

Tim Phillips [00:00:00]:

Today on VoxTalks Economics the retreat from globalization and a new Cold War. Fact or fiction? Welcome to VoxTalks Economics from the Center for Economic Policy Research. My name is Tim Phillips, where every week we bring you the best new research in economics. So remember, subscribe follow us on Instagram as well. You'll find us at VoxTalks Economics. The media reports that globalization is in retreat and that we're entering a new Cold War instead. Well, how much of this is true? I have come to the Chicago Booth School Economic Experts Conference 2023 where Beata Javorcik of the University of Oxford and of course currently the chief economist of the European Bank for Reconstruction and Development and Sergei Guriev of Science Po and of course her predecessor at the EBRD have been discussing these topics in a session called Shifting Geopolitics and the Global Economy. And I'm going to find them in a moment to ask them whether those media narratives do reflect reality.

Tim Phillips [00:01:29]:

Beata and Sergei, there are some stories that are talked about all the time when we come to geopolitics and global trade, and I want to know if they're really true. So the first one, is it's all over for globalization? Beata is it?

Beata Javorcik [00:01:45]:

Yes and no. So if you look at trade statistics, you see no evidence of reversal of globalization. Yes, you may argue that trade in goods has peaked, but services in particular, high value services, are still growing strong. However, we see a big shift in the drivers of trade policy, while before trade policy was driven by commercial considerations, right now it is geopolitics that determines trade policy.

Tim Phillips [00:02:17]:

And if geopolitics is determining trade policy, this is suboptimal.

Beata Javorcik [00:02:23]:

It's bad news for globalization and the global economy. So it started out with a backlash against globalization in the U.S. by American workers displaced by increased imports from China. Then it was fueled by U.S. China rivalry. It resulted in the U.S. China trade war. The European answer was strategic autonomy, initially focused on preventing other countries from weaponizing trade, cutting off Europe from supplies of critical raw materials. But I have a sense that the discussion in Europe is shifting, that Europe is aligning more with the U.S. when it comes to its policy vis-à-vis China. And that may mean that we are finding ourselves on a path to fragmentation. Fragmentation is a bad idea. Any trade economist would tell you this. As simulations show, if the world were to break into two blocks or more blocks, and there was an increase in trade costs

between the blocks by about 20%, everybody would lose. And in particular, countries that have economic links to economies that would find themselves in opposing blocks. So it would be a bad idea for the world and its citizens.

Tim Phillips [00:03:54]:

Now we built an institution that would stop this happening: the World Trade Organization and its dispute resolution process. Surely it's all over for the dispute resolution process of the WTO?

Beata Javorcik [00:04:09]:

Well the nominations of judges to the appellate panel have been blocked by the U.S. And the dispute resolution mechanism has stopped functioning. The core mechanism, there is an initiative to revive it among group of interested countries. But it seems that major players are losing interest in multilateralism and instead are focusing on preferential trade agreements. And that's quite dangerous, because this risks undermining the global rules of the game. And once we get rid of those rules, it may be free for all. Any country may want to increase its tariff, introduce subsidies. There will be no mechanism, no rules that would prevent countries from doing so.

Tim Phillips [00:04:54]:

In your research, have you found anyone that wins if that happens?

Beata Javorcik [00:04:57]:

Not really.

[Voiceover] [00:05:07]:

We spoke to Beata about how trade patterns are changing in March 2023. Check out the episode called Powerful Forces are Reshaping Global Trade. Also catch up with our classic episode from November 2019 called How the Mobile Internet Changed Politics, featuring Sergei, where we discuss the link between cell phones and populism.

Tim Phillips [00:05:36]:

Sergei, for you, the story is, there is a new Cold War starting. Is there?

Sergei Guriev [00:05:42]:

Yes and no. Yes, there is a new Cold War starting. In the U.S. you have a bipartisan consensus that China is a threat to U.S. society, economy, values, and in that sense, we'll see something

like a Cold War. But that will be a very different Cold War from the U.S. soviet Cold War in the 20th century. You cannot disconnect China completely, and even the most fierce haters of China in Washington D.C. recognize that. So there could be some regulations limiting Chinese U.S. trade in sensitive technologies, in strategic sectors. But there'll be a lot of interaction between U.S. and China, in financial sector and in cross border trade. And even if U.S. and China will try to divide the world into two or three trading blocks, there'll be trade between those blocks as well. The world is just too open. It's impossible to stop the trade through intermediaries. And economic incentives will always make sure that people will continue trading between each other. But yes, we see, the new Cold War may actually start. On the other hand, it's not an existential threat for the United States. China doesn't want to install Chinese model in the U.S. China wants to benefit from economic growth, which comes from trade and investment and technological development. And China doesn't really have an ideology. Unlike Soviet Union. So this is going to be a very different Cold War. And I think sometimes it will be misleading to use this label of a Cold War which refers to something completely different.

Tim Phillips [00:07:22]:

For those of us who remember the previous Cold War, as you say, in substance it's very different. Sometimes the political rhetoric reminds you of what went before. Is there a way to climb down from these political stances that are being taken?

Sergei Guriev [00:07:41]:

You need to build trust, and for trust you need cooperation. And there are areas of cooperation. And most important is green transition. Climate change is a global problem, and China recognizes that very well and is open to cooperation on issues like this. And I think that is going to happen because this is viewed by, especially by young people around the world as the most important problem of our times. And I think whatever differences in values and policy preferences, there'll be more and more cooperation on green transition. Yes, there are people who remember Cold War, current President of the United States, was senator already in the 1970s, and traveled to Russia, to Soviet Union at that point to meet with the Soviet leaders. But most people who are young think about issues related to green transition to climate change, biodiversity loss, water access. And this is much more important for them than the Cold War of 20th century, whatever label we use.

Tim Phillips [00:08:43]:

And I guess if the solutions for this are driven by innovative technology, then that need to share technology might overcome that mutual suspicion that we're seeing at the moment.

Sergei Guriev [00:08:55]:

Let's hope so, but it's not clear, and sometimes we see, and this is a very real concern that

China uses technology for surveillance and for spying for undermining its geopolitical rivals. I'm sure U.S. occasionally does that as well. And this is, unfortunately, the sector in which transparency is very limited. We don't know how cyberattacks function. We don't know how technology is used for geopolitical purposes. It's not really easily observed, and that may not be easily addressed even if the parties want to do it.

Tim Phillips [00:09:38]:

Okay, so that was two trends that we could argue are overreported and oversimplified. I want to ask you if there are important trends in this area that you think are underreported or will be more significant than we think at the moment. Beata?

Beata Javorcik [00:09:54]:

We see changes in currencies that are used to invoice Russian imports. While a few years ago, less than 10% of Chinese exports to Russia were invoiced in Chinese Yuan, by now it's about two thirds. That's quite a big change. Moreover, we see that countries such as India, United Arab Emirates, or Turkey have started using their national currencies to invoice some of their exports to Russia. And most importantly, third countries are using Chinese Yuan to denominate their trade with Russia. This is done in particular by countries that have swap lines with the People's Bank of China and countries that are not party to Western sanctions. So while the dominance of the U.S. Dollar has made sanctions more effective, it is possible that in the long run, sanctions are going to erode some of that dominance.

Tim Phillips [00:10:57]:

And is the dollar, as the global currency, under threat?

Beata Javorcik [00:11:03]:

Not yet. But sanctions, and in particular freezing of Russian reserves, have given countries that are not aligned with the west a pause and created incentive to think about other currencies that they can use more frequently and more intensively.

Tim Phillips [00:11:25]:

It's interesting to note that there are other countries speaking up about how the values of Europe and the United States, North America are not necessarily their geopolitical values. And this is an expression of that, is it?

Beata Javorcik [00:11:40]:

Well, indeed, BRIC countries, for instance, are quite keen on using their currencies in

international trade transactions and they have even been talking about creating a BRICS currency. Though perhaps that's not something that would be easy to achieve.

Sergei Guriev [00:11:57]:

If you asked me if we would see a BRICS currency emerging in 15 years, I would not bet my money on this. And that was the time when BRICS countries started to have those summits and started to talk about common new currency. And today I would not bet my money on seeing a BRICS currency in the next 15 years unless this currency is called RMB Yuan.

Tim Phillips [00:12:17]:

Sergei. What do you think is being underreported at the moment?

Sergei Guriev [00:12:21]:

I would like to pick up this issue of non alignment of third countries neither with China nor with the U.S. This is what is similar to the Cold War, when we also had what we called at that point the Third World. The third world is not underdeveloped world. The Third World was neither the First World, the west, nor the Second World, the Soviet Bloc. And so the idea was that there were countries that didn't want to take sides. And now I think this is what we don't talk too much about this because the west, especially Western media, but also the Western elites, don't want to acknowledge that the west is losing soft power. China doesn't export an image of a country that you want to be friends with, you want to trade with China, you want to attract Chinese investment, you want to import Chinese technology. But China's soft power is very limited. But it is also true that recently the soft power of the west has also declined. And this is what is greatly underappreciated in the west. People started to notice it now last year when they suddenly discovered that while the vast majority of countries around the world do not vote for Russia in the UN General Assembly votes supporting Russian invasion in Ukraine, only handful of countries did that. But these countries also don't join Western sanctions. And this is something that can be explained by various reasons. That could be the inability of the west to deliver on its commitments on international development aid, on climate aid. Remember, the west promised \$100 billion per year, which has not been delivered. That's also implication of how the west handled global vaccination campaign during COVID and things like this, where the west cannot deliver what was promised to the developing countries, that undermines the credibility of the west and the soft power of the west. And this is something that needs to be talked about more, and that's something that needs to be fixed. If the west wants to have a globalized economic and political system, it needs to convince the other countries that it's good for them to follow the Western model. That was the case in 20th century when the Soviet system collapsed and Francis Fukuyama announced the end of history. If the west wants another wave of democratizations and another end of history, the second end of history, they should think about issues like this.

Tim Phillips [00:14:50]:

Who would lead that realignment if there was a third power block? Because all the countries that I can think of certainly have their disadvantages.

Sergei Guriev [00:15:02]:

Well, Beata mentioned BRICS, and BRICS is a very peculiar union of countries, especially the new BRICS, with countries like Iran and Saudi Arabia joining the same block. India and China are not necessarily great political allies as well. I would remind you that India is actually part of the quad of the anti Chinese Pacific Alliance of Countries, which includes also Western countries such as Australia and of course, Japan. This is something which is very clear. There are countries which are not friends of China, but these countries don't want to be forced to choose sides. And there could be India, there could be Brazil, there could be large African countries, including South Africa in that particular case. So we can see easily that there are many non Western countries that, for example, do not join the sanctions coalition. We've seen surprises like neutral countries like Switzerland did join sanctions, but we've also seen that countries that hate colonial powers invading their former colonies do not impose sanctions and don't join the west.

Tim Phillips [00:16:07]:

It's certainly not the end of history. What it is the start of, we don't quite know yet. But thank you very much for talking about it today. Thank you, Beata.

Beata Javorcik [00:16:15]:

Thank you.

Tim Phillips [00:16:16]:

And Sergei.

Sergei Guriev [00:16:17]:

Thank you. Tim.

Tim Phillips [00:16:27]:

Sergei is one of the authors of a book that covers many of the topics we've been talking about today. It's called Spin Dictators. The changing face of tyranny in the 21st century. Its authors are Daniel Treisman, Sergei Guriev, and if you want to find more about those trade patterns that Beata was talking about, then look up the EBRD's Transition Report 2022, 23. It's called

Business Unusual, and you can find it @ebrd.com.

[Voiceover] [00:17:02]:

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