



GLOBALISATION OUTLOOK

by Joe Zammit-Lucia

April 2020

The COVID-19 pandemic simply convinces many that they were right all along



PLUS ÇA CHANGE, PLUS C'EST LA MÊME CHOSE

The world will change out of all recognition following COVID-19.

Or it won't.

We have taken the view that the pandemic will mainly accelerate – maybe to lightning speed - trends that have already been obvious for a while – and that includes the future of globalisation.

France's Foreign Minister seems to agree.

"It seems to me that we are witnessing an amplification of the fractures that have been undermining the international order for years. The pandemic is the continuation, by different means, of the struggle between powers. My fear is that the world after (the outbreak) will strongly resemble the world before, but worse."

Jean-Yves Le Drian
French Foreign Minister

We have many predictions of a massive dislocation of the world order. The world order has been changing for some time – and that is likely to accelerate.

Confirmation Bias

What is not surprising is the ubiquity of the 'I told you so' narrative.

The COVID-19 crisis may offer opportunity to correct some of the many flaws in the current model of globalization – without throwing the baby out with the bathwater

Everyone – on all opposing sides - seems convinced that the crisis is a vindication of their own, pre-existent world view.

“So, those who want more government and public goods will have plenty of reason to think the crisis justifies their belief. And those who are skeptical of government and decry its incompetence will also find their prior views confirmed. Those who want more global governance will make the case that a stronger international public-health regime could have reduced the costs of the pandemic. And those who seek stronger nation-states will point to the many ways in which the WHO seem to have mismanaged its response (for example, by taking China’s official claims at face value, opposing travel bans, and arguing against masks).”

Dani Rodrik in Project Syndicate. April 6, 2020

So, what will be the impact of COVID-19 on the global order? What could it be?

Hard to tell, but here we make some broad guesses that many will find unexciting and not worthy of headlines.

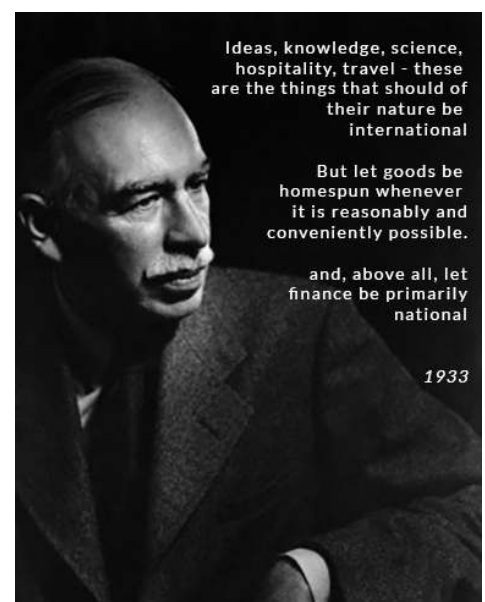
Our view is that the COVID-19 crisis may offer an opportunity to continue to correct many of the flaws of our current model of globalisation – without throwing the baby out with the bathwater.

As we have said many times in the past, the greatest enemies of effective globalization are those who insist, and seemingly continue to insist, that nothing should change. That the biggest question around the pandemic is how quickly we can get back to how things were – or double down on the global free trade ideology.

We do not take our cue from current commentary but rather from liberal economist JM Keynes's perspective from the 1930s – a perspective that we have all ignored to our detriment.

IDEAS, KNOWLEDGE AND SCIENCE

This pandemic has shown us the value of global information



Global scientific collaboration has been the brightest spot in the current pandemic

The China experience suggests a thin line between information sharing and distorted propaganda

sharing, cross-fertilisation of ideas, and cross-border scientific collaboration.

Those who wished to, could learn from experiences in other countries. The race to find treatments and vaccines is global. And it's largely a race against time more than it is a race of one country against the other.

Yet, even here, we bump into the limits of global collaboration.

Many (including yours truly) have given up believing any figures that come out of China. If China truly did, and continues to, cover up information and manage information flow primarily as a propaganda tool, it might be a lesson that, as we have found with social media, global information flows are as much a tool of disinformation, confusion, and geopolitical rivalry as they are a tool of collaboration.

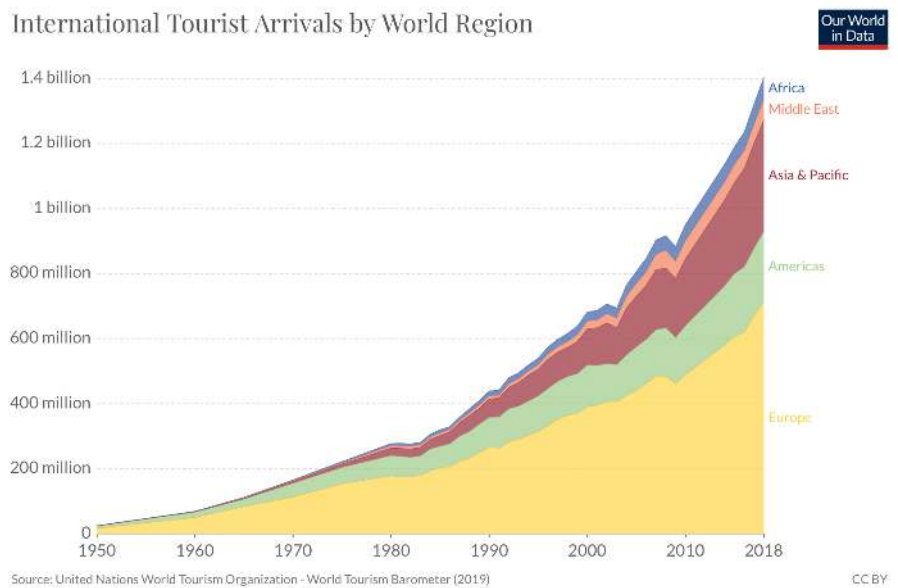
How we deal with that in the post COVID-19 world remains to be seen.

TRAVEL AND HOSPITALITY

The global travel and hospitality industry will take time to recover

We suggest that those who believe that travel, tourism, and the hospitality industry are in for a permanent growth reversal – or even wish for it as an anti-climate change measure – are probably in for a disappointment.

Previous crises like 9/11 and the 2008/9 financial crash were but an irrelevant dip in the inexorable rise in tourist travel (Figure)



There seems little doubt that, with this pandemic, the 'dip' will be significantly more marked – much deeper and much more prolonged than

Future infections will be able to spread globally just like this one

previous ones (following 9/11, the US closed its borders to travel for just three days). Many travel and tourism related businesses will not survive. Tourism-dependent economies will be ravaged before growth is restored.

But, over the longer term – and absent another pandemic – it seems likely that tourist numbers will eventually resume their growth trajectory. Cruise bookings for 2021 are already higher than they were in previous years.

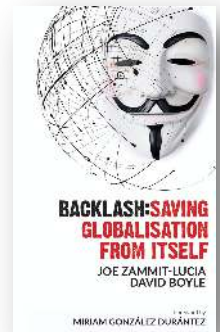
Of course, continued tourist growth suggests that future infections will have the potential to spread globally as quickly as this one did. Not to mention that resumption in travel may also re-ignite the current pandemic.

Governments everywhere may, when the next one hits, be rather quicker in sealing off their borders and restricting movement. An appropriate response. But, long term, global travel is likely to resume its growth pattern.

GLOBAL SUPPLY CHAINS

The mindless pursuit of a penny off is nuts

As we outlined in our book, *'Backlash: Saving Globalisation from Itself'*, the era of widely distributed supply chains was, for many reasons, already under strain, with governments becoming more aware of Keynes's entreaty to "let goods be homespun whenever it is reasonably and conveniently possible".



This is not an argument for autarky, simply a warning that the mindless pursuit of a penny off is nuts.

The current model of globalisation is a perversion of Ricardo's theory of comparative advantage

The current model of globalisation also represents a perversion of Ricardo's theory of comparative advantage that argued clearly for comparative advantage based on opportunity cost NOT based on lower cost production – the current model.

As a result, we have traded off resilience for economic efficiency with the dreadful results that we have all witnessed during this pandemic.

Who will step up to accept that many of the lives lost during this pandemic represent a failure of the model-to-date of globalisation?

"The pandemic also illuminates a wider retreat from full-on free trade that has been gaining in support and legitimacy over recent years—everywhere, that is, apart from in the economics profession. Democratic politics and national social contracts are starting to assert themselves against the laws of comparative advantage — which in any case turn out not to be quite as benign as the economics professors claim."

David Goodhart in "Farewell free trade, and good riddance"
UnHerd, March 2020

We suggest that the above case is overstated (not to mention that comparative advantage is a theory - never empirically proven - not a 'law').

Global supply chains will not disappear. But this pandemic, coming as it does on top of years of dissatisfaction with China's abuse of the global trading system, will continue to transform attitudes and behaviours.

We have seen, for instance, waning enthusiasm for US ratification of the US-Mexico-Canada trade agreement.

"The implementation of the agreement was already causing anxiety among lawmakers and businesses, but the pandemic has made it worse. It now seems highly unlikely that the pact can come into force for the June 1 deadline set by the US trade representative's office.

Financial Times 'Trade Secrets' April 1, 2020

The idea of widely dispersed but fully resilient global supply chains is wishful thinking

The idea that we can maintain widely dispersed supply chains and continue to seek the lowest cost production of everything while making supply chains fully resilient to unpredictable shocks is nothing more than irresponsible wishful thinking. It's akin to oil companies pretending that they can forever run their business without ever again having a spill accident.

Some things are just not possible.

Strategic Industries

We will likely see an expansion of what are considered strategic industries requiring domestic production

What governments will start defining as 'strategic industries' will likely change dramatically following this pandemic. It remains to be seen how wide that definition becomes.

One example is **Personal Protective Equipment (PPE)**. Some are now arguing for stockpiling of such equipment. Yet PPE has a finite shelf life.

Stockpiles will need to be replaced regularly. And it's not clear that enough can ever be stockpiled.

Stockpiling is unlikely to be more than a partial solution. Local production capability will also likely have to be part of the solution.

Control over **pharmaceutical research and production** will also likely be re-evaluated. We saw the German reaction to the mooted takeover by the US of CureVac.¹

Expect more to follow.

What will be future attitudes towards food security?

Food security will also likely be on many countries' list of concerns and will doubtless be subject to much debate.

It will be interesting to watch how the debate around arguments like that below will evolve.

"Seeking self-sufficiency in food should not be a goal of agricultural policy"
Farming Tomorrow. Policy Exchange, 2017

Responses are also different across the Atlantic.

Europe continues to focus on 'efficiency' – little learned?

Sabine Weyand, the European Commission's Director General for Trade has rubbished the idea of self-sufficiency, even on a continental basis. Her proposed solution is to make supply chains resilient through diversification giving the example of ventilators, some of which require up to 900 different components not all of which can be locally sourced.

Peter Navarro, President Trump's trade guru, unsurprisingly takes a different view:

"If we made it here, we wouldn't be faced with this. That was, that was the original sin", he is reported as saying.²

Dreams of an all-encompassing trade deal are delusional

Weyand's continued focus on 'efficiency' suggests that she has learned little from this crisis. In that, she is joined by those who seem to believe that the idea of unfettered globalization is so essentially important that they are willing to imagine all sorts of mega trade deals that would avoid

¹ <https://www.reuters.com/article/us-health-coronavirus-germany-usa/germany-tries-to-halt-u-s-interest-in-firm-working-on-coronavirus-vaccine-idUSKBN2120IV>

² US, EU are far apart on reshoring making of medical gear. Bloomberg, April 13, 2020

the same sort of chaotic scramble for medical equipment that we have seen in this pandemic.

In our view, this is delusional – especially in the current geopolitical climate.

Keeping supply chains open does not address the issue of demand outstripping supply

New Zealand and Singapore are trying to put together a coalition of the willing to ensure that supply chains for essential equipment remain open.

“New Zealand and Singapore undertake to remove tariffs, not to impose export restrictions and to remove non-tariff barriers. It also includes an undertaking to keep supply chains operating effectively for these products.”

New Zealand Government Press Release, 15 April 2020

There is no doubt that open supply chains are better than closed ones.

What this approach does not address is – what happens when global supply is insufficient to meet global demand? How is the destination of limited supplies to be determined without a replay of the bun fights we have seen this time around? Which country is willing to take the risk that it will end up at the back of the queue?

Even if Europe is unwilling, or incapable, of re-shoring 'essential' production, the US will likely try to move in that direction.

We will have to wait for the next crisis to see who has managed to implement their preferred approach in the real world – as opposed to the world of speeches – and which approach has worked best.

FINANCE

Transnational finance is here to stay

"Above all, let finance be primarily national."

We are long past that stage. And it's highly unlikely that the genie of rapid, transnational financial flows can be put back in the bottle.

“Many so-called trade agreements now include capital account liberalisation – in other words they require free flow of capital as part of the agreement. This is not what we, the authors, understand as 'trade' – even though such liberalisation is often slipped in under the guise of liberalisation of financial services”

Joe Zammit-Lucia and David Boyle in 'Backlash: Saving Globalisation from Itself'

Central banks have been quicker at coordinated action

The IMF calculates that, in February and March this year, \$100 billion of 'hot money' has flowed out of developing market portfolios and that remittances to poorer countries are expected to dwindle.³

Adam Tooze provides an outstanding review of how the pandemic nearly brought down the global financial system.⁴ The article highlights both the deep transnational interdependence of the financial system making coordinated action essential, and the continued high dependence on the US dollar – and therefore the actions of the Federal Reserve and the US government.

“By the end of the third week of March, 39 central banks around the world, from Mongolia to Trinidad, had lowered interest rates, eased banking regulations and set up special lending facilities. To ease the pressure on emerging markets, the Fed widened the network of liquidity swap lines to cover 14 major economies including Mexico, Brazil and South Korea. This was a remarkable wave of activism. But the pandemic itself was only beginning to bite. Central banks could cushion the financial shock, but not address the actual economic implosion, let alone the health crisis.

Adam Tooze

On April 1st, CityUK issued a statement⁵ from the 'Global Services Coalition' calling for preservation of the global flow of financial services. But, yet again, failed to draw a line between financial services and the flow of capital.

The good news is that central banks, in spite of the limitations of what they can achieve in a health crisis, have been much better at quick action and international coordination than have governments. Not surprising given the issues involved.

Policy-Directed Lending

Finally, if there has been one concept that has been seen as the work of the devil by the finance industry, it's that of policy-directed lending.

Yet banks are now being asked to be the essential conduit of the money needed for the real economy to recover. They are being encouraged to support SME's – a skill many have lost over the years – as well as helping to ease the financial pressures on households.

Will 'policy-directed lending' remain a demonised concept?

³ <https://www.imf.org/en/News/Articles/2020/04/07/sp040920-SMs2020-Curtain-Raiser>

⁴ <https://www.theguardian.com/business/2020/apr/14/how-coronavirus-almost-brought-down-the-global-financial-system>

⁵ Ensuring Resilience of Global Supply of Essential Services in Combating COVID-19

None of the bank stress tests envisaged this sort of crisis

All this on the background of significant uncertainty as to whether banks themselves are resilient enough to withstand the current crisis.

Banks certainly have stronger capital positions that they had entering the 2008 financial crisis. Yet none of the stress tests they have been submitted to in the last decade envisaged a 'stress' of this nature and magnitude.

How the banking system will weather this crisis, and whether banks will realistically be able to do all that is being asked of them, remains to be seen

About RADIX

RADIX is a non-aligned public policy think tank for the radical centre. Its aim is to re-imagine the way government, institutions and societies function based on open-source, participative citizenship. To kick-start the thinking that is needed for policy to embrace technology, innovation, social and cultural change.

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