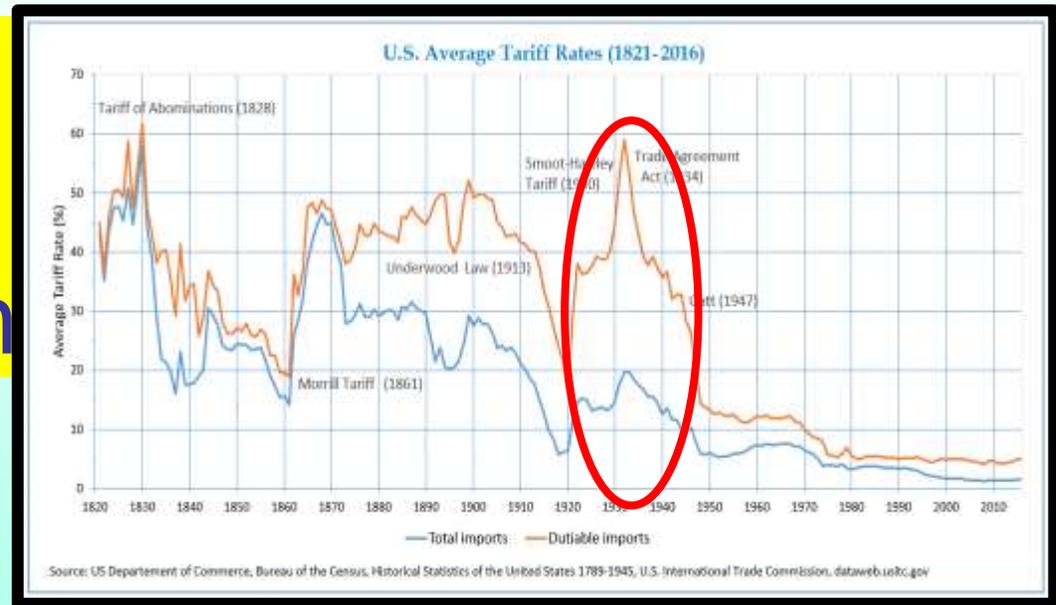


# The "Great Divergence"



- As trade increased so did real per capita GDP of major world powers
- US has highest GDP/capita of major powers since 1900
- Divergence in GDP/capita between advanced and developing countries increased and widened
- Since 2000, some developing countries GDP/capita has risen, most spectacularly, China

# After WWI, de-globalization taught US a lesson



- After WWI, US largely withdrew from the world, limited trade and immigration and raised tariffs
- These barriers contributed to continuing decline during Great Depression
- WWII resulted in part from US isolation policy
- After WWII, US decided best economic & political strategy was to open markets and encourage others to do so
- Agreements at Bretton Woods and the GATT trade agreements facilitated trade among the richer nations

## Dire economic situation at end of WWII



- At end of WWII in 1945, wartime destruction and disruption of shipping had put world in dire straits
- Europe and Japan were near starvation
- US emerged as clearly world leader
- Instead of seeking vengeance, US adopted Marshall Plan and other forward-thinking policies that would support world trade and development

# US built bulwark of globalization during WWII at Bretton Woods

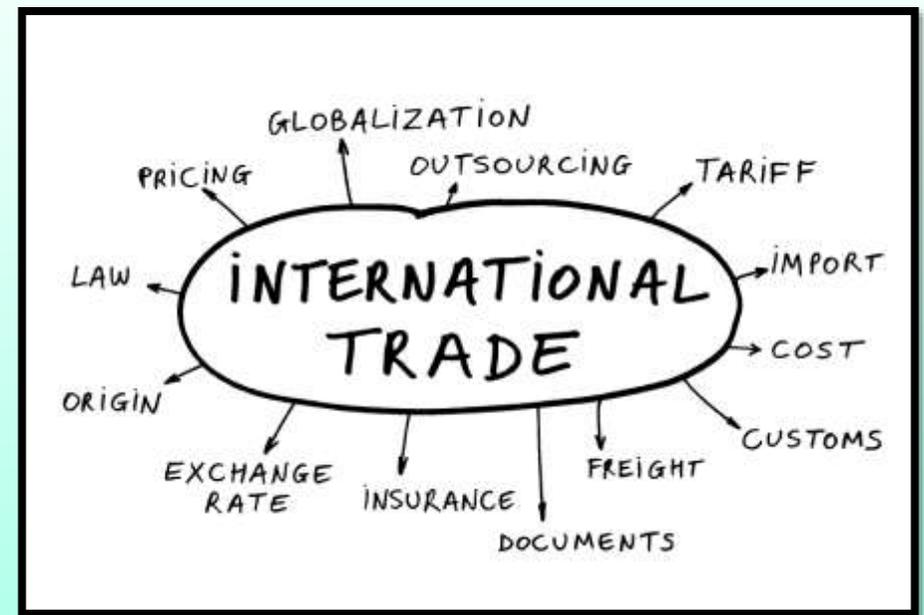


- **International Monetary Fund (IMF)** - for providing stability and functioning of international monetary system
- **World Bank** - to finance economic development, especially in developing countries
- **General Agreement on Tariffs and Trade (GATT, now WTO)** - a legal framework for trade and the fundamental policy of extending to foreign traders treatment equivalent to their domestic economy

# Accelerating globalization and growth after WW II

- Tariffs on manufactured goods fell from 50% to 5% for advanced countries
- Transport and communication costs fell from 20% of cost of goods to 5%
- Trade and GDP grew faster than previously
- Trade rose from 7% of GDP in 1947, to 17% by 1998 to over 50% today
- The peak was Thirty Glorious Years 1945-75, when US and Europe recovered from WWII, built economies and welfare states with rapid productivity growth

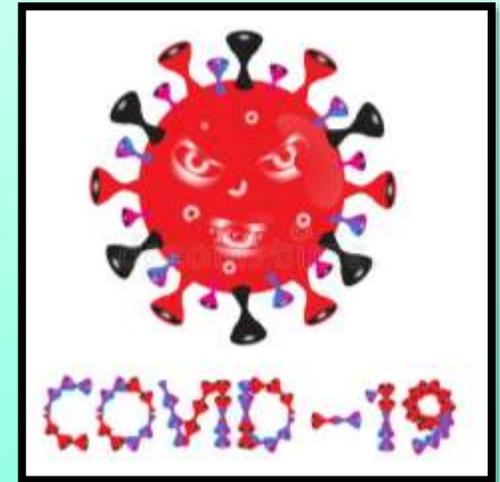
# Many factors affect foreign trade flows



- Cost of production of exporting country vs. those in importing country
- Cost and availability of raw materials, intermediate goods and other inputs
- Exchange rate movements
- Multilateral taxes or restrictions on trade
- Non-tariff barriers such as environmental, health or safety standards
- Availability of foreign exchange to pay for imports

# Trade has some downsides

- **Disruptions:** weather, war, embargoes, strikes, PANDEMICS...
- **Loss of domestic industries:** US furniture, bedding, toys, sports equipment, apparel, shoes, TVs, washing machines hard hit by Chinese imports
- **Security:** weaken defense industry base
- **Loss of spillover:** manufacturing develops managerial skills and knowledge
- **Investment drain:** "Offshoring" leads to "outsourcing" and foreign direct investment (FDI)



# Why should US trade?

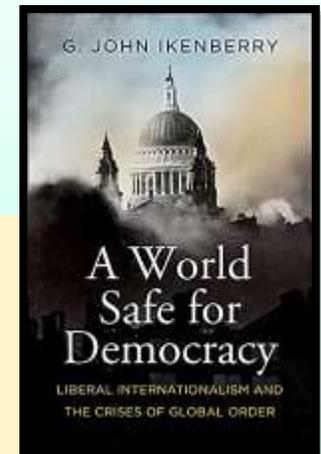
## Autarky vs. Trade



- 75% of market (GDP) is outside US
- Gains from trade – efficiency of specialization
- Lower consumer costs
- Diversified source & back-up if domestic shortages
- Competition sharpens industriousness
- Countries that trade are more prosperous and peaceful than those in angry isolation (N. Korea)

Trade is better than the alternative of no trade (autarky)

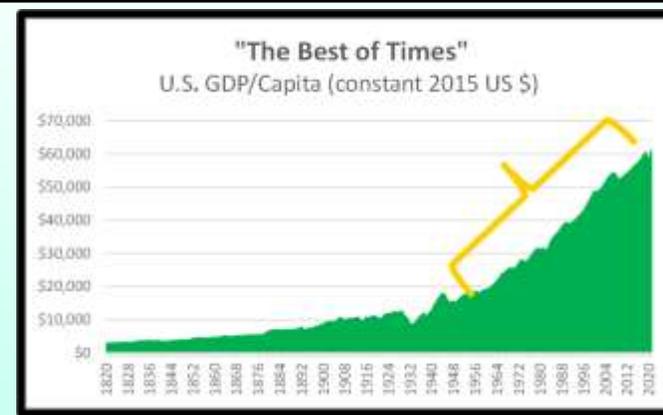
# Dilemma of Globalization



*Governments want the benefits of open trade, but they worry about its impacts on specific sectors or groups... [and have] been preoccupied with finding international agreements that offer the benefits of openness while guarding against its downside....*

*As countries become more open to the world system, they also become more exposed to various dangers.... [E]vents in one country—such as bad economic policy, a pandemic, civil war and refugee flows, or the proliferation of lethal weapons—can generate instabilities and harms.... International cooperation becomes essential if openness is to be reconciled with the safety and well-being of countries across the system.*

## II. Is the best of times over?



- “Life, health, prosperity, safety, peace, knowledge, and happiness are all on the rise ... worldwide. ... It is a gift of the Enlightenment: the conviction that knowledge can enhance human flourishing.” - Stephen Pinker, *Enlightenment Now*, 2018, dust jacket.
- But more recently global conditions have declined
  - Democracy has declined & rivalry increased
  - Population growth has slowed and aging increased
  - Economy hit by Covid and supply chain disruption
  - Ukraine’s war trade, energy, and inflation disruptions
  - China’s growth cut in half

# Rising tide of sadness & unhappiness



- Gallup's Social Survey finds a decline in happiness - two billion people are so unhappy they would not recommend their community to a friend
- Most places are richer, but more unequal
- Similarly, Global Peace Index, finds civic discontent increased by 244 percent from 2011 to 2019
- Upward trend in stress, worry, and sadness in most countries and decline in enjoyment of life
- Emotional health of world is shattering

# Gains of globalization concentrated at top; bottom left out

## Share of Growth Captured, 1980-2015

Income group	W Europe	China	India	US
Bottom 50%	17%	13%	11%	3%
Middle 40%	37%	43%	23%	33%
<b>Top 10%</b>	<b>46%</b>	<b>43%</b>	<b>66%</b>	<b>64%</b>
Total	100%	100%	100%	100%

Source: Lucas Chancel and Thomas Piketty, India Income inequality, 1922-2015. The distribution is of per adult pre-tax national income

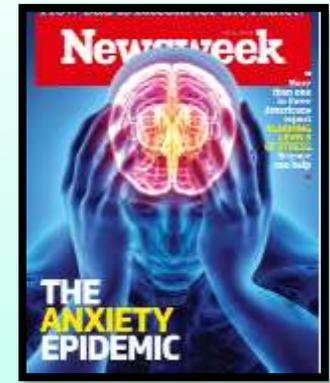
US only 3%

China & W Europe less skewed gains

Top 10% gain large in India & US

*Globalization once promised a world of winners .... Past few years have shattered this fantasy, as those who've paid the price for globalism's gains have turned to populist and nationalist politicians to express fury at the ...elites they blame for their losses.* Ian Bremmer, *US vs. Them*, dust jacket

# Why the increased anxiety?



- Part due to generations: for the young, life satisfaction has fallen, while those over 60 has risen
- Increased anxiety and sadness during COVID was related to COVID itself plus anti-COVID measures
- 30-40% is due to genetic differences among individuals and 60-70% from environmental influences
- There's a consistency of happiness ratings among countries - Nordics rank highest, then Europeans & New Zealanders, with US ranked 16<sup>th</sup>
- China ranks 72, Russia 80 and Afghanistan 146 of 146

# III. End of globalization? No, but keeps evolving



- **1.0 Pre-WWI:** due to drop in trade costs, goods moved thanks to mechanical power but ended in 2 world wars, Great Depression, and rise of communism and fascism
- **2.0 Post-WWII:** trade increased due to supporting institutions of UN, IMF, World Bank, GATT/WTO
- **3.0 Not just goods:** factories and know-how crossed borders and created a new world of assembly & manufacturing in cheap labor countries - e.g., China
- **4.0 Digital:** technology enables trade not in just goods made by blue-collar workers, but services driven by AI automation – e.g., call centers, x-ray interpretation, preparing tax returns, accounting – which displace white-collar workers

If this is Globalization 4.0, what were the other three? Dec 22, 2018, by Richard Baldwin, WE Forum

# Concerns about losses of jobs attributed to increased trade



- Concern, particularly after Great Recession, with losses of jobs attributed to increased trade
- However, studies suggest that job losses have been due more to technical change than to trade
- Dilemma of trade is benefits are small but widely distributed whereas costs of job losses are concentrated and severe on a few
- Majority of Americans still support trade and involvement of America in the international system
- A better solution than limiting trade to protect jobs, is to provide re-training and support for displaced workers

# World is in a geopolitical recession



- Era of “hyperglobalization” of 1970s to 2008 Great Recession, the US drove trade liberalization
- US no longer has political will to continue that role
- China & EU are beset with challenges and no other country has capacity to fill the void
- Trade in goods has slowed relative to global output since 2008, now that most countries are already relatively well integrated into the global economy

# Globalization is being transformed



- Technology transformed labor-intensive into capital- and now knowledge-intensive industries
- Services and intangibles are now more of exports
- Democracies are decoupling from Russia & China
- World order is more multipolar and fragmented
- Increased security concerns - want more resilience and insulation from external shocks and geopolitics
- But benefits of globalization are too great to forgo
- Resilience best by diversification and spare capacity—  
not self-reliance

# It's about the dollar



- 2008 financial crisis appeared as sign of US fading dominance, but it was a global crisis
- Only US can handle financial crises that need dollars
- Financial crisis was triggered by real estate bust that threatened the world economy
- What drives global trade are multinational corporations coordinating far-flung and interlocking corporate and bank balance sheets
- But once scale of crisis became evident, US Fed became liquidity provider of last resort to global banks

Source: Sep/Oct 2018 *Foreign Affairs*, *Forgotten History of the Financial Crisis and Crashed – How a Decade of Financial Crises Changed the World*, 2021, both by Adam Tooze

# Globalization of Finance: Dollar is world's currency



- Despite slowdown in trade and US declining share of global GDP, world still connected via financial markets where dollar functions like a world currency
- When US interest rates and consequently dollar rises, many countries face a triple whammy of rising borrowing costs, rising prices of energy imports and rising inflation, often triggering financial crises
- Responsibility of Fed is to US, but also to avoid throwing world into depression
- In effect, Fed has become the world's central bank

# “Slowbalization”: History is moving from close global integration



- Even before Covid or war in Ukraine, digital technology was facilitating localizing jobs and wealth
- Ideas, information and capital will still flow across borders as world economy becomes more digital
- More food, fuel, vital supplies and supply chains will be localized, or friend sourced
- Weaponization of dollar and sanctions during Ukraine war will prompt China and Russia to create an alternative and seek independence from the dollar-based system

## IV. Will de-globalization change world order?



- As already mentioned, it's not so much de-globalization as re-globalization – from shipping goods & factories to electronic sending services
- This requires less negotiation of trade agreements and is much harder to tax, tariff or control
- Most will be done by individuals and companies, not under traditional governmental controls
- Shift from shipping goods by truck, ship or plane to sending electrons by cables is the growing globalization sector

# Why support a globalized world order?



- Globalization benefits democracies both economically from mutual gains of interdependence and politically from incentives to settle disputes peacefully
- But globalization creates winners and losers, and to reduce inequality and maintain harmony, must accompany globalization with a safety net and retraining
- Democracies must also cooperate with autocracies
  - a. All are vulnerable to global warming, pandemics, nuclear proliferation, cyber warfare, terrorism etc..

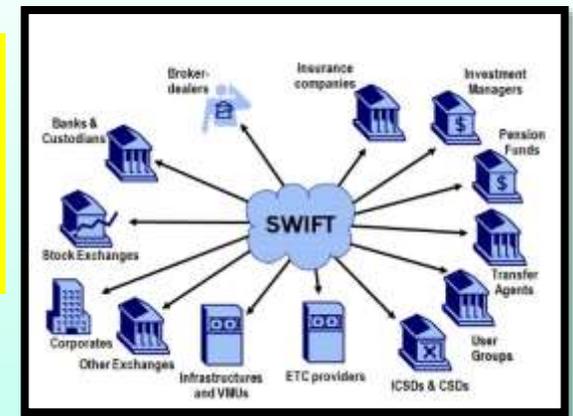
Economies are evolving and so will world order



3-D printed house

- New technologies enabling the 3-D printing of things, AI, and automation are shifting work from brawn to brains and ultimately to machines
- Rising incomes are shifting the growth of consumers' spending from tangible goods to intangible services
- Trade in services will be less vulnerable to wars and to government controls, but governments may regulate especially when security is involved (e.g., Huawei)

# Historically, trade in goods has greatly influenced world order



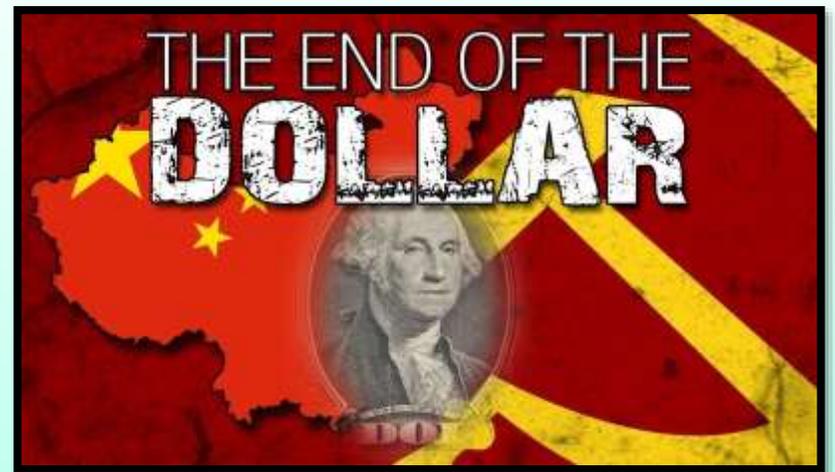
- Gunboat diplomacy was used to pry open Chinese and Japanese markets
- During cold war, trade with Soviet Bloc was minimal
- Trade sanctions have been used to punish Cuba, South Africa, North Korea, Iran...
- Today, sanctions on Russia and Iran are the weapons of choice
- Leveraging the role of the dollar and SWIFT monetary exchange system, threatening to use Russia's reserves to reimburse Ukraine, bans on high tec chips, etc., are weapons of war

# Sanctions may be better than bullets, but affect world order



- Dollar, as mentioned, is the world currency and Fed the world bank
- Plus, US domestic market access and exports ranging from technology to food provide diplomatic leverage
- This gives US vast global clout, but the more we use it the greater the incentive for China, Russia, and others to create an alternative
- This might not lead to war, but it could lead to conflict and crises
- Upshot would be a fragmented world order, tension, reduced globalization and slowed progress

# Can China "Destroy" Globalization?



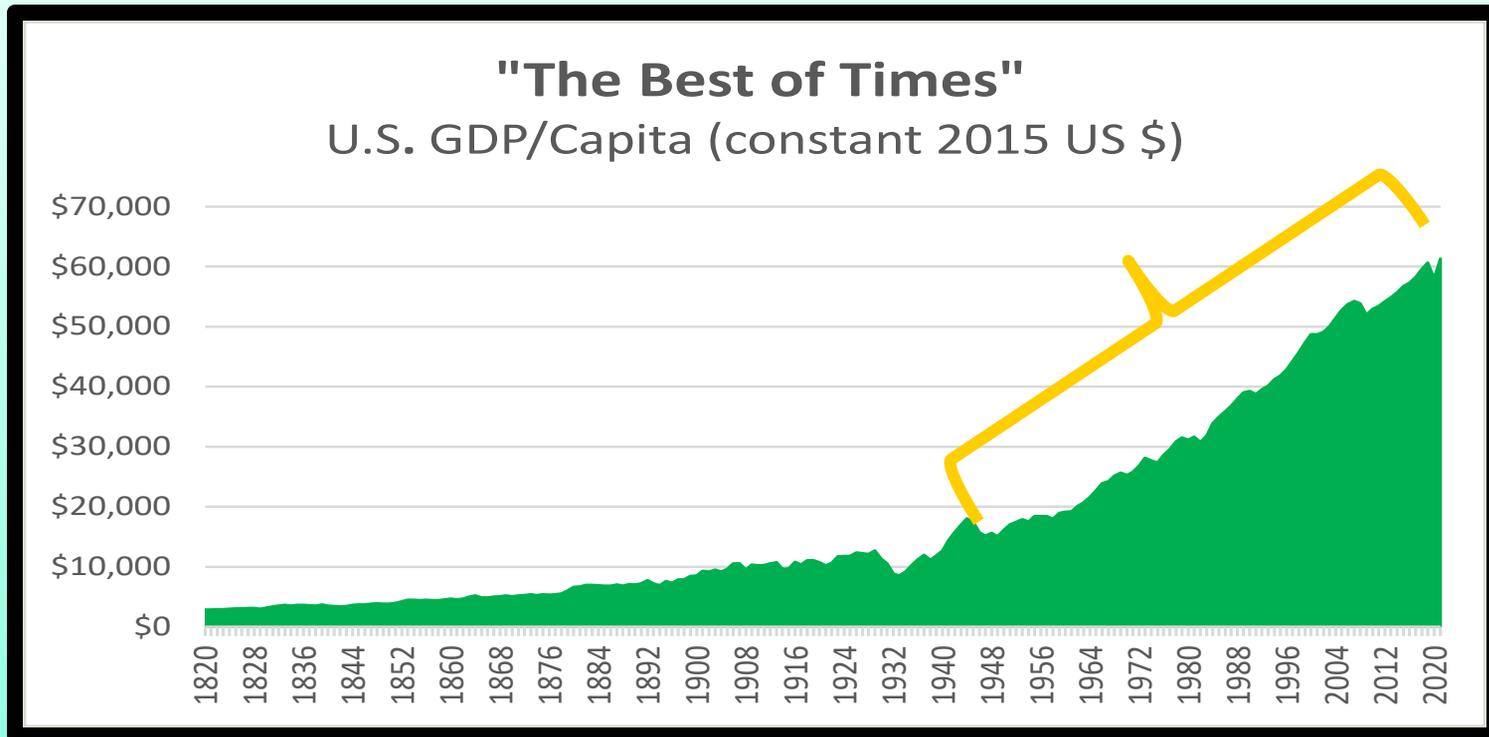
- China, with aid from naïve West, is tilting away from and may undermine or fragment globalization
- Xi has re-centralized the economy and used globalization as a tool to enhance Chinese control
- US at first acted on basis of open Chinese markets but now knows situation is getting worse not better
- Current globalization and world order could survive or end with a whimper or a bang largely depending on US and Chinese policies

# De-globalization & World Order

## Summary & Conclusions

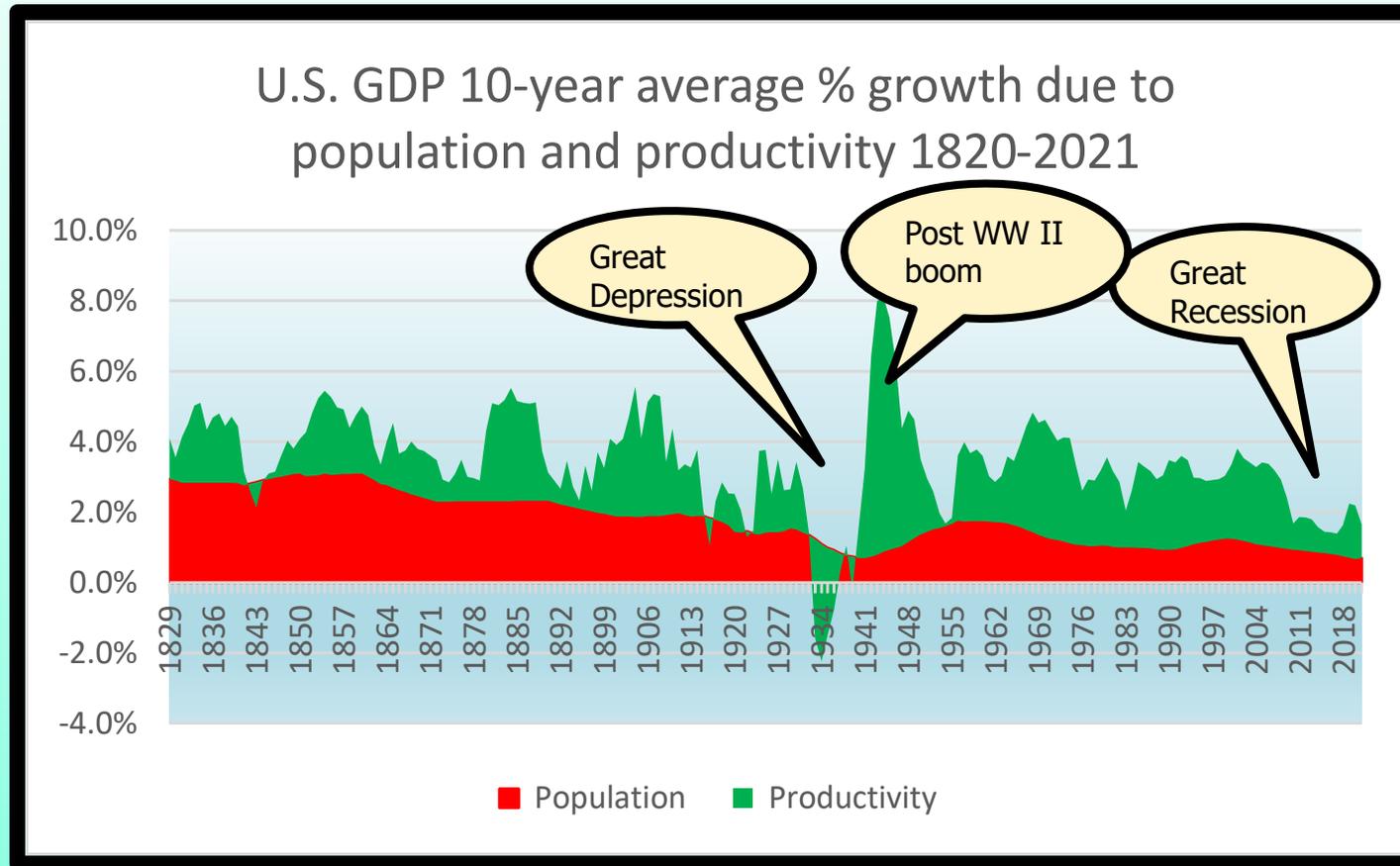


- I. How did the world become rich?
  - In multiple ways varying among countries, but fundamentally by tapping human and natural resources and employing an open market-based capitalist system
- II. Is best of times over?
  - Definite slowdown in trade and cooperation as democracy declines and new Cold War emerges
- III. Is globalization dead?
  - Not dead but changing from goods to services and fragments into US-China split
- IV. Will de-globalization affect world order?
  - As world fragments, dollar and Fed may lose clout, and tensions will build so expect slower growth



- Real GDP per capita in US has tripled since WWII with downturns few and far between
- Last decade GDP/capita has slowed due to Great Recession and Covid
- From a GDP/capita perspective, we've had the best of times

## Appendix of Supplemental Information



- Growth of GDP = **Growth Population** + **Growth of Productivity** (GDP/Capita)
- Population growth has declined from 3% in 1800s to 1.0% or less in 2000s
- Productivity growth has slowed also since about 2008 Great Recession
- Productivity growth is much more volatile (note Great Depression decline and post-WWII boom)

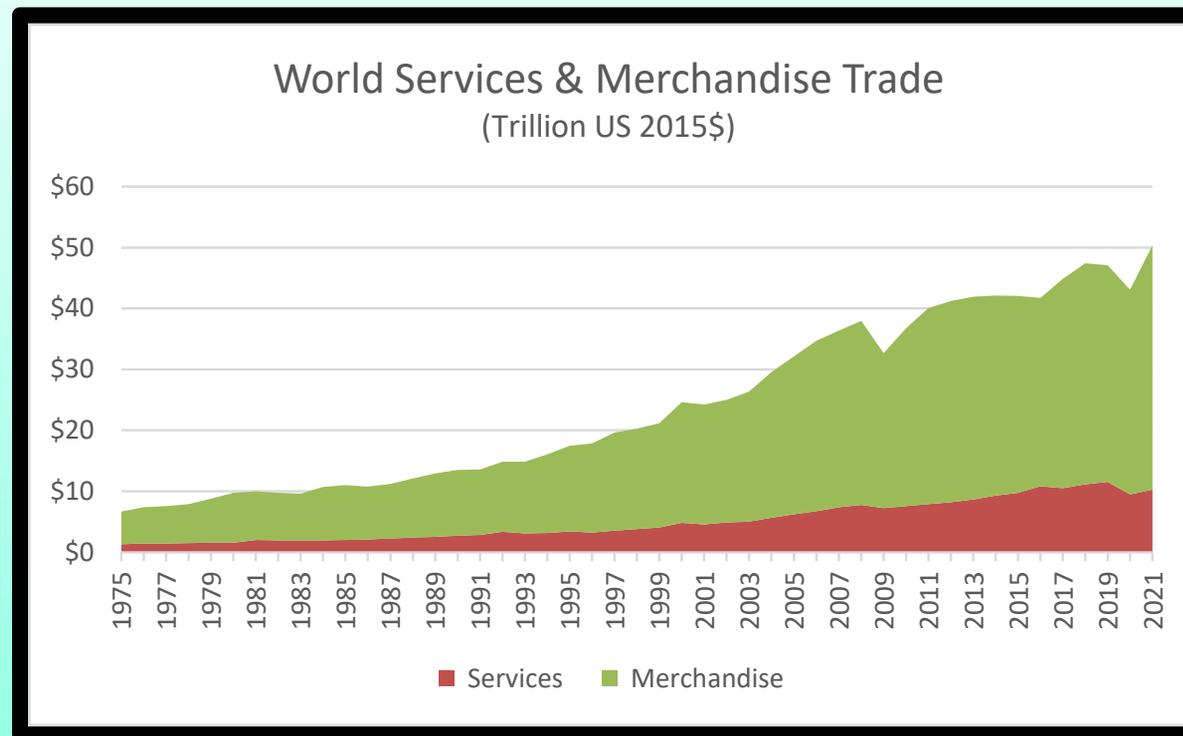
## Appendix of Supplemental Information

World GDP and Trade 1975-2021, (Constant 2015 US\$)																				
	1975	1985	1995	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>World GDP</b>	\$22	\$30	\$40	\$56	\$59	\$62	\$63	\$62	\$65	\$67	\$69	\$71	\$73	\$75	\$77	\$80	\$83	\$85	\$82	\$87
% Change prior year		3.7%	3.1%	4.0%	4.5%	4.5%	2.1%	-1.3%	4.5%	3.3%	2.7%	2.8%	3.1%	3.1%	2.8%	3.4%	3.3%	2.6%	-3.3%	5.8%
<b>Trade Tril \$</b>																				
Trade	\$ 7	\$11	\$17	\$32	\$35	\$36	\$38	\$32	\$37	\$40	\$41	\$42	\$42	\$42	\$42	\$45	\$47	\$47	\$43	\$50
Services	\$ 1	\$ 2	\$ 3	\$ 6	\$ 7	\$ 7	\$ 8	\$ 7	\$ 8	\$ 8	\$ 8	\$ 9	\$ 9	\$10	\$11	\$10	\$11	\$12	\$ 9	\$10
Merchandise	\$ 5	\$ 9	\$14	\$26	\$28	\$29	\$30	\$25	\$29	\$32	\$33	\$33	\$33	\$32	\$31	\$34	\$36	\$36	\$34	\$40
<b>Trade % GDP</b>																				
Trade	31%	37%	43%	57%	59%	59%	61%	52%	57%	60%	60%	59%	58%	56%	54%	56%	57%	56%	52%	58%
Services	6%	7%	8%	11%	11%	12%	12%	12%	12%	12%	12%	12%	13%	13%	14%	13%	13%	14%	12%	12%
Merchandise	25%	30%	35%	46%	47%	47%	48%	41%	45%	48%	48%	47%	45%	43%	40%	43%	44%	42%	41%	46%
<b>Services % Merchandise</b>																				
Services % Merchandise	24%	22%	24%	24%	24%	26%	26%	29%	26%	25%	25%	26%	28%	30%	35%	31%	31%	32%	28%	26%

Source: Data from database: World Development Indicators, Updated 9/16/2022

- World trade % GDP nearly doubled from 31% in 1975 to 60% 2011
- Since 2013, world trade share GDP has declined, but has risen in dollars
- World GDP and trade decreased in both Great Recession 2009 and Covid 2020, but both bounced back in 2021 to record levels
- Services only about 25% of world merchandise trade, but rose during from 25% of Merchandise trade in 1975 by 2015-19 to over 30% of merchandise trade

## Appendix of Supplemental Information



- World trade rose 7-fold from \$7 tril. in 1975 to \$50 tril by 2021
- Since 2013, world trade as share of GDP has declined, but risen in dollars
- World GDP and trade decreased in both Great Recession 2009 and Covid 2020, but both bounced back in 2021 to record levels
- Services in 1975 were only \$1 trillion but rose 10-fold to \$10 trillion by 2021
- It's surprising, in view of world turmoil, trade in constant dollars continues to rise

## Appendix of Supplemental Information

### Major Powers Share World GDP 1990-2021 (2015 constant US \$)

	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
US	27%	28%	29%	28%	27%	27%	26%	26%	25%	25%	25%	24%	24%	24%	24%	24%	24%	24%	24%	23%
EU	25%	24%	23%	22%	22%	21%	21%	20%	20%	20%	19%	18%	18%	18%	18%	18%	18%	17%	17%	17%
Russia	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
China	3%	5%	6%	8%	8%	9%	10%	11%	12%	12%	13%	14%	14%	15%	15%	16%	16%	17%	18%	18%

Source: Data from database: World Development Indicators, Updated 9/16/2022

- Since 1990, US share World GDP has declined from 27% to 23%, while China's has risen from six-fold from 3% to 18%.
- EU's share has dropped from 25% in 1990 to 17% in 2021
- Russia's share has dropped from end of Cold War in 1990 of 3% to 2% in 2021.
- In 1990, China's and Russia's share were about equal as were US and EU share, but now China's share is 9-fold Russia's and US share is 35% higher than EU's

Trade % world GDP doubled 1975 to 2007, then has declined

