**THE BROOKINGS PODCAST ON ECONOMIC ACTIVITY**

**"What is the evidence for deglobalization?"**

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*Episode Summary:*

It is widely understood that the global economy has become increasingly interconnected over the last century, with especially rapid globalization trends for 20 years starting in the 1990s. That trend continued even through the COVID-19 pandemic, when countries were forced to close their doors and many supply chains were disrupted. However, new *Brookings Papers on Economic Activity* research by Pinelopi Goldberg and Tristan Reed uses trade, capital flow, and immigration to show that there has been a slowing in globalization beginning around 2015. In a conversation recorded in March 2022, the authors joined Brookings Senior Fellow Gian Maria Milesi-Ferretti for a discussion on their findings and the outlook for globalization going forward.

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**STOCK:** I'm Jim Stock, coeditor of the *Brookings Papers on Economic Activity*, the semiannual academic conference and journal that pairs rigorous research with real time policy analysis to address the most urgent economic challenges of the day. On behalf of my coeditor Jan Eberly of Northwestern University, as well as the rest of the Brookings team, I'd like to thank you for joining us for this episode of the *Brookings Podcast on Economic Activity.* Here we share conversations with leading economists on the research they do and how it will affect economic policy.

On this episode, you'll hear from Pinelopi Goldberg of Yale and Tristan Reed of the World Bank on their new paper, "Is the global economy deglobalizing? And if so, why? And what is next?" They'll be interviewed by Gian Maria Milesi-Ferretti of the Hutchins Center on Fiscal and Monetary Policy.

There's been a lot of talk about deglobalization or perhaps more accurately the slowing of globalization, something that is sometimes referred to by the rather dubious term "slowbalization." Deglobalization has been intertwined with discussions of supply chain resiliency over the past few years, because of COVID supply chain disruptions, because of the salience of supply chain risks in the face of conflicts—and in particular the Russian invasion of Ukraine—and because of domestic concerns, at least in the United States, about job losses to low-wage international competitors.

But what are the facts? Equally importantly, what are the drivers? Understanding the scope and forces will inform the discussions of deglobalization. Goldberg and Reed dig into this and have some surprising and provocative conclusions. And now I'll hand it over to Gian Maria, Penny, and Tristan.

**MILESI-FERRETTI:** Thank you, Jim. Good afternoon, I'm Gian Maria Milesi-Ferretti, senior fellow in the Hutchins Center on Fiscal and Monetary Policy at Brookings. Joining me today is Pinelopi Goldberg, the Elihu Professor of Economics and global affairs and an affiliate of the Economic Growth Center at Yale University, and Tristan Reed, an economist for the World Bank's Development Research Group. And we'll be discussing their new paper, which they presented at the Spring 2023 *Brookings Papers on Economic Activity* Conference in Washington, D.C. So, thank you, Penny and Tristan, for joining me today.

**GOLDBERG:** Thank you very much for having us.

**REED:** Thank you.

**MILESI-FERRETTI:** So, let me start with the question, what aspects of globalization does the paper focus on?

**GOLDBERG:** We focus primarily on trade, on international trade. But of course, globalization is a more general concept. And we mentioned that at the beginning. We explore also some other measures of globalization. So, for example, we look at capital flows, we look at stock of immigrants. We think that all these metrics tell the same story, namely that we had a slowdown of globalization, but not really a reversal of trend.

Now, one could write a book just about measurement, because globalization is a very broad concept. So, one can employ different metrics, provide data for different countries, different groups of countries, different sub periods, so one can go deeper into laying out the trends. But overall, we think that there is a very clear picture that emerges from the empirical analysis. Namely, there is a slowdown, but not necessarily a reversal.

**MILESI-FERRETTI:** And I'll follow up on this, maybe with a question for Tristan. So, has the world become less or more globalized according to these aspects, these metrics we've been talking about? So, Penny said that there has been a slowdown overall, but what variables should we be looking at if we want to assess the evidence? But looking back and also if we want to look forward, what should we be monitoring to assess whether the world is deglobalizing?

**REED:** So, one thing we do in the paper to try to highlight that countries have diverse experiences with globalization. And so, an aggregate slowdown, for example, of imports as a share of GDP is driven in large part by the largest economies. China and India are two countries that have grown a lot over the past two decades. And they have been able to reduce their imports of intermediate goods, for example, as a share of GDP, as a backwards integrated.

That picture is very different for other countries, you know, so in the rest of the world outside there you see still an upward trend in intermediate inputs as a share of GDP.

So, while I think it's useful to look at the aggregate to make some grand claim about where globalization is headed, it's also important to recognize that countries are changing their dependance on the global economy or reliance on the global economy.

**GOLDBERG:** If I may add something. So, as Tristan said, we focused mainly on trade flows, so value of imports or exports and also import or exports as a share of GDP. And as I mentioned earlier, you can also look at other measures: capital flows, labor movements across the world, et cetera. So, all of this refers to data, things we can measure.

At the same time, one point we make in the paper, we tried to emphasize that, is that sometimes policy changes or a change in sentiment predates changes in the data. So, in many cases we may not see something in the data yet, but the development has already started.

So, in the paper we also discuss policy changes that have happened mostly in the last five years: changes in trade policy; changes in the attitude towards the World Trade Organization; other provisions, for example, in the United States, in the Inflation Reduction Act, in the CHIPS Act that may sometimes be perceived as being, as being competing with principles of multilateralism.

And finally, we talk a lot about the change in public sentiment. And again, this is hard to measure, but we can use text analysis to get some sense of how frequently people talk about things like reshoring, or friend shoring, or China plus one these days.

So, all these shows a certain change in attitudes. It's not reflected in the data yet, but we are concerned about what this may imply about the future that we may eventually see in the data.

**MILESI-FERRETTI:** Indeed, this is an absolutely fascinating discussion that reminded of questions we got at the time of the initial Trump tariffs at the IMF and whether there were already signs of more segmentation. And we haven't seen really the signs in the data yet. But this is the type of tensions you're referring to are quite, quite worrisome.

What are the root causes that you see, Penny? I think you alluded to it already, but what do you think are the root causes of a possible trend towards globalization? You see these as mostly, if you want, economic pressures or are they mostly driven in your view by geopolitical factors or political pressures, say, of a nationalistic kind more generally?

**GOLDBERG:** I think the answer is both. And one thing people often point out is that trade was always very closely linked to politics. One cannot tell those apart. In the paper, we charter three phases in this deglobalization movement, if you want. And we think the causes roughly correspond or are different in these three phases.

The first phase starts around 2015, 2016 when we see Brexit in the United Kingdom, we see the tariffs in the U.S., we see policymakers, politicians becoming much more critical towards globalization, towards free trade. And this reflects mostly concern about the labor market effects of trade, especially trade with low wage countries and especially trade with China. So, by that time, it had become clear that though we had all benefited tremendously from open markets, from trade with low-wage countries, at the same time there was disruption, there was displacement in advanced countries, there was an increase in spatial inequality, there were communities that were left behind. And all this created an environment that was very receptive to trade protection.

At the same time, there were increasing concerns about the rise of China, and especially the view that China was competing unfairly and was taking advantage of the United States' willingness to provide knowledge transfer and aid. And all this was acceptable when China was a poor country, a poor developing country. But as China became richer and on its way to become a world power, certainly an economic power, then we all became more cautious and more critical. And so, that I would consider to be a distinct effect separately from the concern about the labor markets' effects of trade with China.

So, that all plays out in the first phase, and as a result we have the U.S. tariffs, we have Brexit, and our view in the paper is that all these things were, all these developments were, of course, important. And they may mark the beginning of this deglobalization movement, but they did not have any lasting effects. And actually in the analysis we've done previously, we do find that trade survived all these tensions. It's true that trade between the U.S. and China declined, but other countries picked up the slack. So, there was reallocation of trade flows, but we didn't see trade collapsing.

Then phase two plays out during the COVID era, and there we hear completely new arguments against trade, new in the current context, they are not fundamentally new. The concern there is about the resilience of supply chains. So, the word “resilience” becomes a key word during this phase. And the basic idea is a very simple one: a chain is as strong as the weakest link, so if one link breaks then the whole chain will collapse.

One point we make in the paper is that even though we heard these arguments repeatedly during this period, the evidence actually does not support them. And we raised the issue of what exactly resilience means. We tend to be fairly vague when it comes to the concept of resilience. And we have a lot to say about that in the paper.

But no matter how you define it, I think any reasonable person would agree that the world economy proved resilient during COVID and after COVID. It was perhaps the biggest global shock that we faced after World War II. And it seems that we’ve done, overall, despite the very high cost we paid, it seems we have survived it for the most part. There are many reasons for that, of course. Monetary and fiscal policy played a very important role, but at the same time we make the point that trade actually contributed to resilience. Not only did it not cause the world economy to suffer during that period, but it actually helped us get out of the crisis faster.

And, one very simple example we give is what happened with face masks. Of course, there were shortages of face masks for two weeks. But eventually, imports of face masks from China and Korea filled the gap. So, this is a case actually where trade helped close the gap that would have been much larger without international trade.

And finally, there is a very simple intuition one can provide when it comes to resilience during COVID. If you deal with a shock that is not specific to a particular country, if you deal with a shock that has also domestic implications as was COVID, then having international sources may actually be a source of resilience. So, in the case of COVID, the COVID shock was not synchronized across countries, but was of course, a global shock. But not all countries were hit at the same time.

And the reason this turned out to be helpful is while some countries experienced lockdowns, other countries did not, and these countries could actually help with exports of important products.

So, we provide many pieces of evidence in the paper that suggest that, again, during this period trade, despite what was written and what was said, trade contributed to resilience. And because of that, because we think this was an overreaction to what was happening, ultimately trade and globalization again survived this period. So, after 2020 trade started growing very fast again.

And then phase three starts, in our view, with the invasion of Ukraine. And in our view that was a game changer in the sense that it exposed the fragility of global value chains to geopolitical risk. Geopolitics have always had always been important, especially in the context in relation to China, as I mentioned earlier. We had been concerned about the rise of China as an economic power even before. But what happened with the invasion of Ukraine, all of a sudden Europe found itself in a very difficult position because it had relied on energy imports from Russia to a large extent to fund its growth.

And so, it's not that Russia per se is very important, but by analogy, many policymakers, especially the U.S., started thinking, What would happen if something similar, if a similar shock hit us, but the country, the relevant country, were not Russia, it were China, which is one of our biggest trading partners. So, that created a whole new thinking regarding trade, regarding resilience to geopolitical risk, and provided new arguments for diversifying, at least diversifying away from countries that may perceived as not being our friends.

And in our view, that's perhaps the most serious development in this deglobalization movement that may have lasting effect. We've seen many important changes in the policy environment in the last year that reflect this change. And as I said earlier, we don't see it in the data yet. We have seen a very sharp decline in the U.S.-China trade, but not necessarily in global trade. But the rhetoric is so strong, the bipartisan support against trade with China is so strong, and the measures that are taken are a clear break from what has happened in the past. And all this gives one many reasons to be concerned about what the future will look like.

**MILESI-FERRETTI:** Thank you, Penny. It is a fascinating set of questions. And when you mention the role of trade in cushioning the depths of the recession, I'm reminded of the importance of trade coming from angles that were unable to cushion the impact of the recession, the collapse in travel and tourism that caused a collapse in trading services, and the heavy toll that that ended up extracting on countries that depended on those revenues as an important source of economic activity.

So, I would like to follow up with both of you on a question, really related to the last one, and to the answer that Penny provided. Do you see policymakers preparing for a future that is shifting towards a different type of globalization or maybe less integration. Or is your sense that in many cases, policymakers are just reacting to current political pressures—you mentioned a pretty bipartisan backlash in the U.S. against China, for instance—without much regard for the economic consequences? And you really very eloquently argued that trade has been much more beneficial than people actually realize.

**REED:** Absolutely, we do see governments changing, I think. An interesting example that's been in the news just in the past few days is a draft of the European Union's Net Zero Industry Act, which will procure, among other things, solar panels for the decarbonization of Europe. And they've proposed a rule that says, Well, we're going to mark down any tenders that come from a supplier that has more than 65% of the market share. And that applies to only one country, which is China, which has an 85% market share. And so, this is an explicit choice to say, We want to be more diversified, we want to supply from other countries.

But it also, I think, shows that in this case, the European Union is willing to pay significant costs to make that adjustment. China is by far the cheapest, the lowest cost provider of solar panels. And so, doing this transition is going to increase costs.

And so I think the interesting question is why would they do that? And it seems from the evidence we document during COVID that actually China was an extremely reliable supplier during the pandemic. It scaled up face masks, exports of semiconductor chips, electric car batteries actually grew and accelerated even during 2020.

And so, you have to wonder why, why would they be doing this? And it seems that it must be a geopolitical risk that someday Europe may choose to put sanctions on China or may be compelled to put sanctions on China rather than the past history of China's delivering solar panels. And so, this is where we do see countries responding. And it also seems that it doesn't make sense that they're responding to, let's say, technical reasons that were part of a business strategy, but rather they're responding to specific geopolitical risks that are relevant to specific countries like China.

**GOLDBERG:** One thing I would say that governments are not just responding, they are engineering this trend. Because as Tristan said, this is not market driven. It's not that the private sector is asking for this diversification. And we also saw that very clearly in the export restrictions in the semiconductor sector in the U.S., where, of course, the private sector is going to comply and go along. But initially, many firms were very confused. They didn't know exactly how to navigate this new environment. At a minimum, they needed to hire many lawyers to figure out how to obtain export licenses if they want to eventually export to China. It's a new environment that many firms were not counting on.

And so, I think this is top down and this is what makes it different, that in response to these geopolitical risks, government, by that we mean mainly the U.S. government and to some extent European governments, they have decided to decouple from China, and the private sector needs to go along. So, in that sense, it's very different from what we saw in earlier years where there might have been lobbying from the private sector against liberalization. This is not what's happening now. This is very different now.

**REED:** If I can, I just want to go back to one piece of evidence from our paper. So, one question that Penny brought up, do firms want connections with international suppliers, or would they prefer domestic suppliers or reshoring? We show in looking at data on all the container shipments coming into U.S. ports that actually right after COVID, after COVID started after March 2020, firms both hold on to their existing suppliers. So, even though the total value of trade dropped, they were more likely to be sourcing smaller quantities from existing suppliers. And they also sought out new suppliers. So, they drew on the international markets to meet changing demand.

So, we really do see that firms value international connections. And so, initiatives by government to change that, you have to wonder, is that coming from the private sector or is it is it coming from a political demand.

**MILESI-FERRETTI:** I wanted to continue this conversation on the potential implications of this decline in countries' interactions on various fronts. How do the authors think this trend could affect a set of major global challenges, many of them have really a big cross-border dimension? I think the rising influence of artificial intelligence, you can think there of technological spillovers, climate change, which is by definition transcends national borders. And also in general, political trends starts, nationalism or even more authoritarianism. Do you see a link between what is happening on the globalization front and these big themes that the world is contending with at the moment?

**REED:** There are two issues, I think one is about how did globalization could affect the general pace of innovation and development. And then the second is how does deglobalization affect our ability to exploit innovations, for example, in clean energy to decarbonize the world.

And I think for the first point, you could argue that it could go either way. On one hand, if China and the U.S. are interacting less, their scientists will collaborate less, and maybe that will result in less innovation. On the other hand, competition may spur innovation and more ideas in both countries. But I think one thing that is clear is that a lack of willingness to, say, produce things in a country where they can be produced at lowest cost will harm our ability to meet these goals.

Solar panels are a great example. It’s often remarked in the U.S. that all of the research to design solar technology was actually done here. And then people will say, Oh, and it’s been lost to China, we’re not making solar panels in the U.S.

Another way to look at that is actually as a great success that the U.S. developed a technology and then it has now moved to a place where you can produce much more of it per unit of labor and capital. And as a result, solar panels are cheaper to install and we can have solar electricity much more rapidly. And so, if we give up on, you know, that advantage of low-cost production, that is going to have real implications for our ability to achieve missions like decarbonizing the world.

**GOLDBERG:** And of course, the same happened in the semiconductor industry, to the same story where everything originated in the U.S., but eventually was outsourced in other countries. So, that regards technology and innovation.

In the other areas you mentioned, again, some things could go either way. Take, for example, climate change. Independent of China, we find many people have pointed out that we may find ourselves in a subsidy race where the United States and Europe each try to subsidize their own industries. Well, who knows? Maybe the result of this is going to be a faster development of green technologies. And as economists, we tend to be very skeptical towards subsidies, but sometimes good things come out of subsidies.

We can also think about what happened recently with COVID. We had a race about the development of COVID vaccines. And of course, as many people point out, the foundations had been laid many years before. It was not that everything happened within a few months. But nevertheless, the urgency and the strong government support contributed to having, in the end, around ten different vaccines in different countries. So who knows, perhaps we’ll see the same when it comes to technologies that address climate change.

Regarding some other developments that Gian Marie, you asked about—political developments, the rise of authoritarian regimes—we don’t have much to say about that. We’re not political scientists, and they’re highly speculative. But one concern that many have expressed is that perhaps the current policy towards China is pushing Russia and China together, so it makes authoritarian regimes stronger. So, again, these things can go either way, but as economists, we are more comfortable judging the economic effects.

**REED:** I have my World Bank hat on here, and I think one thing we also worry about is the implications for the poorest countries and for countries growing from lower-middle income to upper-middle income. And, historically, the way to do that has been exporting specifically to higher-income countries with big markets. And, to the extent that high-income countries become less open to imports from poor countries and instead prefer either to produce at home or to friend shore from other rich countries, that could shut down the path to development that China and India and Vietnam and other countries have used in the past. So, that's a big worry which could affect global inequality in particular.

**GOLDBERG:** That brings us to this issue of friend shoring, because in some earlier work we showed with some other coauthors that actually the U.S.-China tariff war created opportunities for other countries. So, if you were sitting in Mexico or Vietnam or Malaysia, this was actually a positive shock because these countries managed to increase their exports to the rest of the world. So, this is why I said earlier that the tariffs, not that I support them, but they didn't seem to be that damaging to the world trading system. And some countries actually benefited in terms of exports.

However, if we look at what has happened more recently where the focus has been more on what we call now friend shoring, this raises the question of who our friends are. And I think most policymakers have a clear idea based on political relations who their friends are. But on the other hand, if you ask who does the public view as our friends—so, we looked at data from government surveys where Americans are asked whether countries are friendly or not. And one interesting fact we document is that more than 50% of Americans think countries like Vietnam, or Malaysia, or Indonesia are not friendly. And you can understand why probably, people have recent history in mind, especially when it comes to Vietnam. But my point is that this notion, this concept of friendship is a very fragile concept, if you want, given that the word "fragility" is in fashion these days. And to the extent that policymakers respond to the public, to public sentiment, it's not clear how robust these relationships are going to be with developing countries with whom we've had a troubled past in recent years. So, this is another reason for concern.

**MILESI-FERRETTI:** Thank you both. And let me just close with one more question, also speculative, really. If we look a few years ahead, where are we more likely to see deglobalization materializing? Do you see it more likely to happen in trade? I think that has been a lot of the focus of your paper, but it could be in finance, too. Think of the sanctions on Russia, the reserves, the potential implications for countries' decisions on how many reserves to hold and where to hold them. Or labor movements. We have, again, a lot of populist opposition to that happening. And what could be the economic consequences? I think you've discussed this already a bit, the consequences side, but maybe where would you where would you see the risks being greater?

**GOLDBERG:** So, I have no strong opinions on finance. Obviously, the financial markets are very interconnected. But when it comes to comparing trade to immigration—so, in trade, we already start with a very high level of integration. This is not the case with labor flows. There has been much less globalization when it comes to movements of labor. The markets are still closed for the most part. So, we start at a very different level when it comes to questions regarding labor movements.

But if I were to have a guess, I would say that we may not see a very strong trend against immigration in labor movements. There are two reasons for that, I would say. The first thing is we don't see universal bipartisan support against immigration. It's true that there is a fraction of the population and a fraction of policymakers, not just in the U.S., also in Europe, who are strongly against immigration, but there are also many who strongly support open borders when it comes to labor flows. This is in contrast to trade, where we see across the board we see a much more critical attitude towards trade.

And the second reason is simply necessity. So in the U.S. right now, we are decoupling from China when it comes to trade. We have a serious labor force shortage, labor force participation is down. There are inflationary pressures. We aim to address climate change. This is also going to be expensive. So, all this creates the need to bring additional labor to the country, at least if we try to keep prices down.

So, the only way I see for an ambitious agenda to be implemented without inflation increasing is to open the borders to immigrants, to let more people in who are willing to do the jobs that many Americans do not want to do anymore. And this is the only way to keep both the economy going and the prices manageable.

So, when it comes to immigration, despite all the rhetoric against immigrants that we hear from some parties, from some fraction of the population, I think in the long run the trend is going to go the other way. Not that we're going to have the massive opening of borders that everyone can come in. But I don't see a strong deglobalization trend there. At least that's my opinion and as I said, it's highly speculative.

**REED:** I agree with you, Penny. The way I'd summarize it would be to say, you know, if a government's job or its goal is to create more jobs for Americans, but unemployment is already extremely low, like, the only way to do that is to create more Americans by letting people in.

**MILESI-FERRETTI:** Well, this has been an absolutely fascinating discussion. Penny and Tristan, very grateful to you both for doing this and for joining me today. And for listeners, if you'd like to read their full paper, just visit Brookings dot edu slash BPEA. [music]

Those are the initials of *Brookings Papers on Economic Activity*. And click the Spring 2023 button. Once again, many thanks, Penny and Tristan, and many thanks to our listeners.

**STOCK:** Once again, I'm Jim Stock, Harold Hitchings Burbank Professor of Political Economy at Harvard and coeditor of *Brookings Papers on Economic Activity,* and this has been the *Brookings Podcast on Economic Activity*. Thanks to our colleagues for this great conversation and be sure to subscribe to hear more discussions with *BPEA* authors.

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