

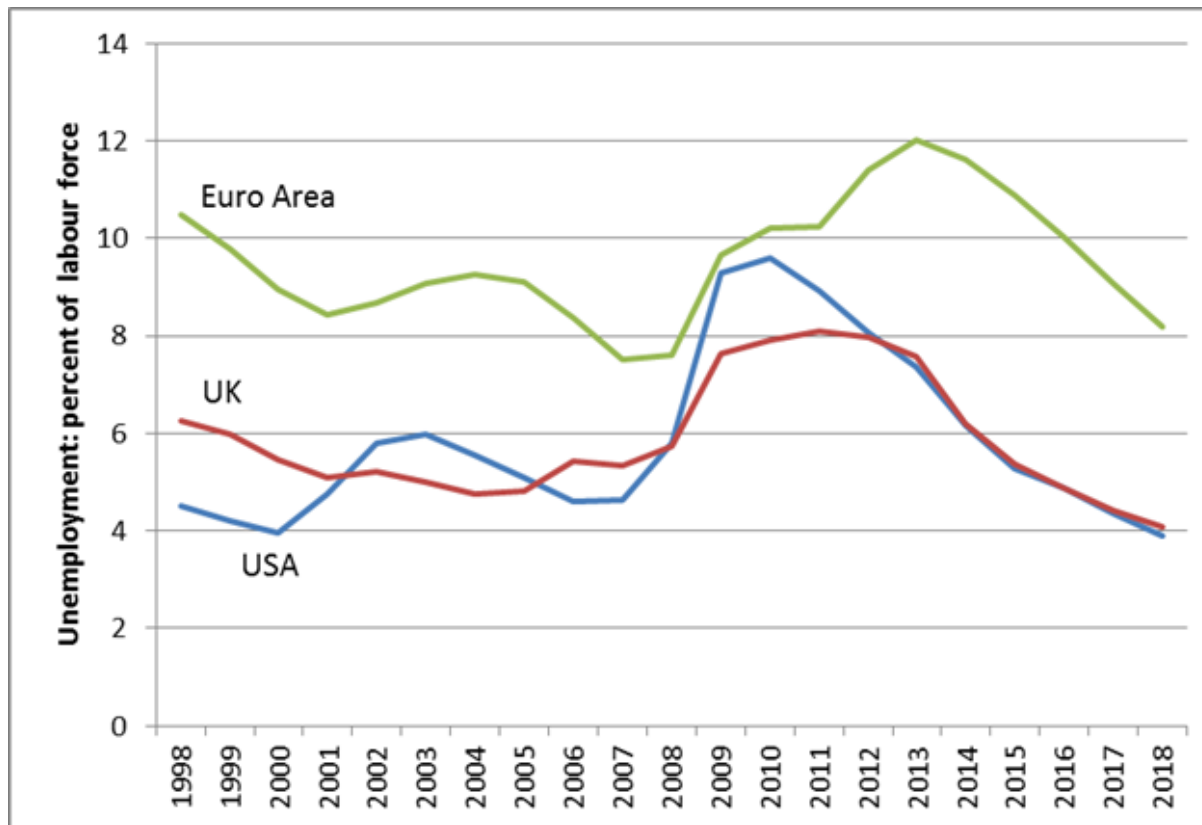
The Future of the World Economy:
Patriots versus Globalists

Adam Bennett & Stephen Pickford

NOMURA FOUNDATION Macro Economy Research Conference **The Economics of De-Globalization** Tokyo October 30, 2019

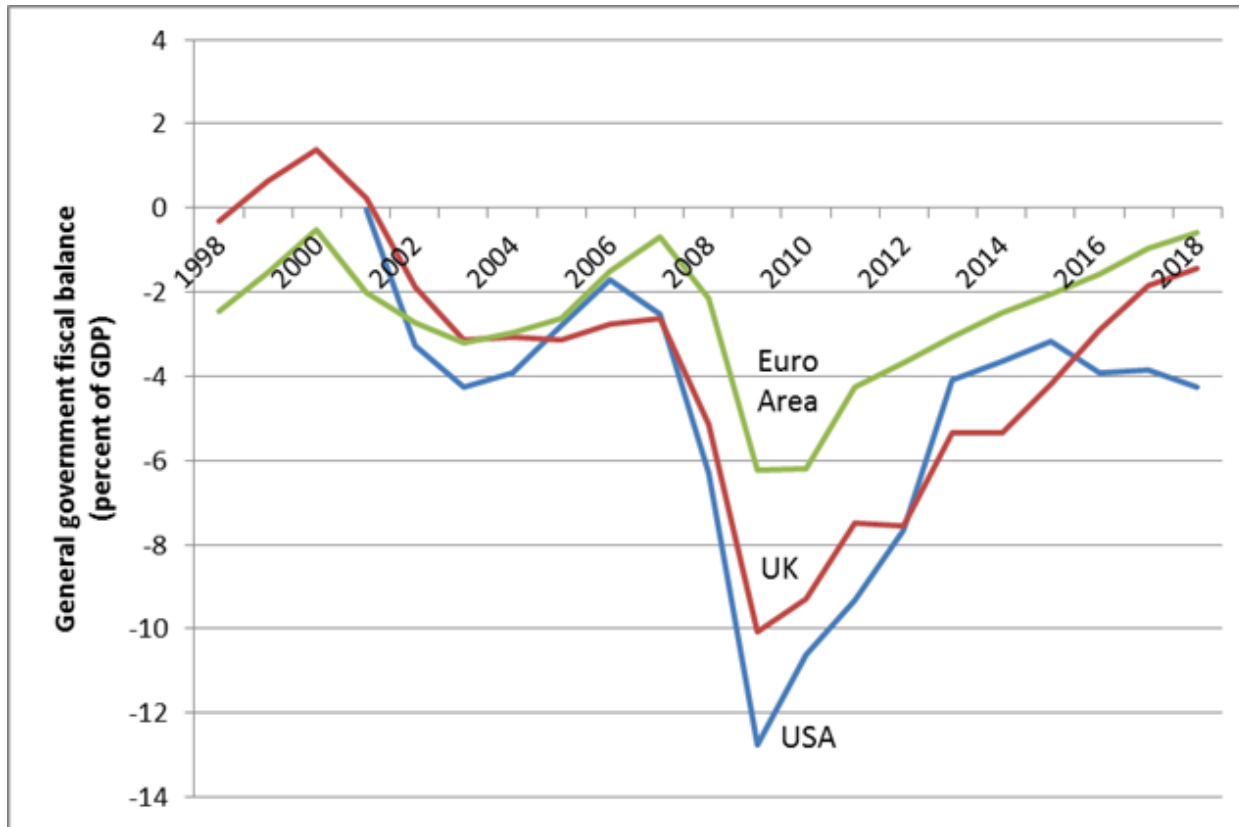
Prelude to Dissent: the Great Financial Crisis

- Recession 2008-09
- Unemployment rises and then slowly subsides



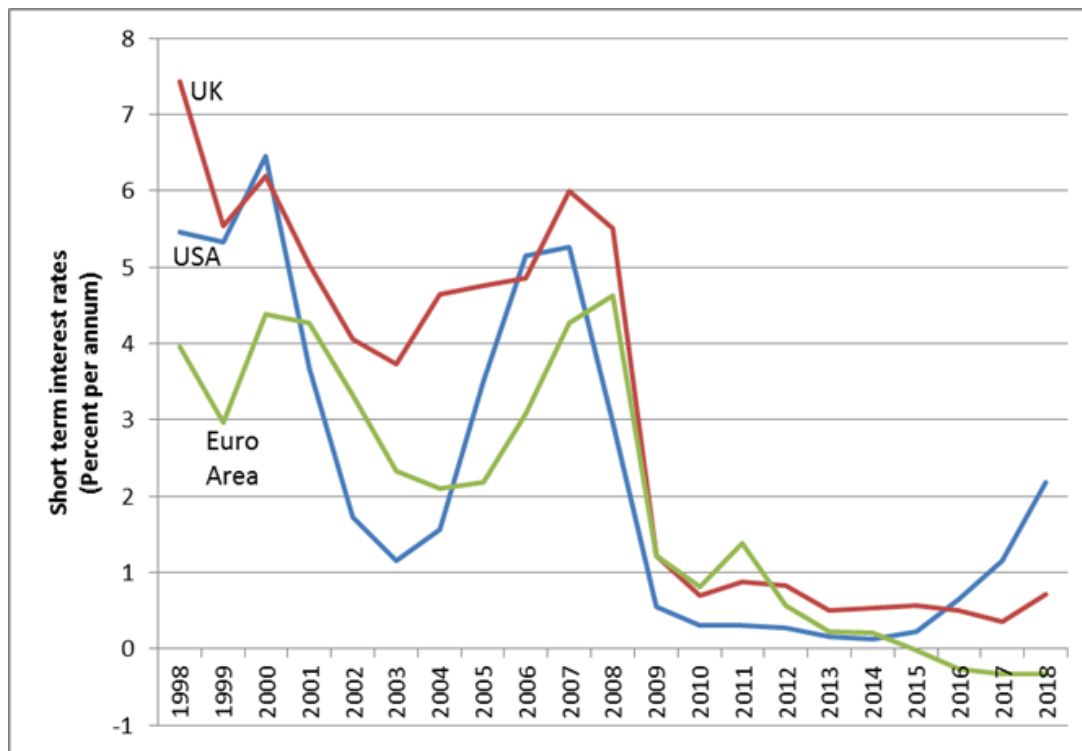
Prelude to Dissent: the Great Financial Crisis

- Fiscal deficits, then austerity



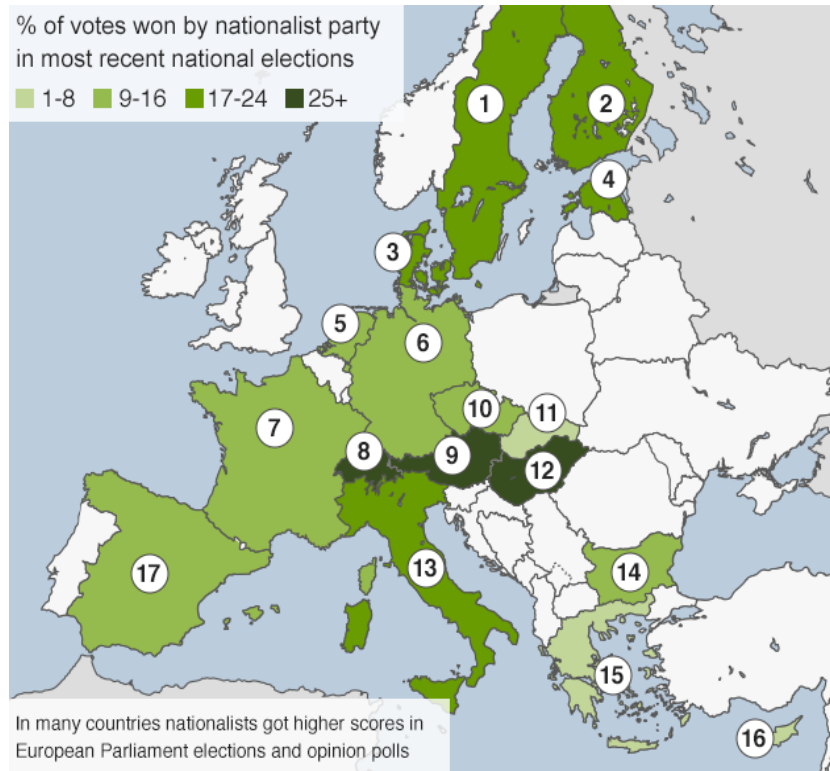
Prelude to Dissent: the Great Financial Crisis

- Short term interest rates fall to zero
- QE is initiated



Prelude to Dissent: the Great Financial Crisis

- Rise of populism

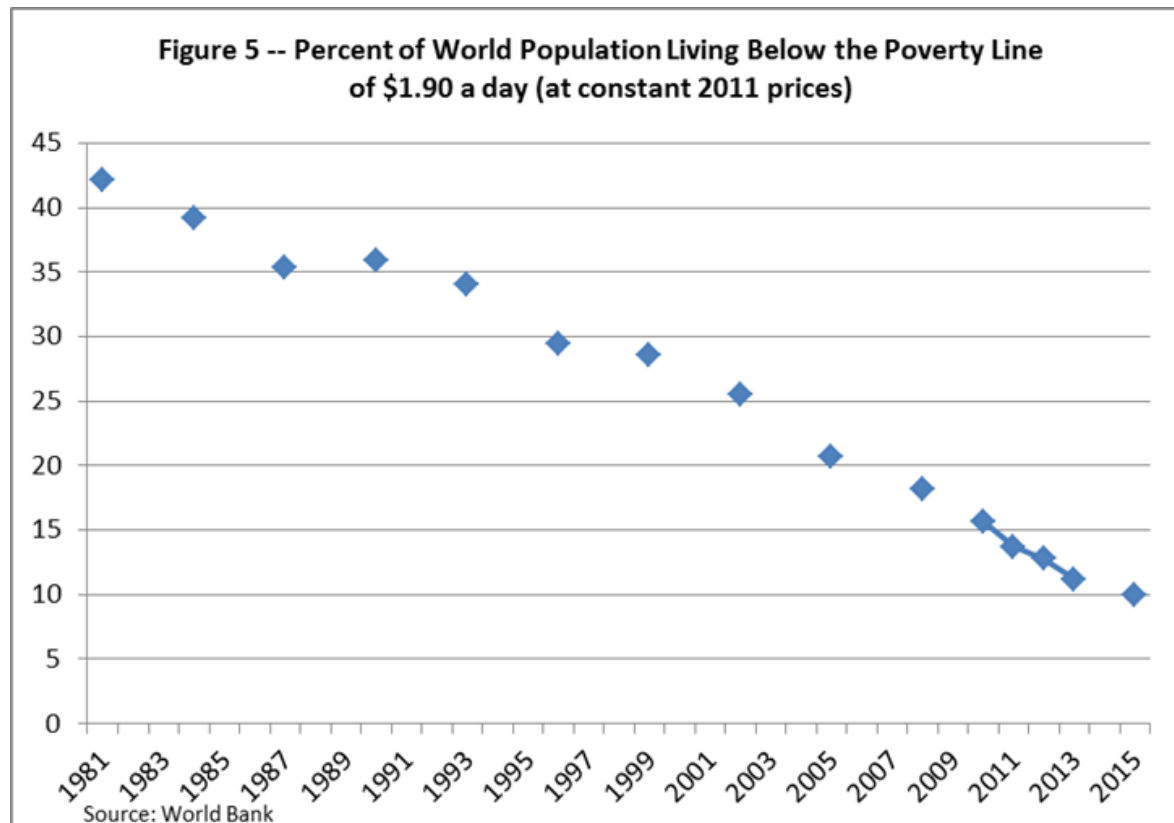


- | | |
|--|--|
| ① Sweden
Sweden Democrats 17.6% | ⑩ Czech Republic
Freedom and Direct Democracy 11% |
| ② Finland
The Finns 17.7% | ⑪ Slovakia
Our Slovakia 8% |
| ③ Denmark
Danish People's Party 21% | ⑫ Hungary
Fidesz 49% , Jobbik 19% |
| ④ Estonia
Conservative People's Party 17.8% | ⑬ Italy
The League 17.4% |
| ⑤ Netherlands
Freedom Party 13% | ⑭ Bulgaria
United Patriots 9% |
| ⑥ Germany
Alternative for Germany 12.6% | ⑮ Greece
Golden Dawn 7% |
| ⑦ France
National Rally 13% | ⑯ Cyprus
ELAM 3.7% |
| ⑧ Switzerland
Swiss People's Party 29% | ⑰ Spain
Vox 10.3% |
| ⑨ Austria
Freedom Party 26% | |

Source: BBC, April 2019

Prelude to Dissent: falling poverty and rising inequality

- Dramatic fall in absolute poverty



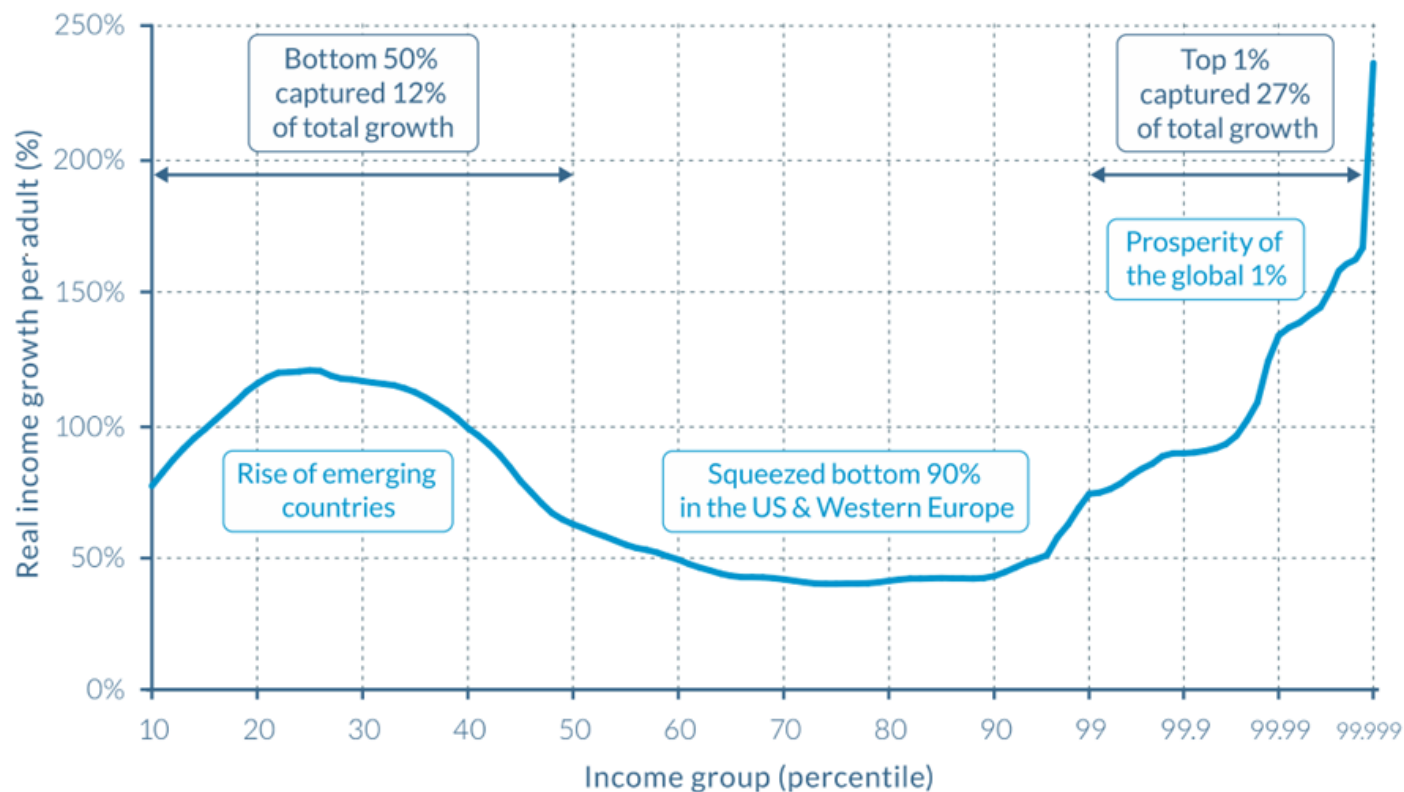
Prelude to Dissent: falling poverty and rising inequality

- Stock market boom
- High return on capital



Prelude to Dissent: falling poverty and rising inequality

- Inequality increases
- Squeezed bottom 90 percent in US & Western Europe

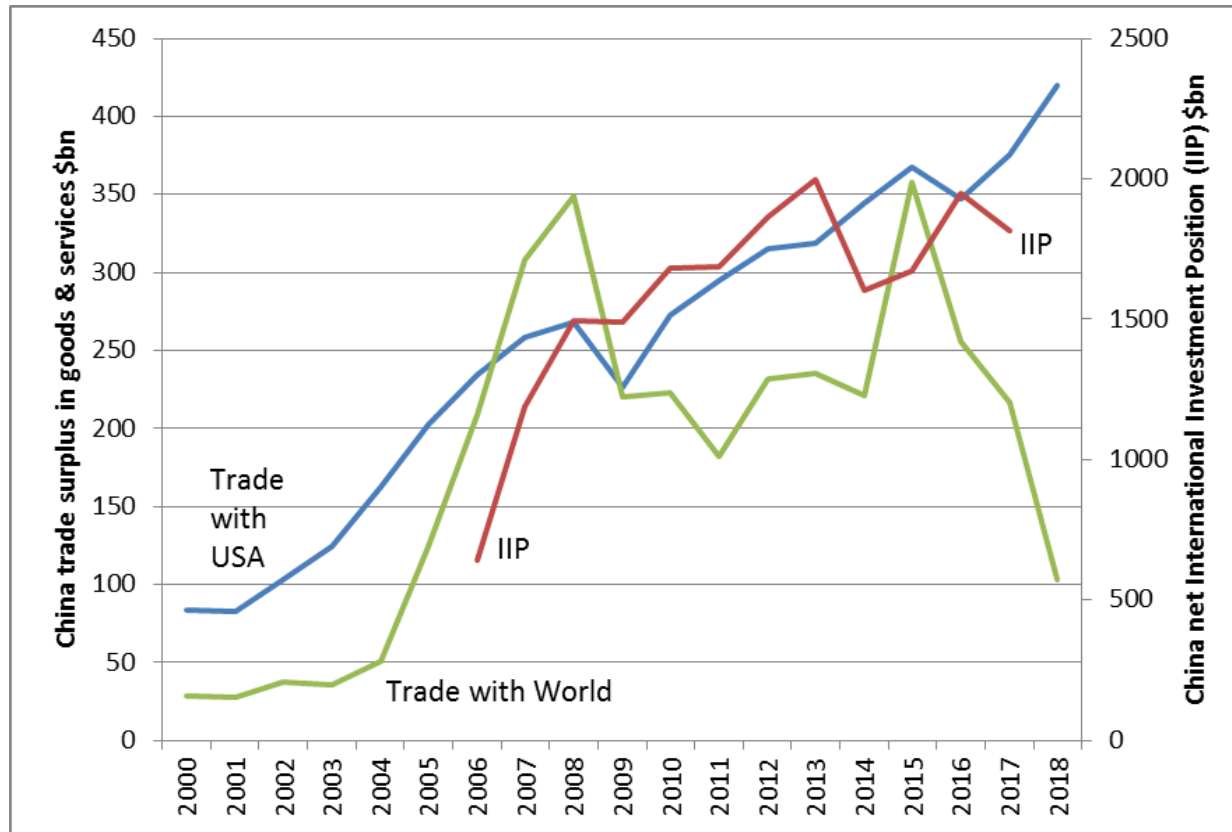


Deglobalization: the Gathering Storm

- Trade disputes
- Sovereignty issues
- Migration pressures

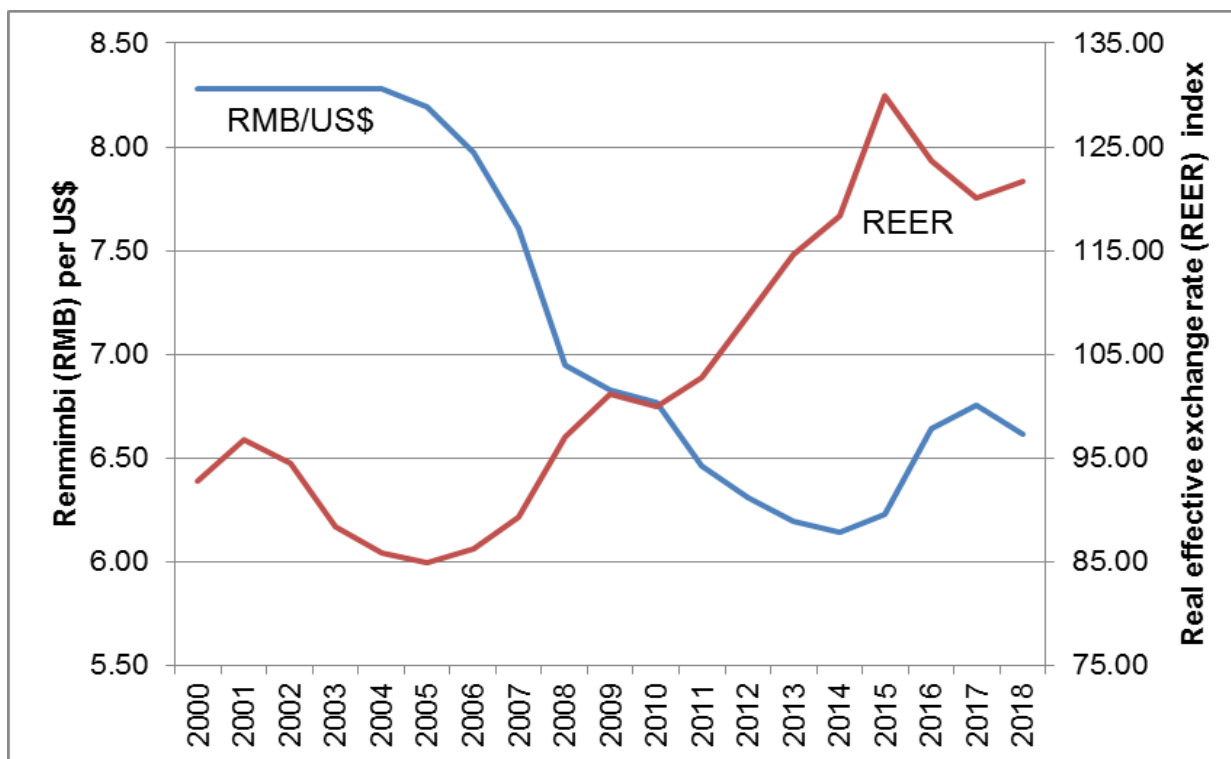
Deglobalization: the Gathering Storm

- China/US trade dispute
- Tariff tit-for-tat



Deglobalization: the Gathering Storm

- China's exchange rate policy: unfair competition?
- Exchange rate: undervalued?



Deglobalization: the Gathering Storm

- UK joins the EEC (later the EU) in 1973
- EEC Referendum in United Kingdom 1975
- Maastricht Treaty 1992: loss of sovereignty?
- Referendum Party 1994
- UKIP & Nigel Farage
- EU Referendum in United Kingdom 2016
- Withdrawal Agreement 2019?

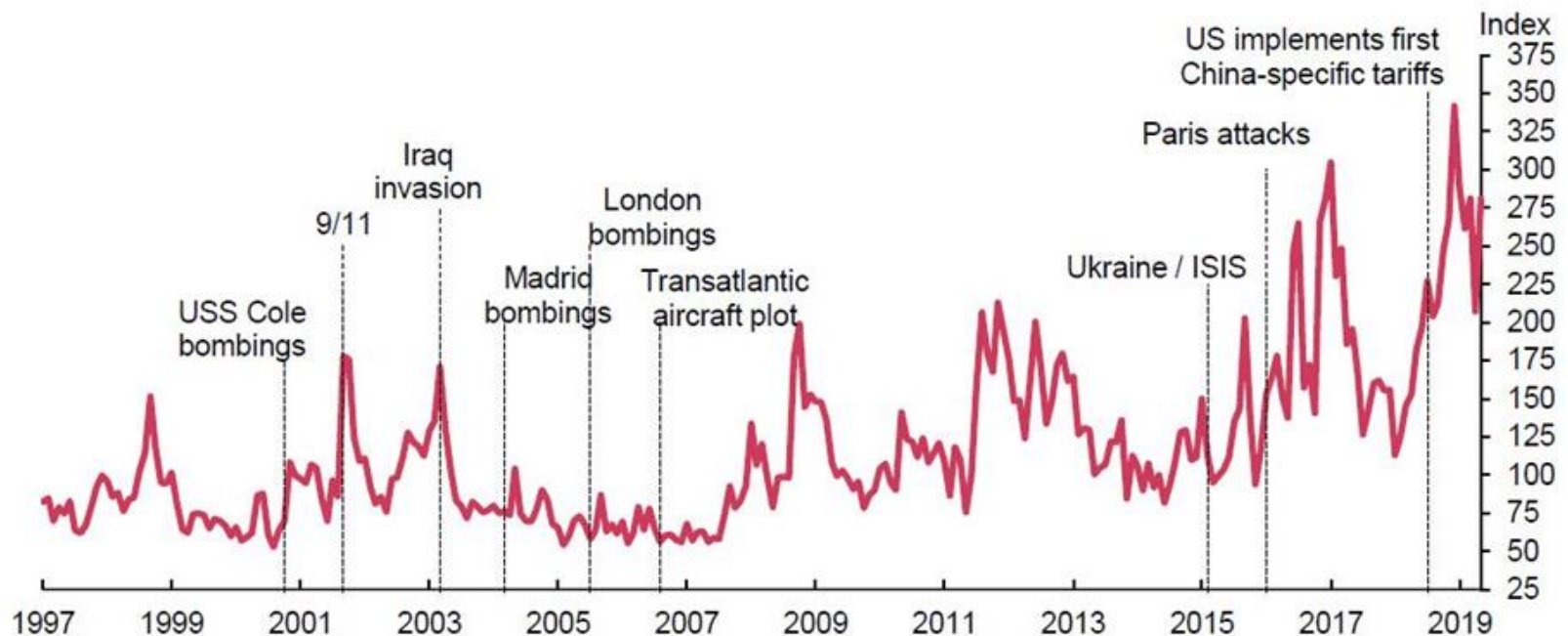
Deglobalization: the Gathering Storm

- Migration takes centre stage

Migration			Percent change				Stock as percent of local population	
			2005/2000	2010/2005	2015/2010	2019/2015	2000	2019
European Union	Total		21.2	17.7	7.0	13.2	7.2	11.7
	Refugees		-0.1	-0.0	0.5	0.4	0.4	0.6
Ireland	Total		68.0	24.0	3.9	9.8	9.3	17.1
	Refugees		-34.8	49.4	-21.5	10.1	0.4	0.3
Sweden	Total		12.2	23.0	21.0	19.6	11.3	20.0
	Refugees		-46.1	11.7	222.5	-10.4	1.9	2.9
United Kingdom	Total		25.3	20.1	18.1	13.6	8.0	14.1
	Refugees		62.8	-21.4	-34.1	3.3	0.3	0.2
Germany	Total		4.6	4.4	4.2	28.5	11.0	15.7
	Refugees		-22.7	-15.1	24.0	90.0	1.1	1.7
United States	Total		12.8	12.5	9.0	5.2	12.4	15.4
	Refugees		-38.6	-50.7	106.5	66.2	0.3	0.3
Source: UN Population Division								
<i>Note that European migrants includes migrants from within Europe (other states) as well as from outside Europe</i>								

Deglobalization: economic effects and “entrenched uncertainty”

- Increase in policy uncertainty since 2016



Deglobalization: economic effects and “entrenched uncertainty”

- G7 Purchasing Managers Index slides

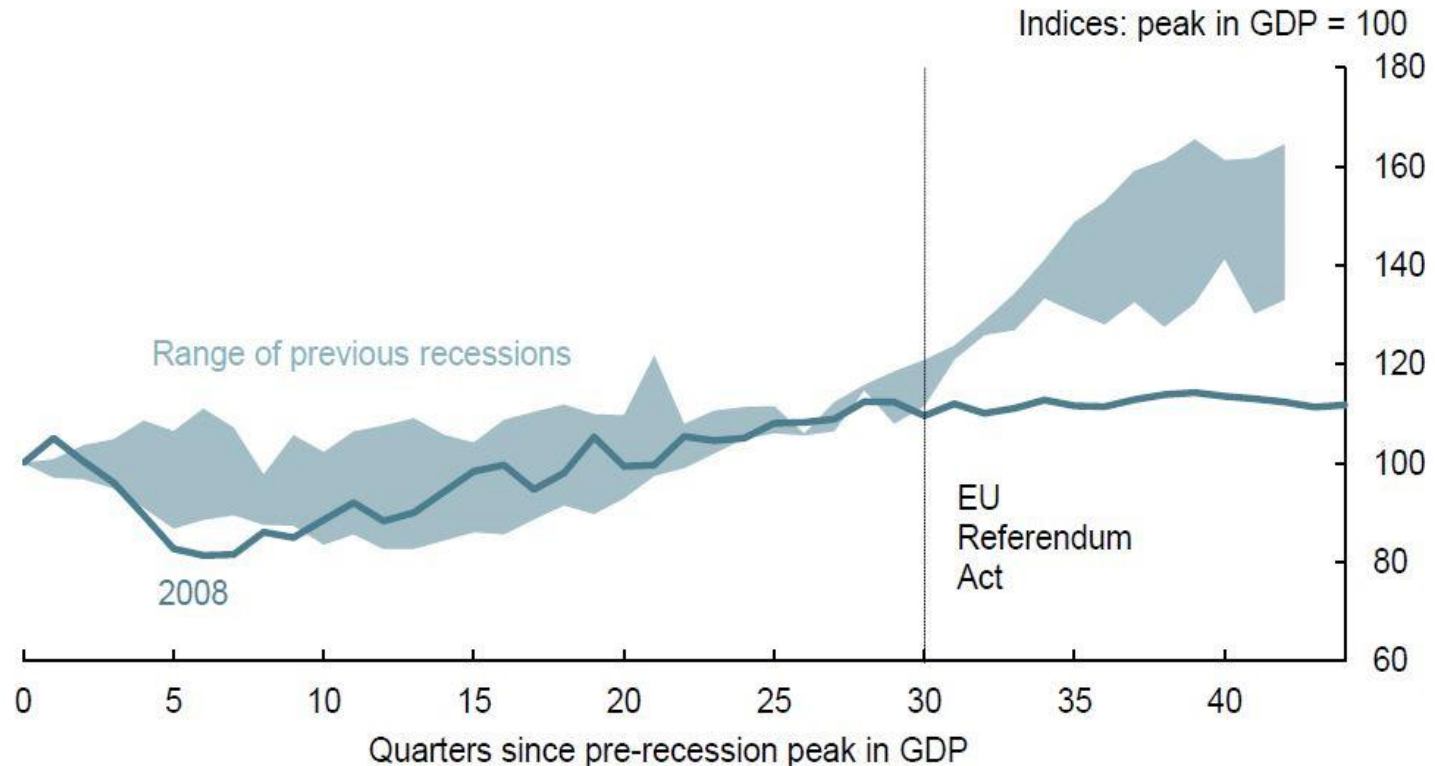


Deglobalization: economic effects and “entrenched uncertainty”

- The escalating tariff war
 - US tariffs on Chinese imports:
 - 25% (rising to 30%) on \$50 bn imports plus
 - 10% (rising to 25% and 30%) on \$200 bn imports plus
 - 10% (rising to 15%) on \$325 bn imports
 - Chinese tariffs on US imports
 - 25% on \$50 bn imports plus
 - 5% (rising to 10%) on \$60 bn imports plus
 - 5% (rising to 10%) on \$75 bn imports
 - Average US tariffs on Chinese imports 24% by December 2019
 - Average Chinese on US imports 26% by December 2019
 - Net impact on global GDP peaks at 0.8%
 - Global growth in 2019: 3% (the lowest since 2008/9)

Deglobalization: economic effects and “entrenched uncertainty”

- UK business investment underperforms



The economic cost of Brexit in the short term

- UK business investment on average 12% lower as a result of Brexit uncertainty (*Bank of England*)
- Business investment currently 20% lower than expected if the referendum had voted to remain (*Bank of England*)
- UK growth forecast around 1¼% in 2019 and 2020 based on an orderly Brexit process and a smooth transition (*IMF*)
- Compared to a negotiated Brexit deal, continued uncertainty would depress UK GDP by ¾% in 2021 (*IFS*)
- ‘No deal’ would depress GDP by 3% in 2021 (*IFS*)

Deglobalization: economic effects and “entrenched uncertainty”

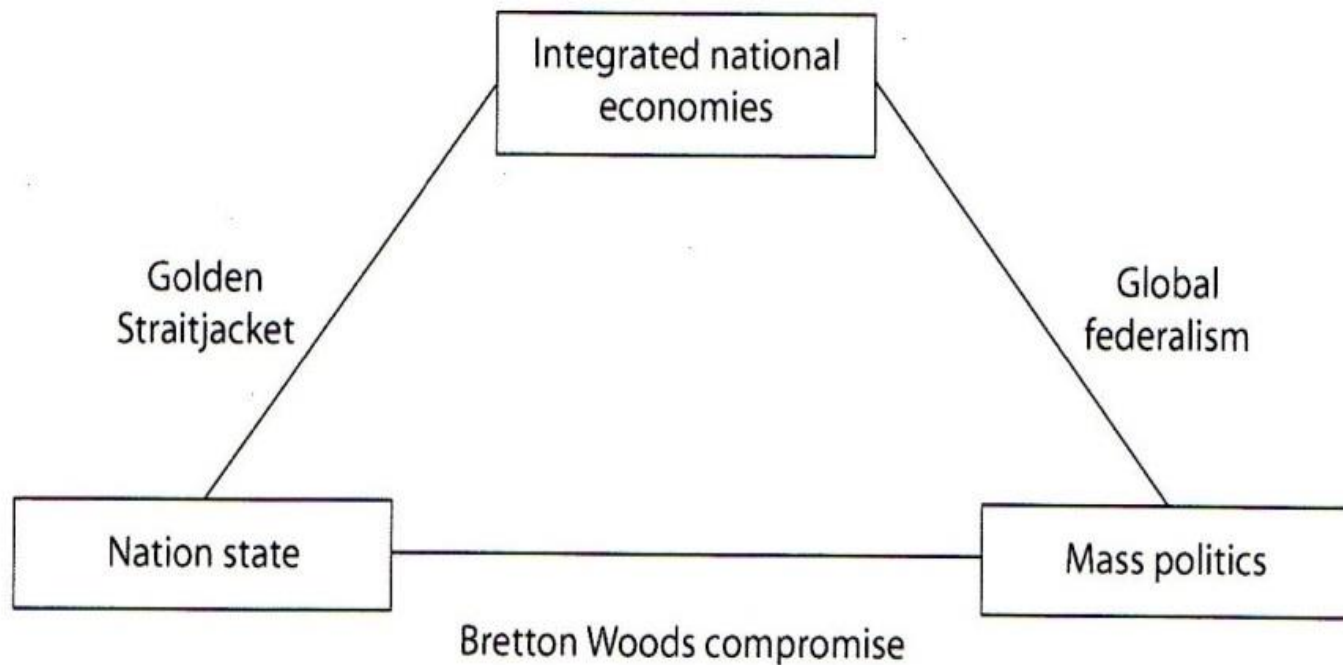
- Boris Johnson deal
 - All UK (including Northern Ireland (NI)) in its own customs territory
 - NI follows EU rules and tariffs for agricultural and manufactured goods (customs border on Irish Sea)
 - UK free to negotiate trade deals with third countries
 - Free trade agreement envisaged (political declaration) with EU, but probably for goods only (minimal coverage for services)
- Deal on hold pending possible general election in December
- EU grants UK extension through to January 31 (or earlier if deal agreed by parliament)

The economic cost of Brexit in the long term

- Under loose free trade arrangement with EU, compared to UK staying in the EU -
 - Income per capita in the UK could be at least 2.5 percent lower (*UK in a Changing Europe* estimate October 2019)
 - Income per capita also lower in EU, but by smaller amount of less than 0.5 percent (higher in Ireland)
 - UK GDP could be 3.4 to 6.4 percent lower, depending on migration arrangements (*HM Government, EU Exit Economic Analysis*, November 2018)
 - GDP in the EU 27 could be 0.8 percent lower (*IMF*, July 2018)
- Under WTO terms (no deal) effects would be much worse

Making sense of it all

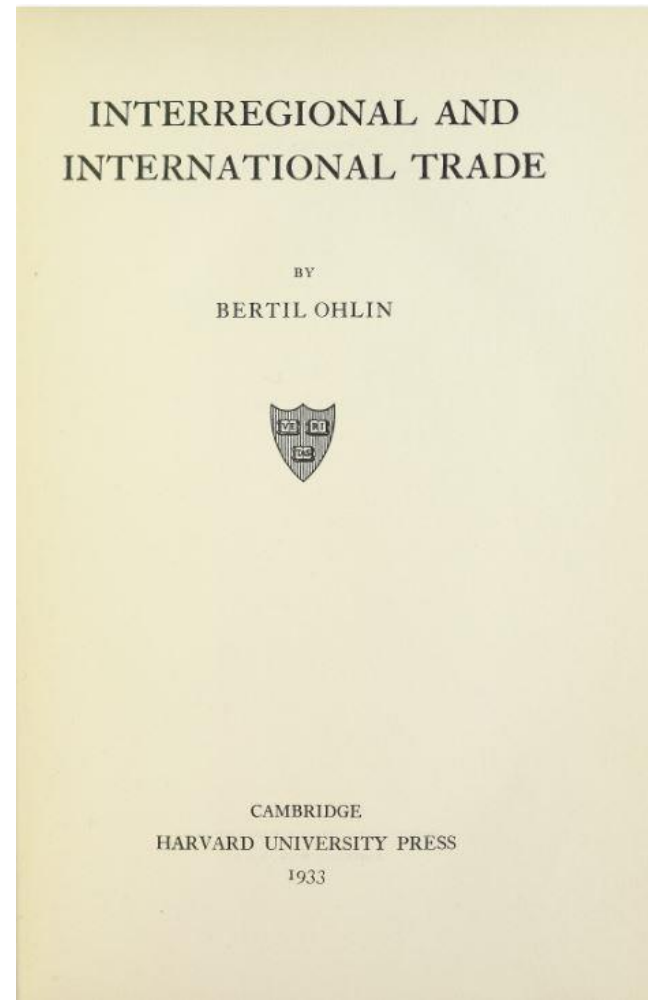
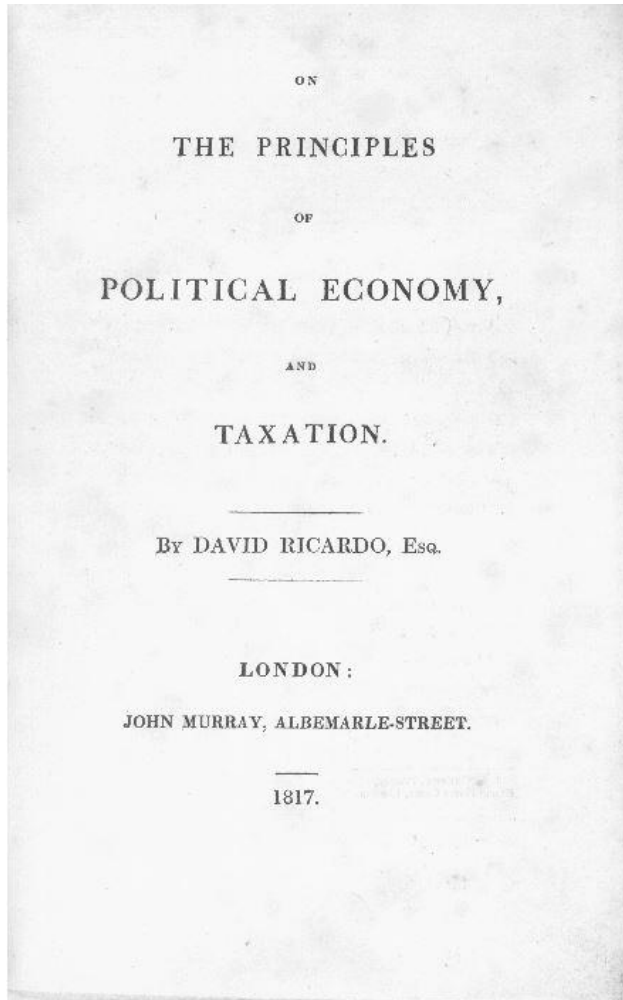
- Dani Rodrik's Trilemma



Globalization: the case for reset and reform

- Reforms to trading system oversight
- Tackling the tech companies
- Retuning the IFIs
- Strengthening the structure of the EU
- Investing in people

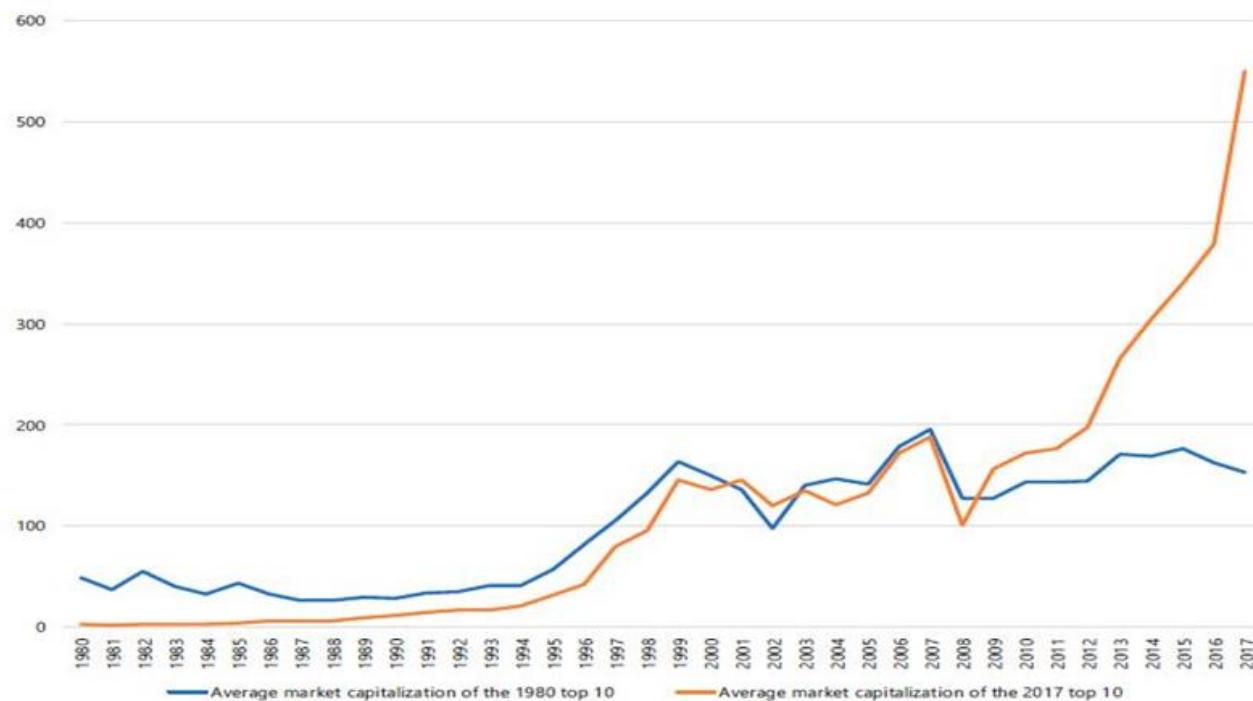
Globalization: the case for reset and reform



- **Strengthening the WTO**
 - Needs to adapt to new trading environment
 - System was built for trade in goods
 - Must adapt to global value chains in production
 - Must respond to the growing dominance of services
 - Regain traditional role as a forum for trade deals
 - Doha round (started in 2001) has stalled
 - Dispute resolution
 - US blocking appointment of new appellate judges
 - This prevents effective adjudication of disputes
 - Decision making needs to be speeded up
 - Decision by consensus is difficult to achieve

Globalization: the case for reset and reform

- Tackling the tech giants
- BEPS
- OECD Discussion Document



Globalization: the case for reset and reform

- Retuning the IFIs for the 21st Century
- Legitimacy depends on balanced global representation
 - President of World Bank has always been a US citizen
 - Managing Director of the IMF has always been a European
 - France (5 times), Sweden (twice), and Belgium, Bulgaria (latest), Germany, Holland, Spain (once each)
 - Positions should be opened up to global competition
- Quota formula based on (i) GDP measure, (ii) trade openness, (iii) variability of balance of payments, and (iv) reserves
 - Quota shares historically dominated by the USA (with veto)
 - 1946 shares: USA 30 percent, UK 14 percent (nearly half collectively)
 - 2019 shares: USA 17.5 percent, Japan 6.5 percent, China 6.4 percent, Germany 5.6 percent, UK & France 4.2 percent each
 - Shares have been evolving, but Europe collectively still has a large share
 - If the EU were assessed as a group rather than individual nations it would have a smaller collective share

Globalization: the case for reset and reform

- Strengthening the structure of the EU
 - Eurozone Fiscal Union
 - Fiscal transfers to offset asymmetric shocks and to redistribute from richer to poorer regions
 - Rebalancing EU power
 - Dominance of Germany, with its huge trade surplus
 - Acceptance of inward migration
 - Demographics requires an influx of younger workers

Globalization: the case for reset and reform

- Investing in people
- The importance of education

	Education level					
	No formal education	Primary school	Secondary school	University degree	Higher degree	Still being educated
Remain	18	28	36	57	64	81
Leave	82	72	64	43	36	19
	Age					
	18-24	25-34	35-44	45-54	55-64	65+
Remain	73	62	52	44	43	40
Leave	27	38	48	56	57	60
	Social grade					
	AB	C1	C2	DE		
Remain	57	49	36	36		
Leave	43	51	64	64		

Thank you
