

Comments on Aaron Klein, “Understanding De-globalization: Trade-offs between Wealth and Sovereignty”

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1. Introduction

- The paper attempts to propose a utility maximization model focusing on wealth and sovereignty in order to explain the election of Trump as US President and the “Leave” majority vote in the Brexit national referendum in the UK
- It argues that:
 - ▣ decisions to retreat from international integration were the results of rational utility maximization, not the results of irrational or ill-informed voting behavior
 - ▣ both losers of globalization and people who prefer greater national sovereignty contributed to these anti-globalization results

2. What the paper does and does not

What the paper does:

- Provide a theory of utility maximization over sovereignty and wealth under the assumption of a trade-off relationship between the two and
 - ▣ perfect information
 - ▣ rational decision-making
- Try to show that this theory can explain the outcomes of the 2016 Presidential election in the US and the 2016 Brexit national referendum in the UK
 - ▣ Election of Trump: The value of sovereignty and the threat to sovereignty (immigration and imports particularly from China out of control) were the motivating forces in support of Trump and his de-globalization agenda
 - ▣ Brexit: Sovereignty was the primary motivating factor for Leave voters, understanding the possible loss of wealth

What the paper does not do

- Analyze the importance of national security concerns over the rapid rise of China's economic, technological and military capabilities
- Consider the role of technological progress, which has been another important factor affecting wealth and income distribution
- Conduct quantitative (e.g., econometric) analysis to reach the author's conclusion (that "sovereignty" was an important factor contributing to the 2016 voting results)
- Provide policy implications for promoting globalization and international integration, particularly in the US and the UK

3. Comments and questions

(1) Theory

- What is the relationship between Rodrik's trilemma model (globalization, sovereignty, and democracy) and the author's dilemma model (sovereignty and wealth)?
 - ▣ Does the author extend the Rodrik model and present a new trilemma model (globalization, sovereignty, and wealth) under democracy?
 - ▣ Or does the author present a dilemma model (sovereignty and wealth) under democracy and assuming that sovereignty is the same as de-globalization?

Theory: Further questions

- What are the example countries for corner solutions?
 - ▣ Full sovereignty and no wealth: DPRK? (non-democratic)
 - ▣ No sovereignty and maximum wealth: Hong Kong? (non-democratic); Liechtenstein?
- How does national security or technological progress affect the trilemma or dilemma model?
- In a utility maximization problem, there is always a budget constraint (or a production possibilities frontier): What is the equivalent of such a budget constraint? How is such a budget constraint interpreted in the model?
- Is “perfect information” a valid assumption when voters were possibly manipulated by one-sided political slogans?

(2) Sovereignty

- Although the paper emphasizes the importance of sovereignty in the 2016 presidential election, the wealth factors seem to be far important given that “vote switching” in the “Rust Belt” significantly contributed to Trump’s victory

*The industrial Midwest (Michigan, Wisconsin, Ohio, and Pennsylvania), an area reliant on manufacturing, was disproportionately impaired by imports from China and saw a swing from the Democratic Party to the Republican Party in the 2016 election, delivering the decisive margin of victory for Trump

**The losers of globalization were significantly clustered by geography in the “Rust Belt”—the industrial Midwest

- So Trump’s victory may be explained by the globalization losers’ negative sentiments to the Democratic Party

Sovereignty: Further questions

- Is there evidence that the share of people who value sovereignty more highly than wealth has risen over time up to the 2016 election? Or has this share been constant while the share of trade losers has risen recently?
- More fundamentally, the author has not shown quantitative evidence to support the view that “sovereignty” contributed to Trump’s victory in 2016
- This is also the case with the Brexit national referendum in 2016

(3) Policy implications

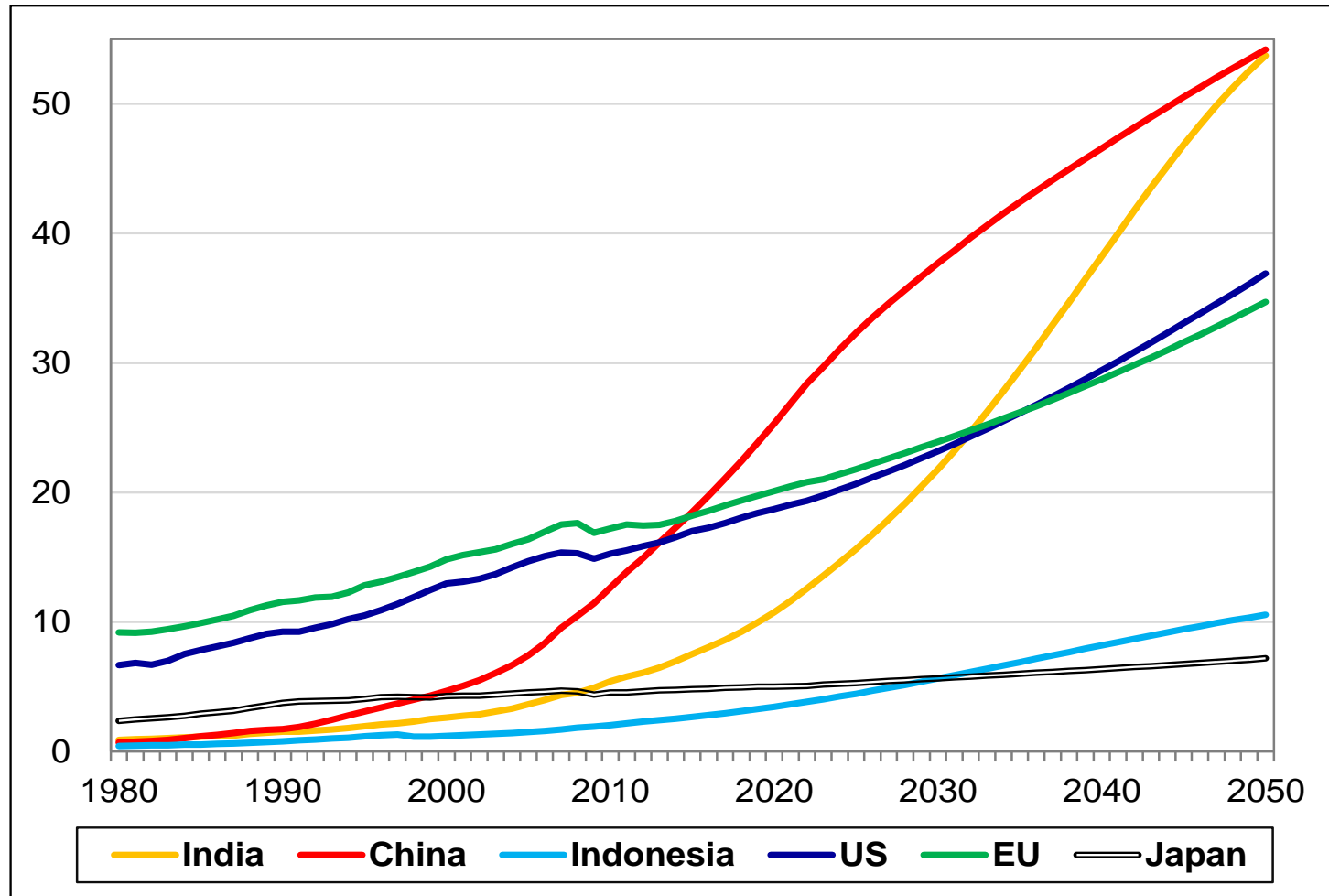
- The US and the UK have relatively high income inequality among the advanced democracies, suggesting inadequate social protection and redistribution policies in the era of globalization
- We know that globalization (free trade) creates winners and losers, that net economic gains are positive for a country, and that compensation of losers through domestic income transfer, such as effective trade adjustment assistance (TAA) in the US, makes no one worse off
 - ▣ Should TAA focus on both trade losers and trade winners who have experienced sovereignty loss?—Perhaps not
 - ▣ TAA needs to be strengthened substantially
 - ▣ Additional support may be provided for re-training and re-tooling of displaced workers and region-based development assistance

Policy implications:

Going beyond the paper

- Should national security concerns over the rapid rise of China lead the US more towards “sovereignty” or multilateralism and global cooperation?
- The mega trend shows that even though China’s economy would continue to grow and become by far the largest in the world in 2050, the sum of the US and EU would remain larger than China (1.5 times) in economic size
 - ▣ If China understands this, it would not be the country’s interest to embark on military conflict with the western advanced powers and challenge the existing international order
 - ▣ If China wants to become the largest military power, the US would likely work with other western advanced economies (such as the EU) and emerging democracies such as India and Indonesia to deter it
- For the US to face the rise of China effectively, the country has to cooperate with the EU and other like-minded countries

Mega trend: Projections for real GDP (PPP, trillion international dollars)



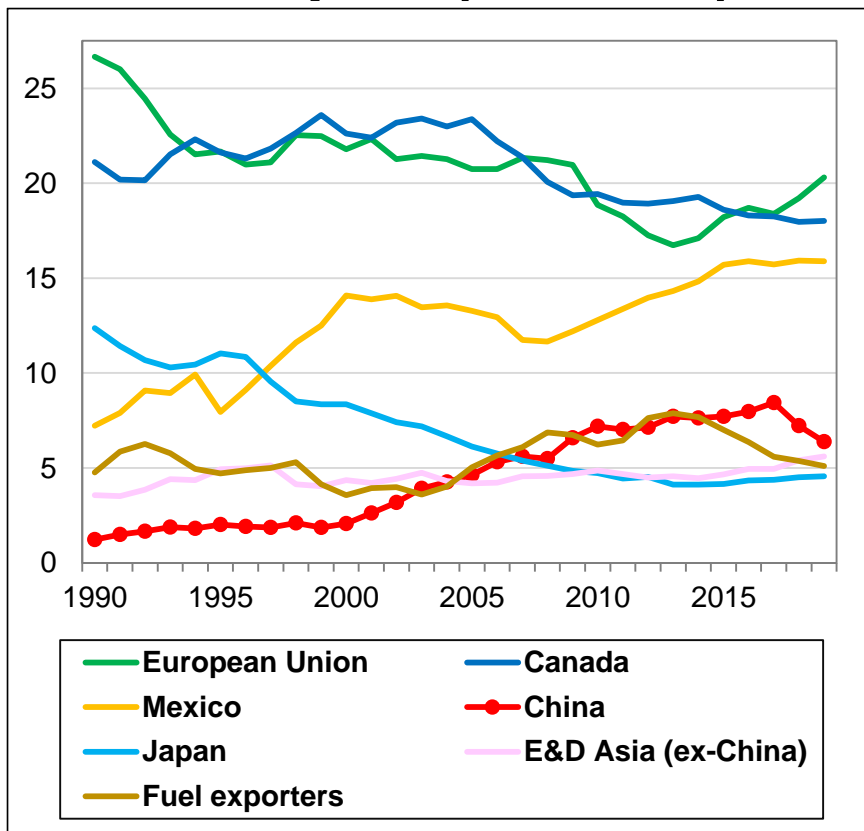
Source: Kawai, Masahiro. 2018. "Will the 21st Century Be an 'Asian Century?': A Global Perspective." In Tomoo Kikuchi and Masaya Sakuragawa, eds., *China and Japan in the Global Economy* (Oxon and New York: Routledge).

Decoupling of the US & Chinese economies?

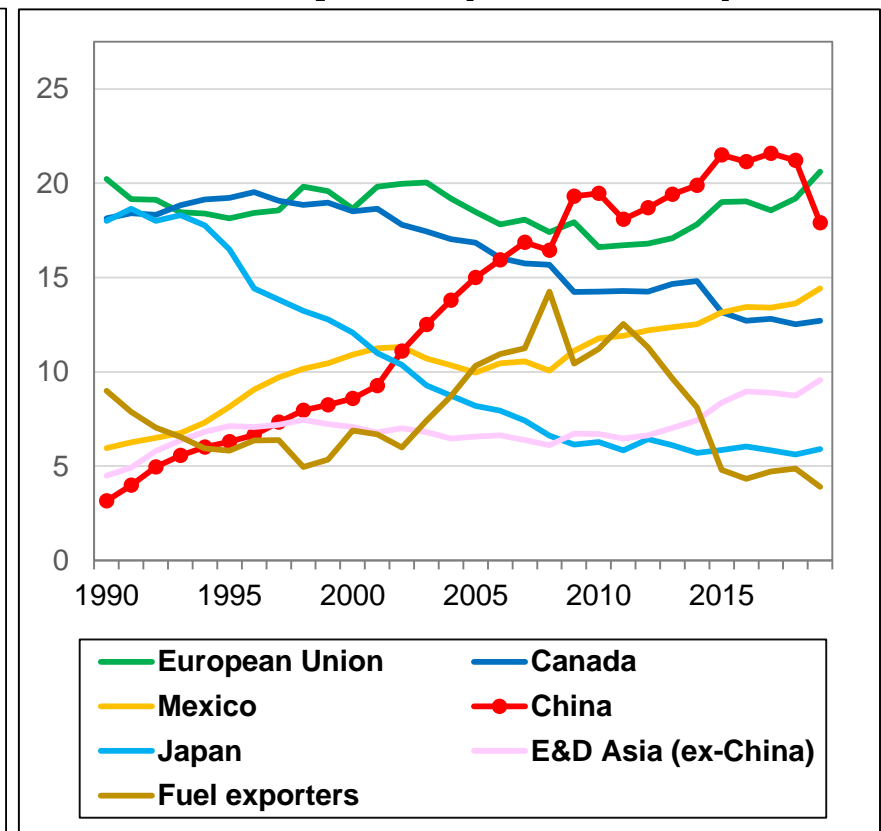
- The US seems to be aiming for some economic decoupling
- Full decoupling is costly, but
 - ▣ US trade dependence on China declined in 2018-19
 - ▣ China's export dependence on the US declined in 2019
 - ▣ Some decoupling for the products of listed entities, such as Huawei, may take place
- If significant decoupling takes place, then
 - ▣ firms operating in China and exporting to the US would shift their production facilities to other emerging economies (such as Vietnam, Malaysia, Philippines, India)
 - ▣ the US deficits with these emerging economies would rise unless the US adjusts its spending-income (or investment-savings) balance
 - ▣ China would continue to strengthen its economic integration with the Belt and Road Initiative(BRI) countries
- Thus US-China decoupling would:
 - ▣ raise the costs of imports in the US
 - ▣ not reduce the US's overall trade deficits
 - ▣ push China more towards the BRI countries

The US's trade share by partner (1990 – 2019)

US export (% share)



US import (% share)

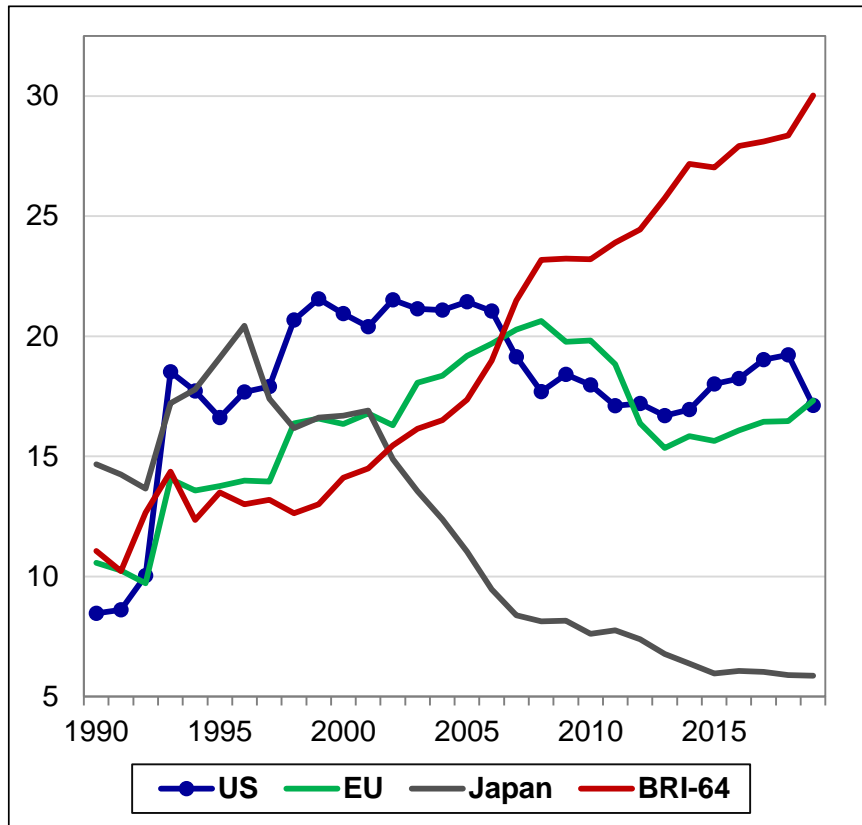


Note: Data for 2019 are for the first 7 months.

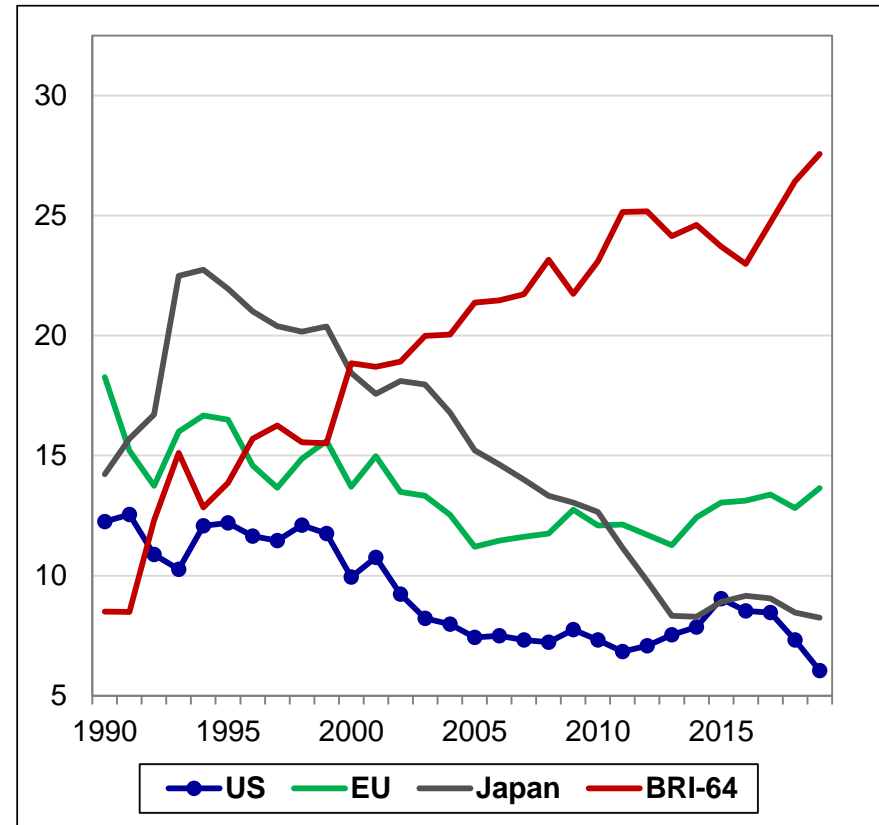
Source: Compiled by author from IMF, *Direction of Trade Statistics*

China's trade share by partner (1990 – 2019)

China's export (% share)



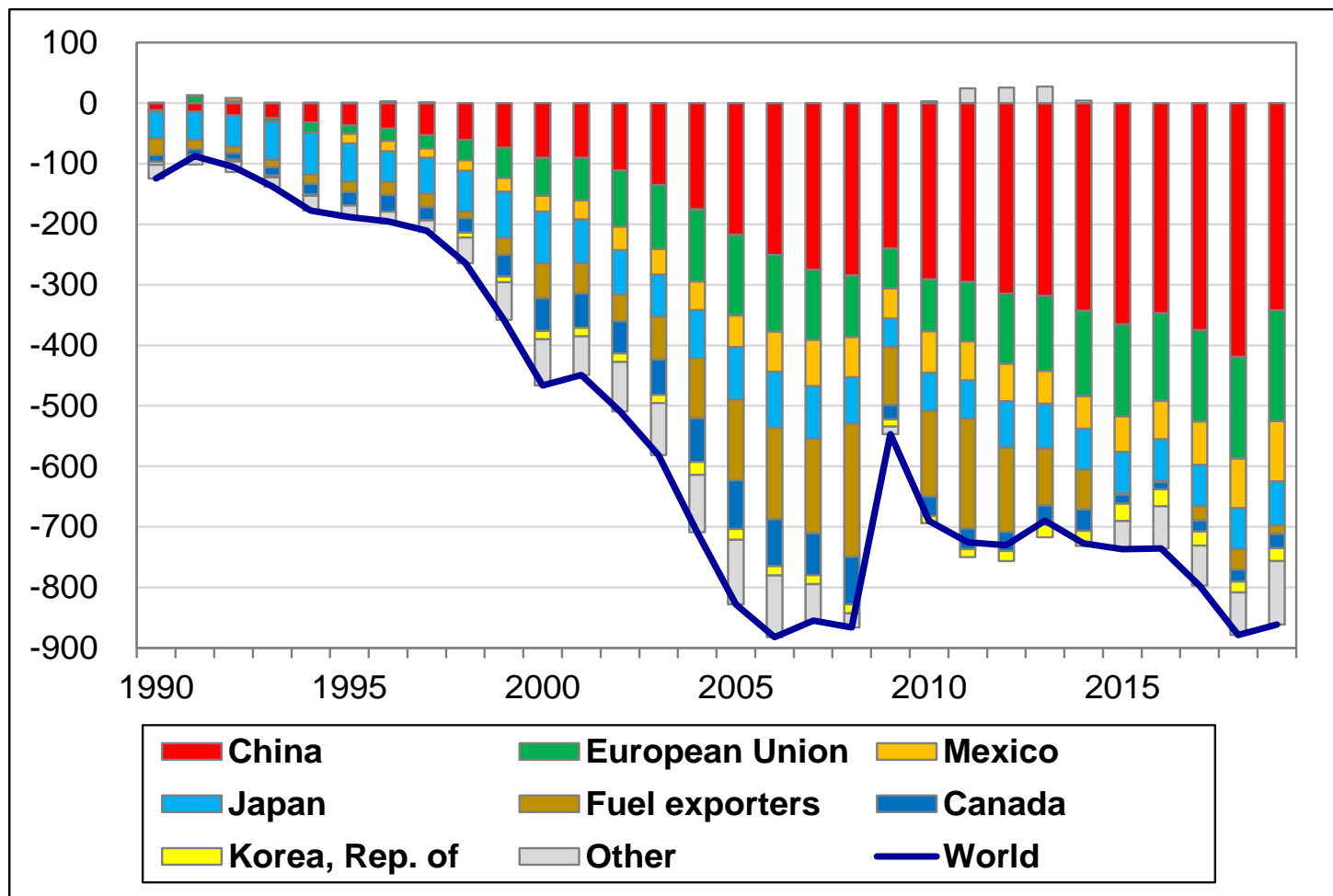
China's import (% share)



Note: Data for 2019 are for the first 7 months.

Source: Compiled by author from IMF, *Direction of Trade Statistics*

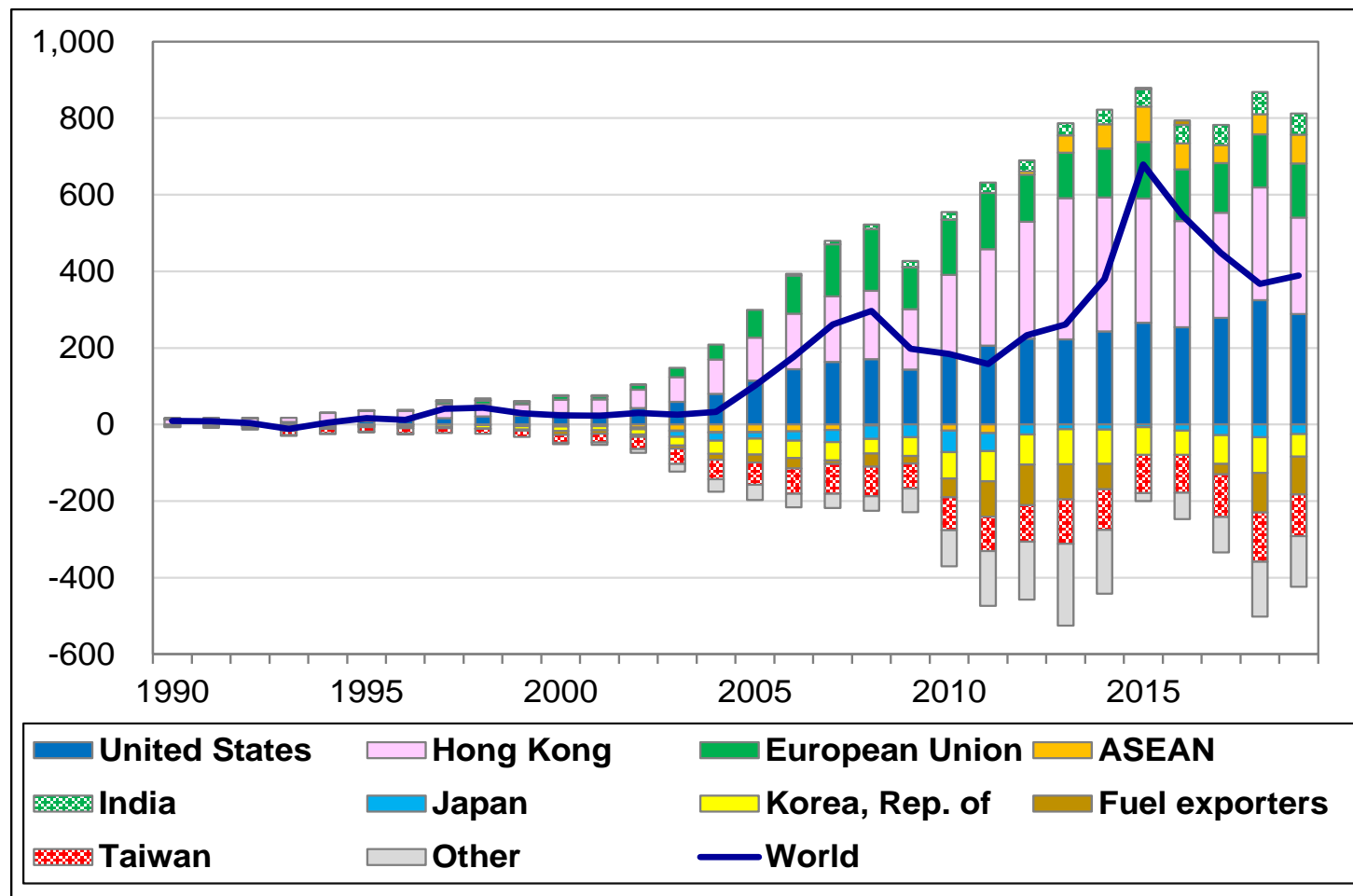
US trade deficits and major trade partners (US\$ billion), 1990-2019



Note: Data for 2019 are the sum of monthly data for January through July, multiplied by 12/7

Source: Compiled by author from IMF, *Direction of Trade Statistics*

China's trade deficits and major trade partners (US\$ billion), 1990-2019



Note: Data for 2019 are the sum of monthly data for January through July, multiplied by 12/7
 Source: Compiled by author from IMF, *Direction of Trade Statistics*

4. Conclusion

- An interesting and useful paper that attempts to explain the US and UK voting results in 2016 by using the concept of “sovereignty” and a utility maximization model
- So perhaps the model does not explain populism
- However, the validity of the model remains unclear in several dimensions
- It is unclear if the Trump presidency is a temporary aberration from the US historical norm, or if the current anti-globalization trend will continue in the US (or the UK)
- Providing more solid empirical evidence on the importance of “sovereignty” and policy implications would enrich the paper

Thank you

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