The Future of the World Economy: Patriots versus Globalists

Adam Bennett & Stephen Pickford
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

Source: BBC, April 2019
Prelude to Dissent: falling poverty and rising inequality

• Dramatic fall in absolute poverty

Figure 5 -- Percent of World Population Living Below the Poverty Line of $1.90 a day (at constant 2011 prices)
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

<table>
<thead>
<tr>
<th>Migration</th>
<th>Percent change</th>
<th>Stock as percent of local population</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>21.2</td>
<td>17.7</td>
</tr>
<tr>
<td>Refugees</td>
<td>-0.1</td>
<td>-0.0</td>
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<tr>
<td>Ireland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>68.0</td>
<td>24.0</td>
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<tr>
<td>Refugees</td>
<td>-34.8</td>
<td>49.4</td>
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<tr>
<td>Sweden</td>
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<td></td>
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<tr>
<td>Total</td>
<td>12.2</td>
<td>23.0</td>
</tr>
<tr>
<td>Refugees</td>
<td>-46.1</td>
<td>11.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>25.3</td>
<td>20.1</td>
</tr>
<tr>
<td>Refugees</td>
<td>62.8</td>
<td>-21.4</td>
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<tr>
<td>Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Refugees</td>
<td>-22.7</td>
<td>-15.1</td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td>12.8</td>
<td>12.5</td>
</tr>
<tr>
<td>Refugees</td>
<td>-38.6</td>
<td>-50.7</td>
</tr>
</tbody>
</table>

Source: UN Population Division

*Note that European migrants includes migrants from within Europe (other states) as well as from outside Europe*
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
Deglobalization: economic effects and “entrenched uncertainty”

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)
Deglobalization: economic effects and “entrenched uncertainty”

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
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

<table>
<thead>
<tr>
<th>Education level</th>
<th>No formal education</th>
<th>Primary school</th>
<th>Secondary school</th>
<th>University degree</th>
<th>Higher degree</th>
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<td>28</td>
<td>36</td>
<td>57</td>
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<tr>
<td>Leave</td>
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<td>72</td>
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<table>
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<tr>
<th>Age</th>
<th>18-24</th>
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<table>
<thead>
<tr>
<th>Social grade</th>
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<tbody>
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<td>Remain</td>
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<td>49</td>
<td>36</td>
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<tr>
<td>Leave</td>
<td>43</td>
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<td>64</td>
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</table>
Thank you