Done With Deglobalization?

by Michael Spence, Project Syndacate, 25 novembre 2022

The global economy's dire and deteriorating prospects, together with the scale of the climate challenge, have apparently opened world leaders' eyes to the risks that deglobalization poses. But it remains to be seen whether this realization will be followed by the action needed to reverse course.

HONG KONG – November was an extraordinary month. Global leaders gathered for four major meetings: the ASEAN meeting in Cambodia, the G20 summit in Indonesia, the Asia-Pacific Economic Cooperation (APEC) forum in Thailand, and the United Nations Climate Change Conference (COP27) in Egypt. What was striking wasn't the timing of the meetings, but rather the evidence they produced that the tide might be turning away from confrontation toward renewed cooperation in the international arena.

In recent years, the global economy has appeared to be drifting away from multilateral engagement and collaboration, toward nationalism-fueled competition. Some – particularly emerging economies – attempted to resist this trend, such as by refusing to back Western sanctions on Russia. But such efforts appeared to have had minimal impact.

As numerous observers have noted, a complete reversal of globalization would be virtually impossible. According to research by the McKinsey Global Institute, no region, let alone country, is close to being self-sufficient. But that has not stopped some countries and leaders – in particular, the United States – from pursuing it. And even the partial deglobalization they have brought about would have far-reaching consequences, some of which – such as increased inflation and heightened debt risk – are already becoming apparent.

The growing damage caused by the shift toward deglobalization has lately amplified resistance to economic fragmentation and polarization. Europe is a case in point. Russia's invasion of Ukraine bolstered the transatlantic alliance, owing not least to American and European alignment on sanctions against Russia. But European leaders are beginning to express discomfort with America's approach to China, which, as French President Emmanuel Macron has pointed out, risks dividing the world into competing blocs.

Concerns stem primarily from aggressive efforts to impede Chinese technological development. While few object to the US increasing investment in key technologies or pursuing some re-shoring, many fear that sweeping new restrictions on exports of advanced technology, software, and equipment to China may mark a shift from broadly constructive strategic competition to a zero-sum approach.

Driven by these concerns, Macron has articulated the need for a clear European position, differentiated from that of the US. Dutch Prime Minister Mark Rutte – whose country is home to ASML, the sole maker of the extreme ultraviolet lithography machines required to manufacture the most advanced semiconductor chips – is likewise seeking to assert independence from the US in this area. German Chancellor Olaf Scholz paid a visit to China this month in pursuit of a middle path.

Emerging economies, for their part, strongly defended global interdependence at this month's major international meetings. They recognize that a divided global economy shaped primarily by great-power competition is highly detrimental to their interests, not least because it will put the much-needed global energy transition even further out of reach. As the University of Chicago's Raghuram G. Rajan recently explained, economic fragmentation and mutual suspicion will severely impede effective climate cooperation.

The emerging economies are not alone. The World Trade Organization and the international financial institutions point out that maintaining openness in trade, finance, and technology flows is essential to support the global economic recovery. Already, that recovery is facing powerful headwinds from inflation, war-related shocks, climate change, the COVID-19 pandemic, population aging, labor-supply problems, declining productivity, elevated debt ratios, and pockets of financial instability.

Growing fragmentation will compound the challenges ahead, such as by impeding the operations of key players like multinational corporations (MNCs), which will struggle to cope with inconsistent or contradictory rules and standards, and even heightened legal liabilities, across economies. The increasing complexity and rising costs of operations will weaken the companies' incentives to invest. Given that MNCs play a crucial role in the diffusion of technology, adverse effects on global productivity and growth can be expected.

Growing recognition of these risks is important. But it is the global economy's two main protagonists – the US and China – that will determine whether the current course will be altered. Fortunately, there is reason for hope here, too.

Chinese President Xi Jinping – well aware that his country's "economic miracle" would have been impossible without globalization – has repeatedly called for openness and inclusiveness. But he must recognize that these calls lack credibility when accompanied by displays of solidarity with countries like Russia, whose actions and rhetoric incite division.

As for the US, President Joe Biden's administration increasingly seems to understand that cooperating with nearly everyone except China is not an option. While a full reversal of trade restrictions is unlikely, especially for sensitive technology goods with national-security or strategic economic implications, Biden's latest meeting with Xi suggested that the two sides are ready to engage in a more constructive dialogue on critical issues. Biden also reiterated support for the "One China" policy, indicating tacit continuing acceptance of China's diplomatic "red line" regarding Taiwan.

It is possible that we will one day look back at November 2022 as a turning point in the deglobalization saga. But the obstacles to constructive international engagement remain daunting. For starters, voicing support for a better balance between cooperation and competition cannot compensate for a lack of trust. Unless the US and China can find ways to build confidence and goodwill, cooperative arrangements will remain on shaky foundations.

Second, leaders remain committed to building economic resilience through supply-chain diversification that favors reliable or like-minded trading partners, and to allowing national-security considerations to shape economic policy. This new economic reality will require the development of a new, more complicated iteration of multilateralism.

Finally, for this new multilateralism to work, international organizations will need to be strengthened, through governance reforms and increased capitalization. Perhaps most important, countries will have to commit to respect these organizations' authority – and not only when it is convenient.

The global economy's dire and deteriorating prospects, together with the scale of the climate challenge, have opened leaders' eyes to the risks that deglobalization poses. It remains to be seen whether this realization will be followed by the actions needed to change course.