

Globalization: Past, Present, and Future

July 16, 2023

Shujiro URATA

**Research Institute of Economy, Trade and
Industry (RIETI)**

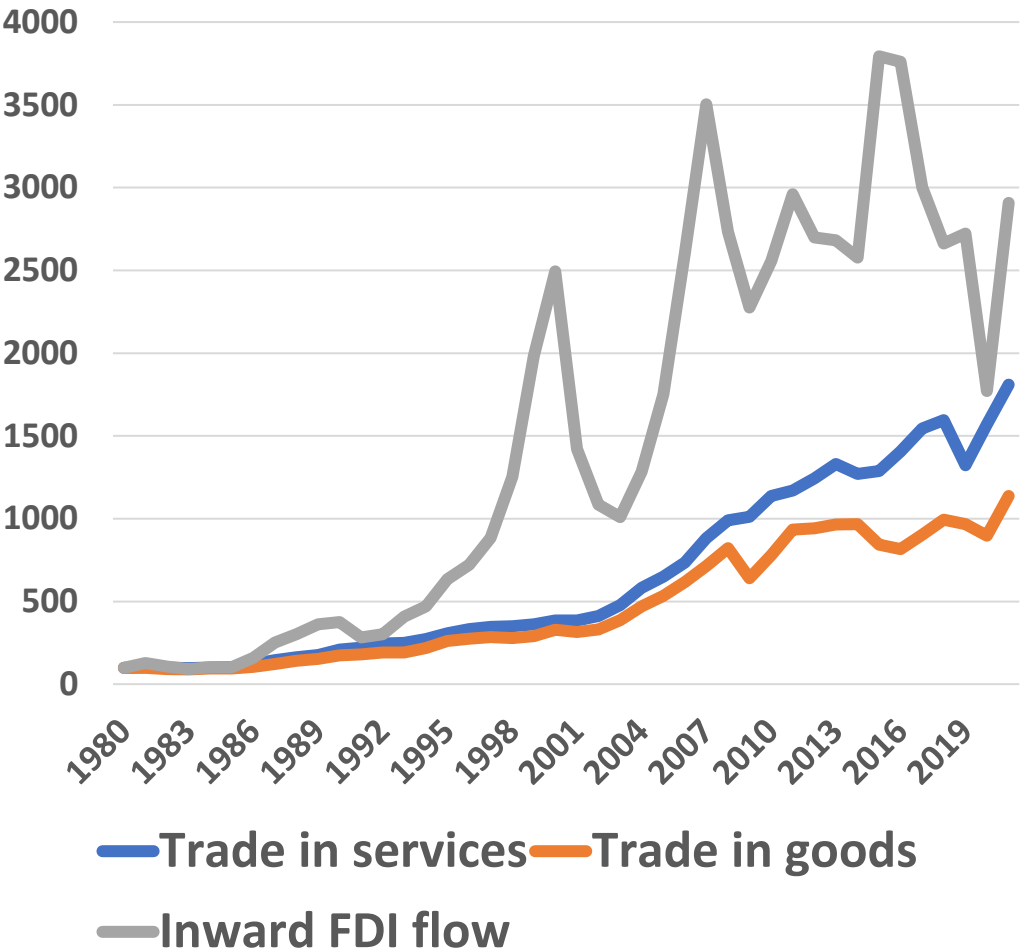
Outline

- **1. Changing Patterns of Globalization: An Overview**
- **2. Accelerated Globalization: 1990s-2007**
- **3. Decelerated Globalization: 2007-Present**
- **4. Globalization: Challenges and Future Prospects**

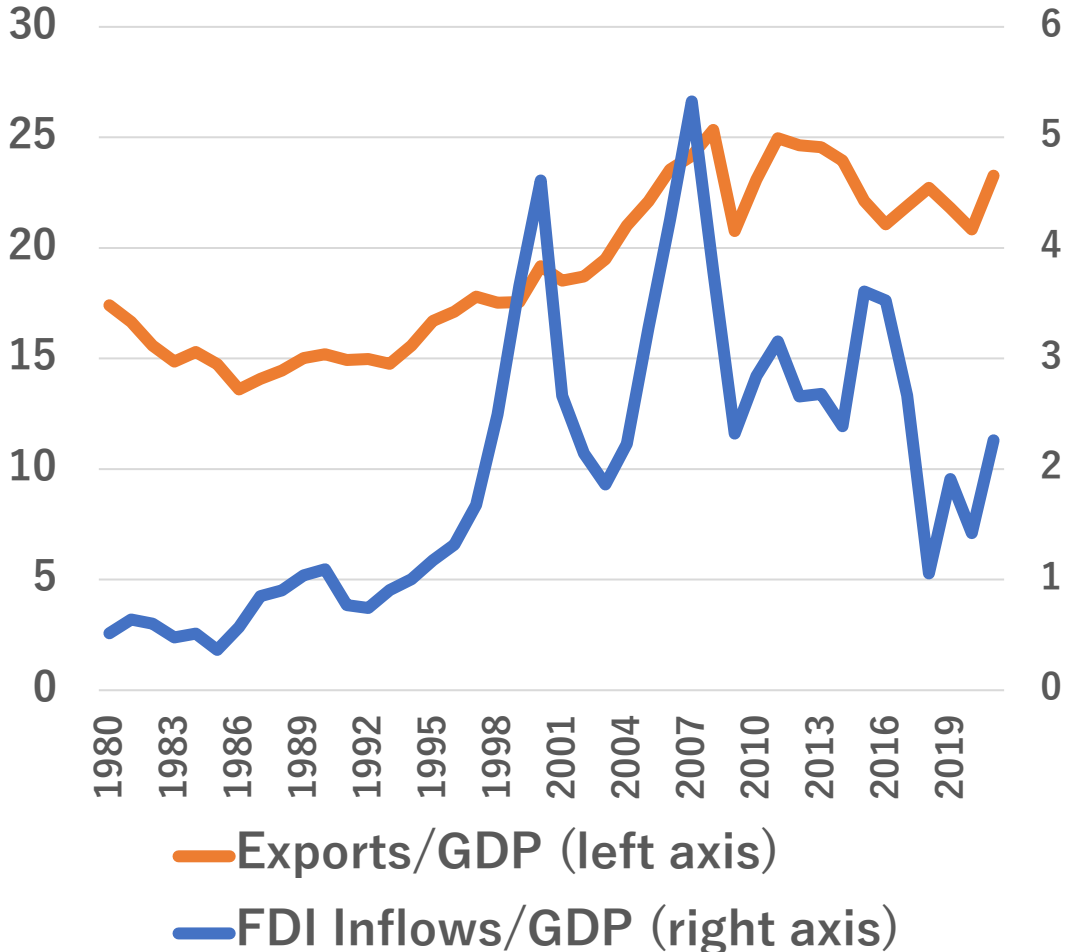
1. Changing Patterns of Globalization: An Overview

- Accelerated globalization (hyper-globalization): 1990s~2007 (Global Financial Crisis: GFC)**
- Rapid expansion of trade in goods and services, and foreign direct investment (FDI)**
- Decelerated globalization (slowbalization): 2007~present**

Nominal value (\$): 1980=100

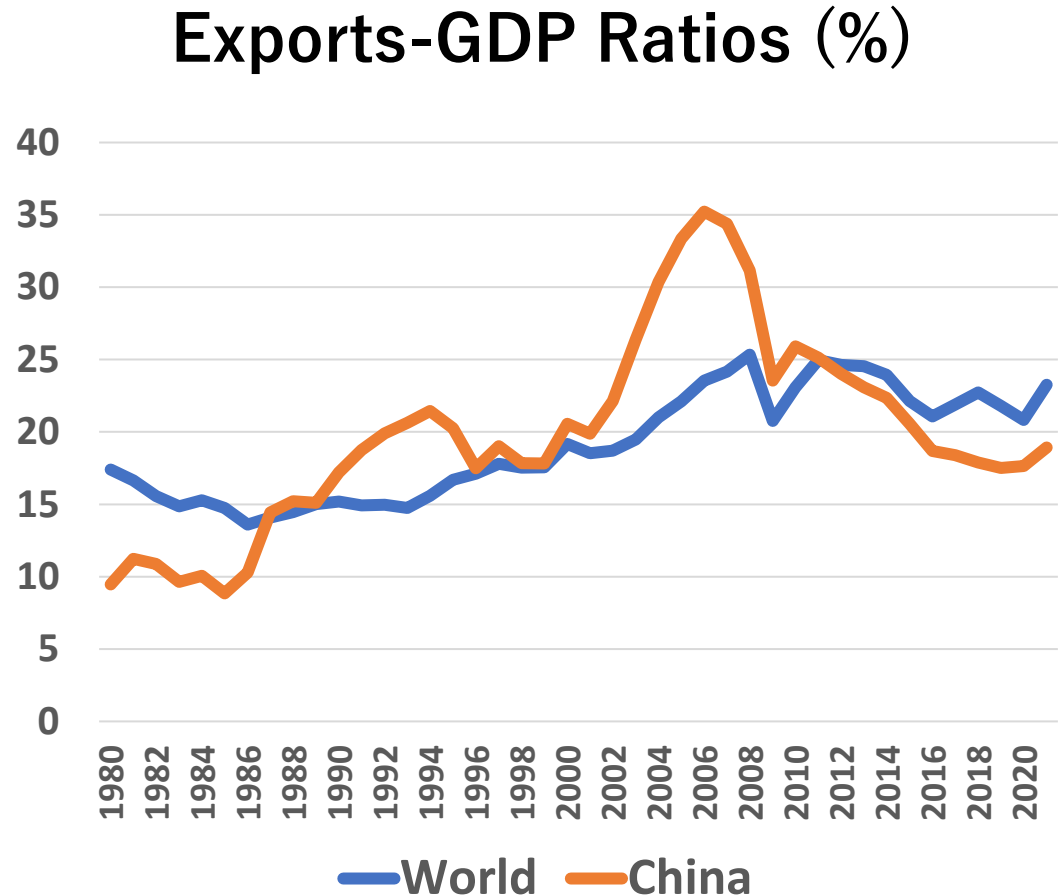


Exports and FDI inflows as a proportion of GDP (%)



Changes in the Trade-GDP Ratios

- Increase in trade-GDP ratio from around 1990 to 2007: accelerated globalization
- Decline in trade-GDP ratio from 2007 to present: decelerated globalization (slowbalization)
- This pattern is prominent for China

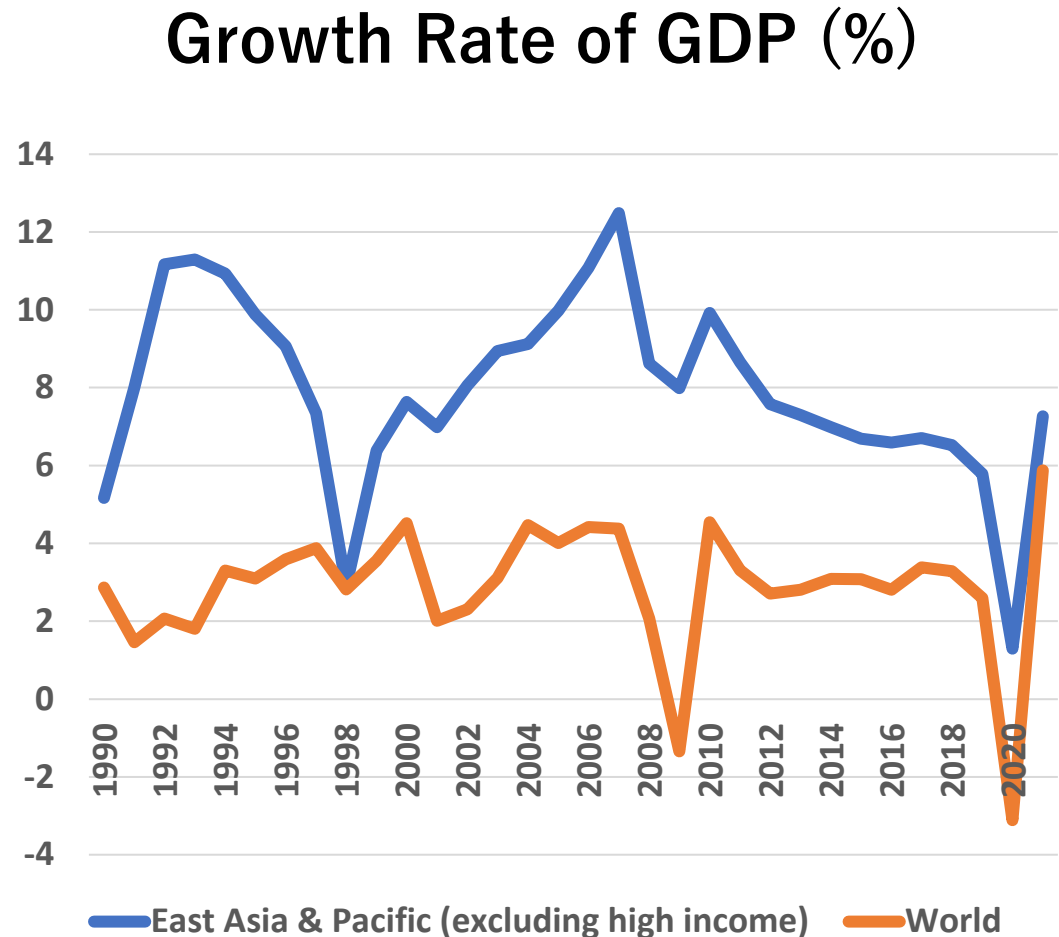


2. Accelerated Globalization: 1990s-2007

- Accelerated Globalization: 1990s~2007
- Expansion in Trade, FDI, GVCs (global value chains) , trade in parts and components
- Factors: Reduction in trade and FDI costs, trade and investment liberalization, deregulation in transportation and communication services, technological progress in transportation and communication services (use of internet etc)
- Impacts: rapid economic growth, widening various gaps including income/wage gap, regional gap, etc, increased interdependence

Consequences of Accelerated Globalization

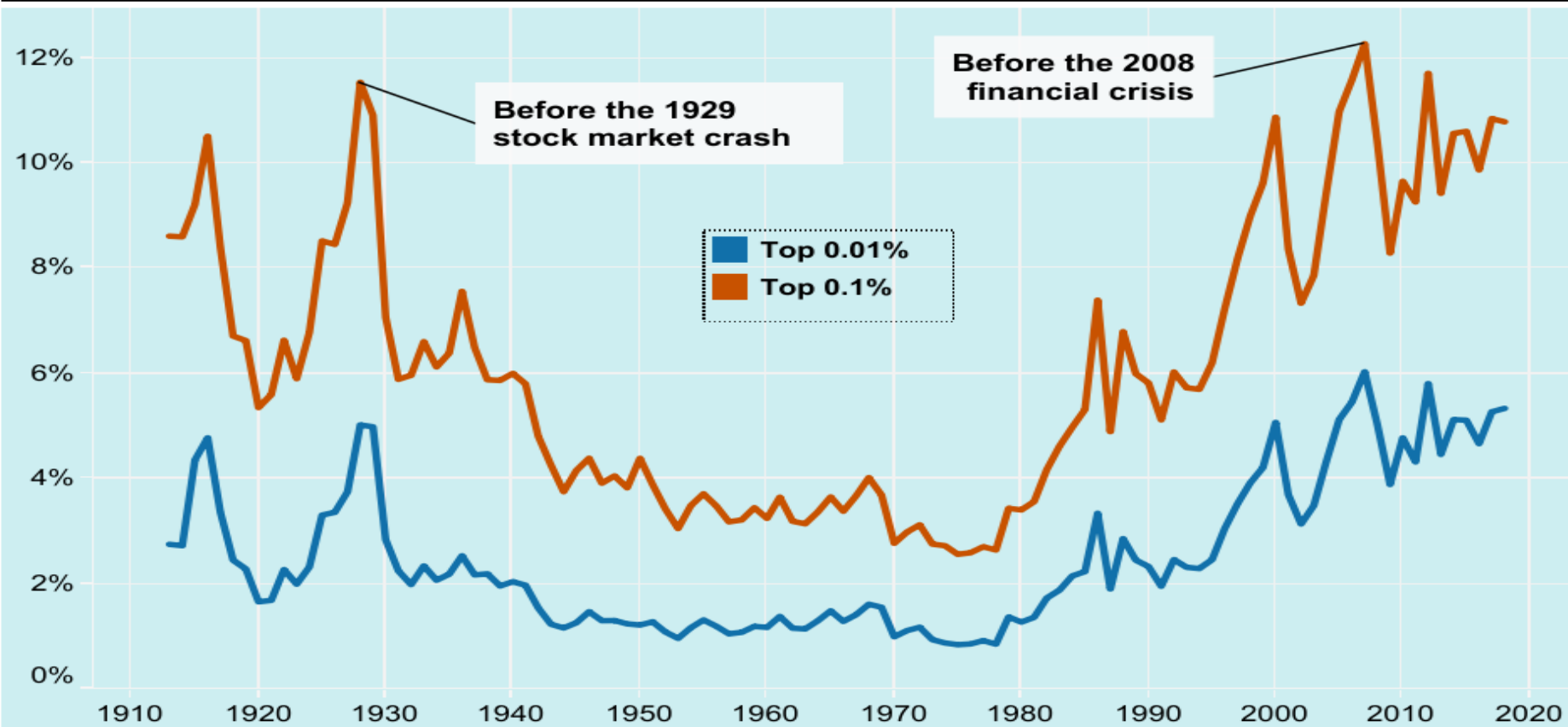
- High economic growth
- Accelerated economic growth from the 1990s to 2007 (GFC)
- After GFC, slow economic growth (new normal)
- East Asia, particularly China, has achieved high economic growth
- Widening inequality



Growing Income Inequality in the US

Income Concentration Has Returned to Gilded Age Levels

Share of total U.S. income going to the top 0.1% and top 0.01%, 1913-2018

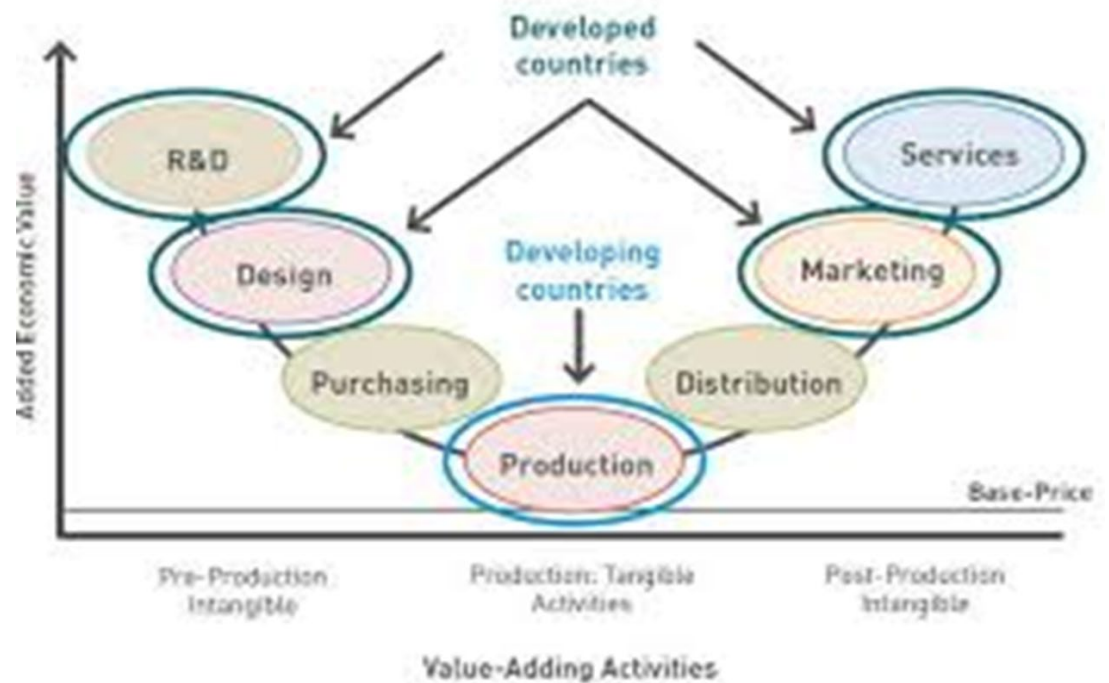


Source: Emmanuel Saez, UC Berkeley

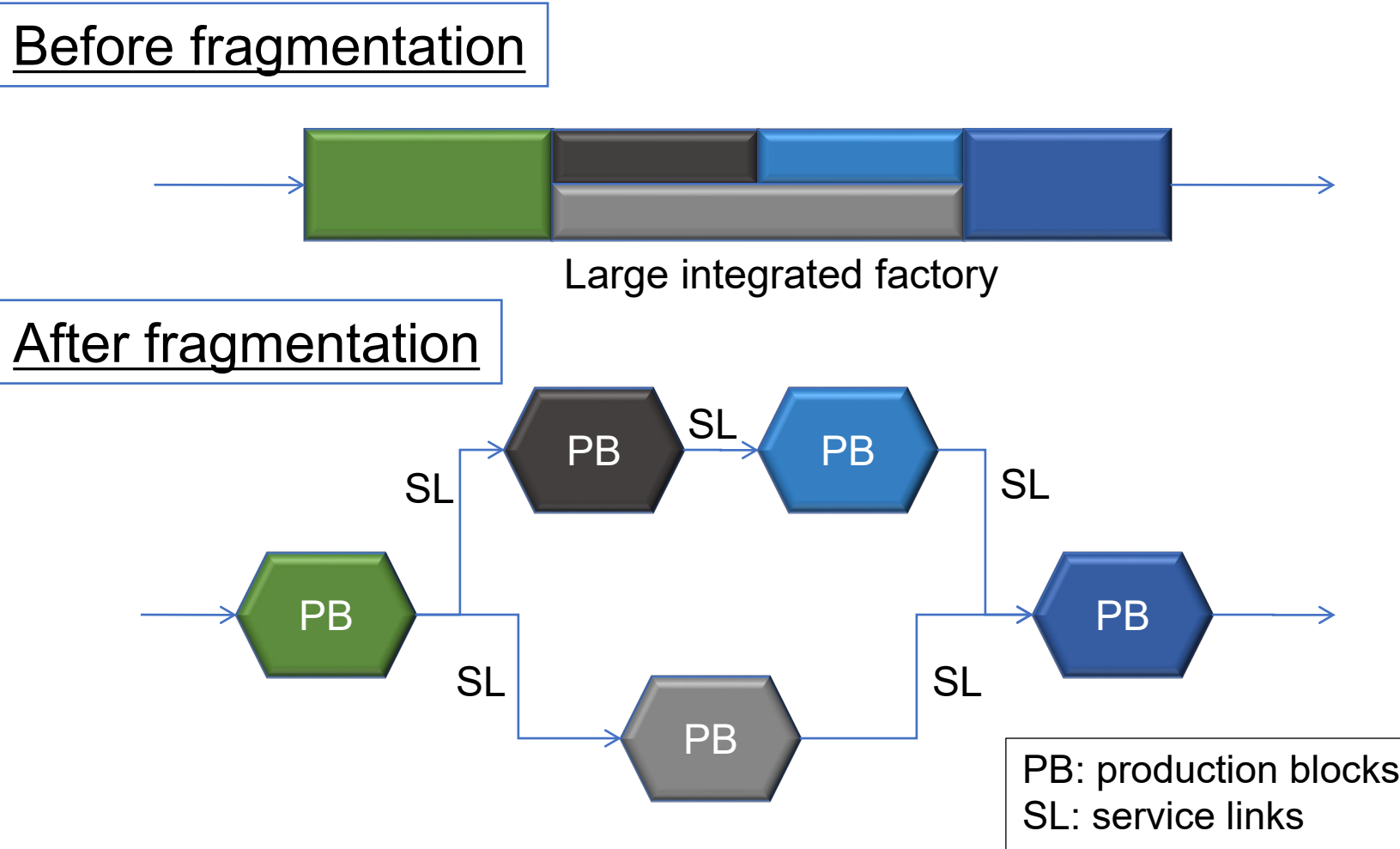
Factors Leading to Accelerated Globalization: Emergence of Global Value Chains (GVCs)

- GVCs have been constructed by multinational corporations using FDI
- Smile curve
- Fragmentation strategy
- Production blocks and service link

Smile curve



GVC: Fragmentation of Manufacturing Process

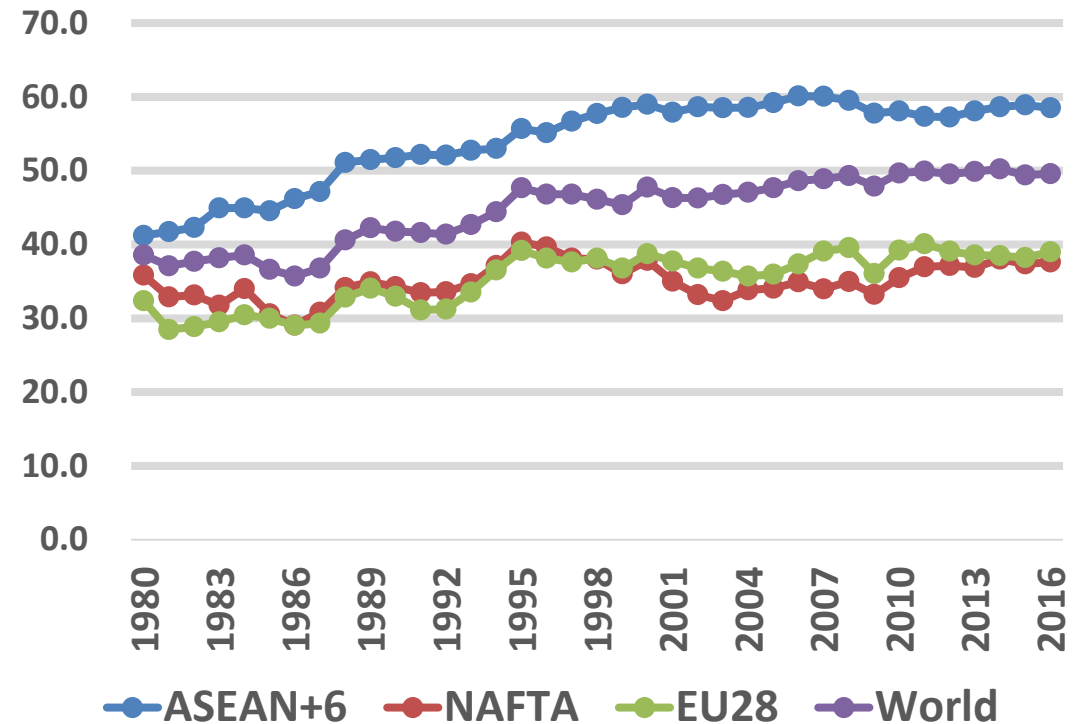


Fragmentation of production (Jones and Kierzkowski (1990))

GVCs and Intermediate Goods Trade

- Fragmentation strategy led to active trade in intermediate goods (particularly parts and components)
- This pattern is particularly notable in East Asia

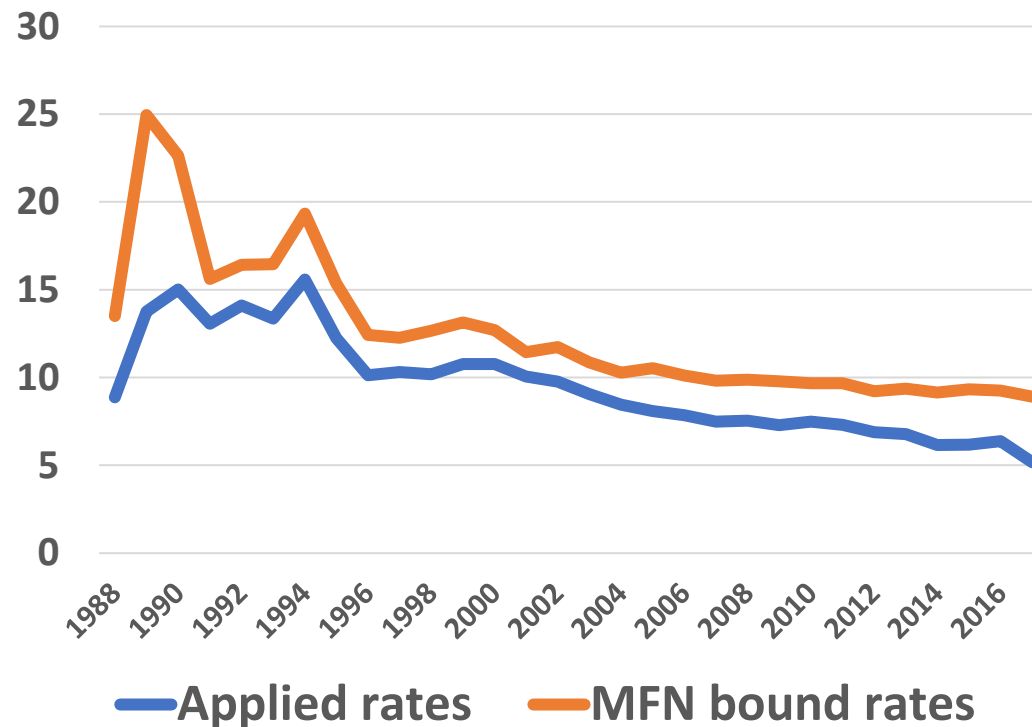
Share of Intermediate Goods in Total Trade (%)



Factors Leading to the Active Construction of GVCs

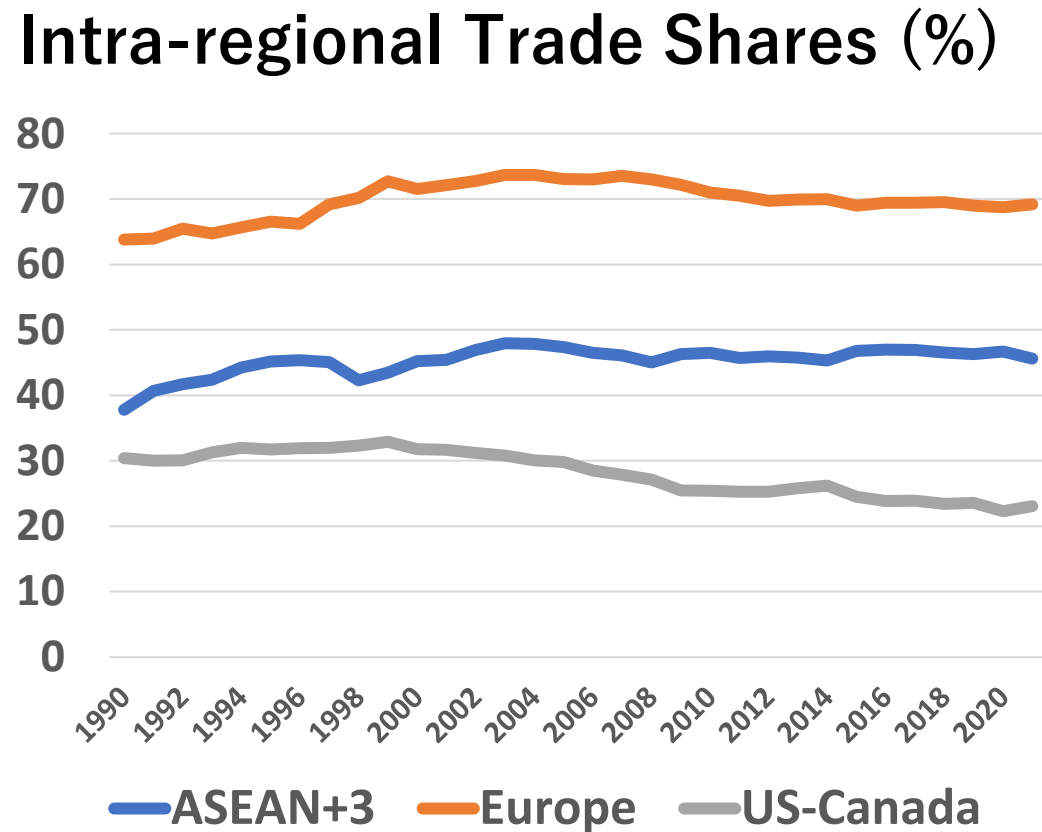
- Decline in trade and FDI costs
- Liberalization of trade and FDI policies
- Deregulation in transportation and communication services
- Technological progress in transportation and communication services

Declining Tariff Rates: World Ave (%)



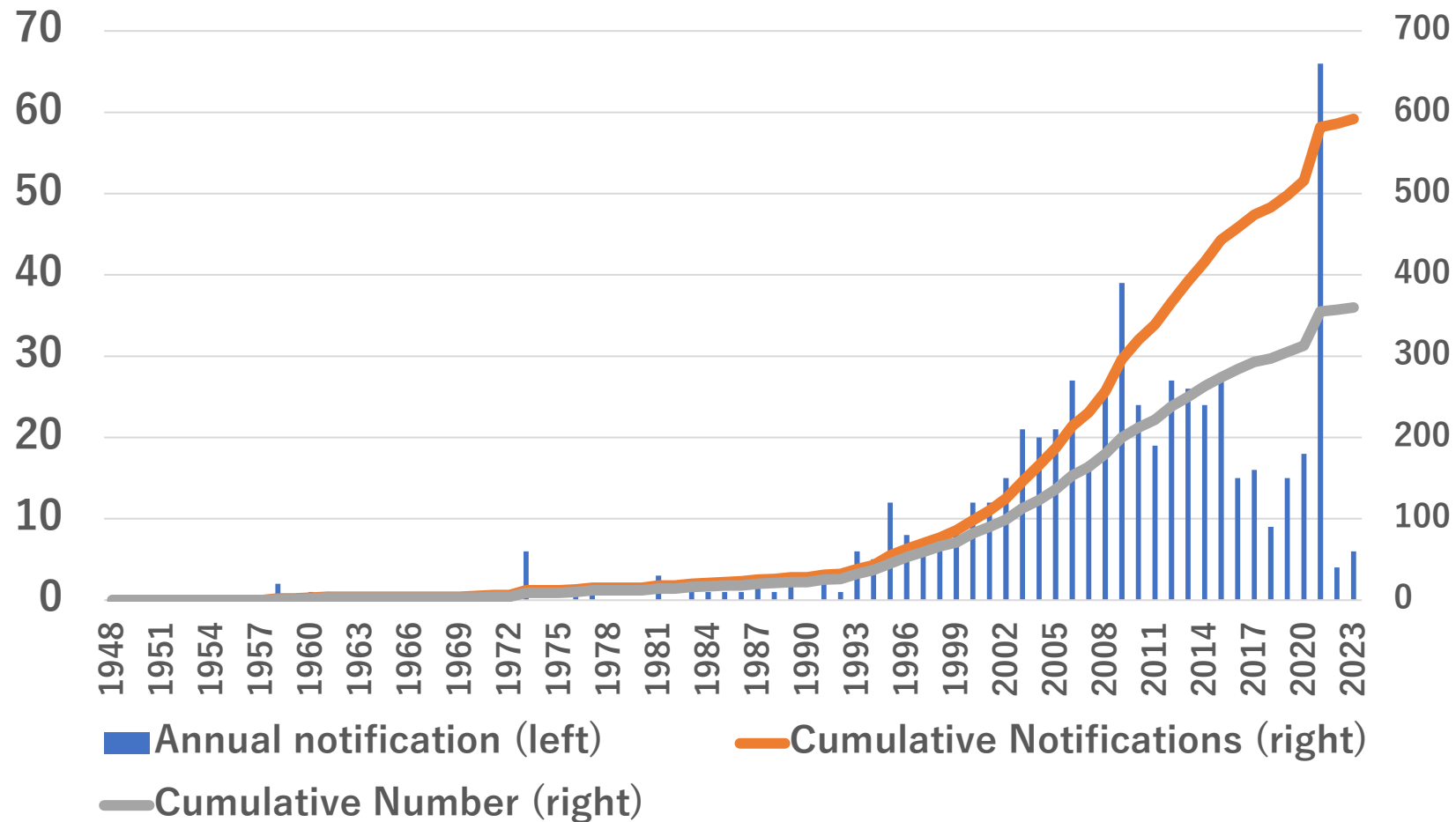
Consequence of GVCs in East Asia: Regionalization

- Regionalization in terms of trade intensified in Europe and ASEAN+3 (China, Japan, and Korea) from 1990s to early 2000s
- Level of regionalization remained at around the same level or declined slightly since mid-2000s
- Level of regionalization declined in the US-Canada

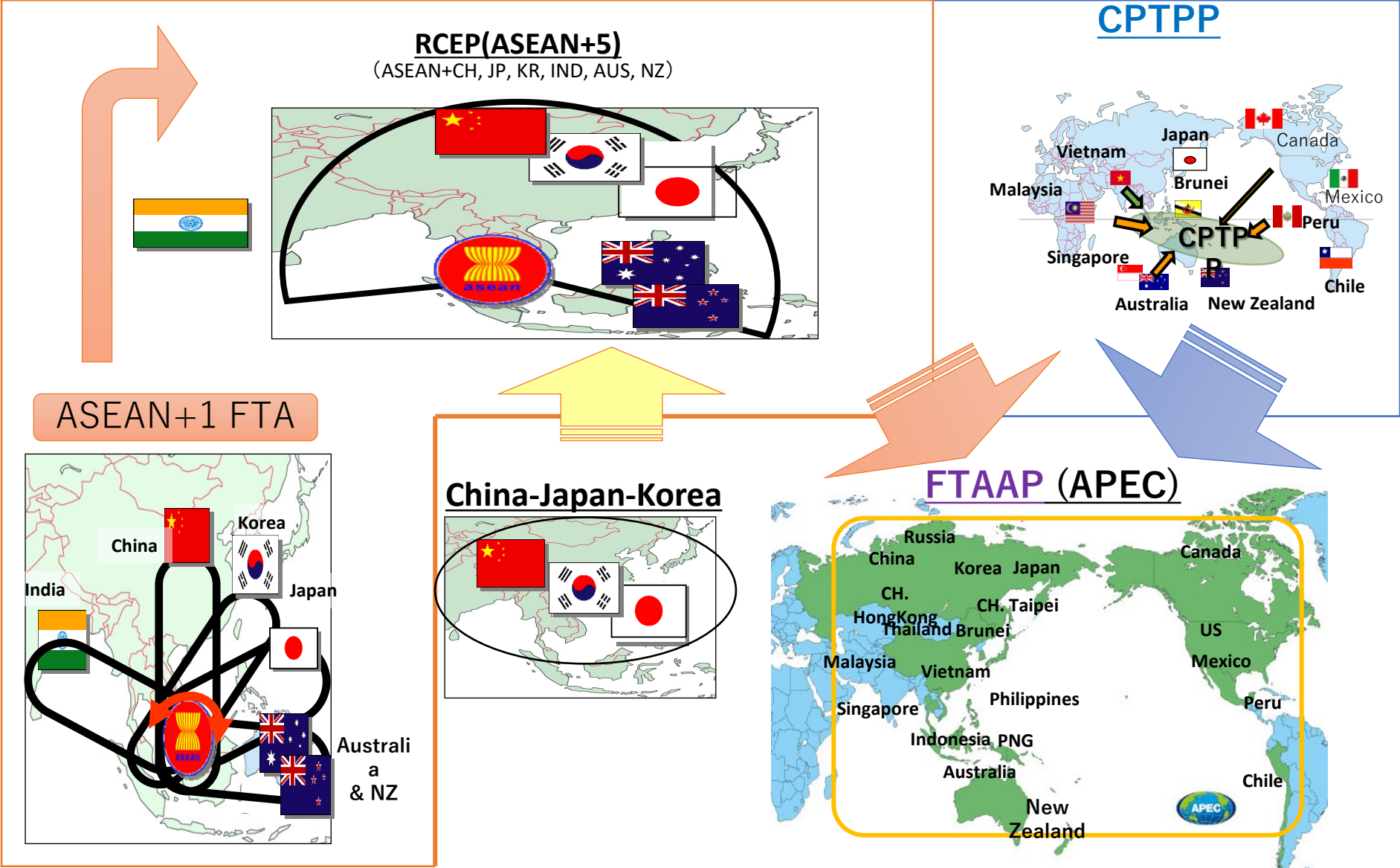


Regionalization in Trade Policy

- Active establishment of FTAs in the World and Asia-Pacific



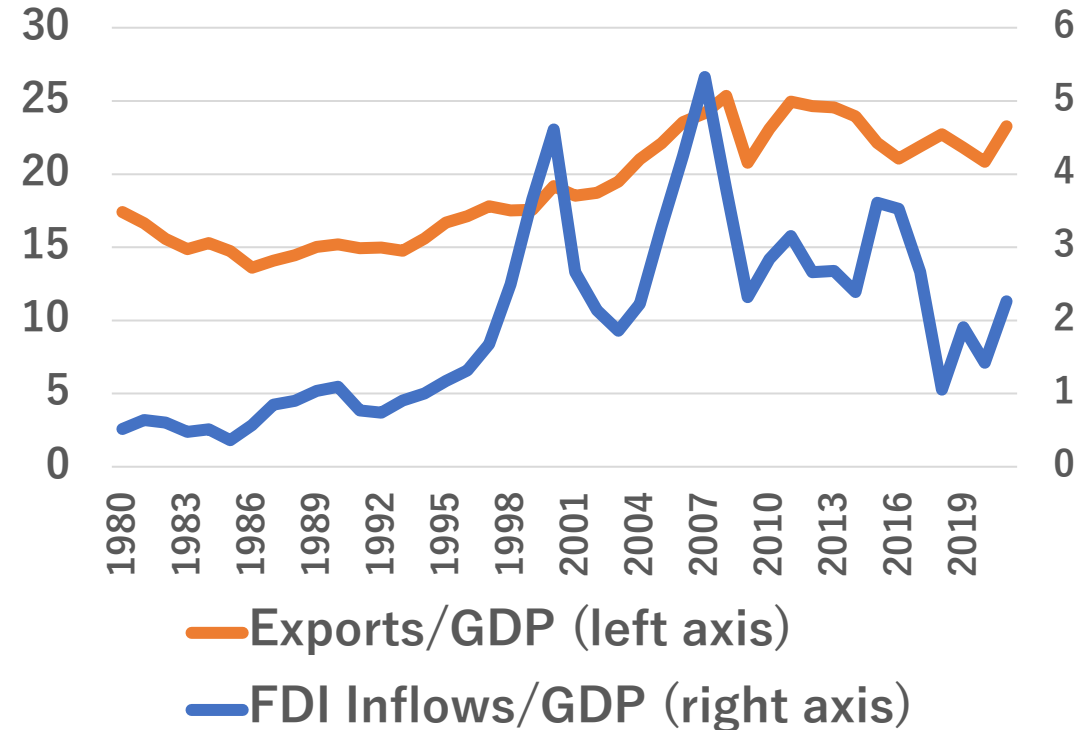
Region-wide FTAs in East Asia: RCEP, CPTPP, China-Japan-Korea (CJK) FTA



3. Decelerated Globalization: 2007-Present

- Decline in trade/GDP and FDI/GDP ratios since around 2007-2008
- Growing protectionist trade measures
- COVID-19 Pandemic: slowdown in cross-border economic activities such as trade and FDI
- Geo-political factors: US-China tensions, Russian invasion of Ukraine

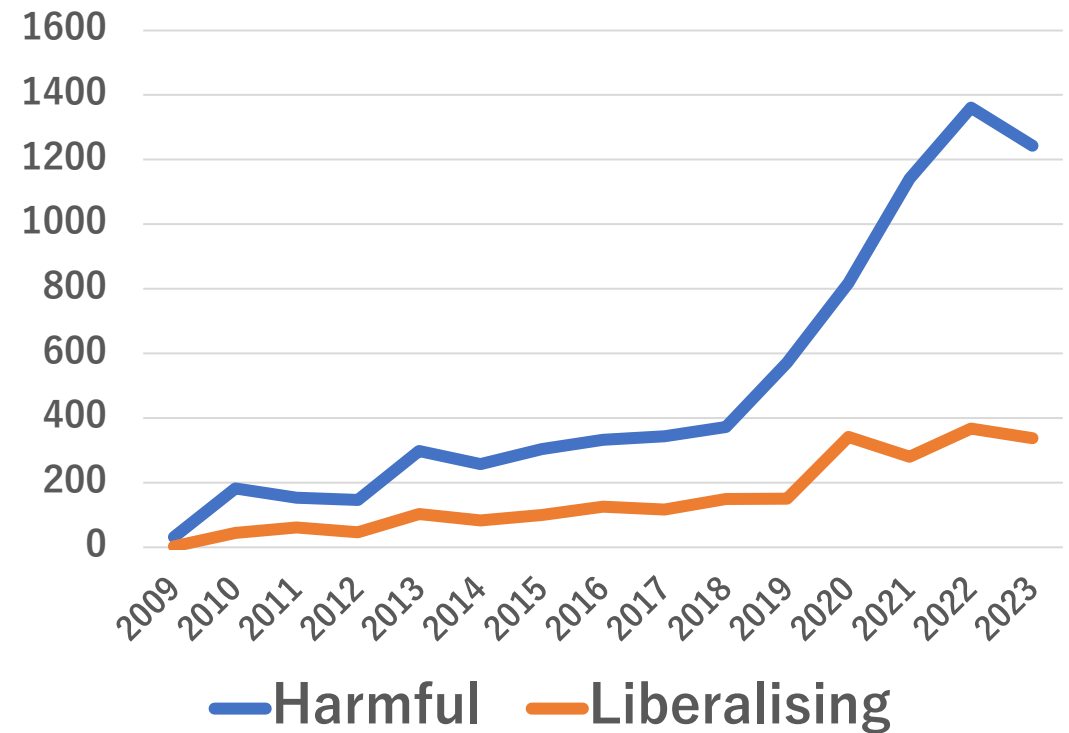
Trade-GDP and FDI-GDP Ratios (%)



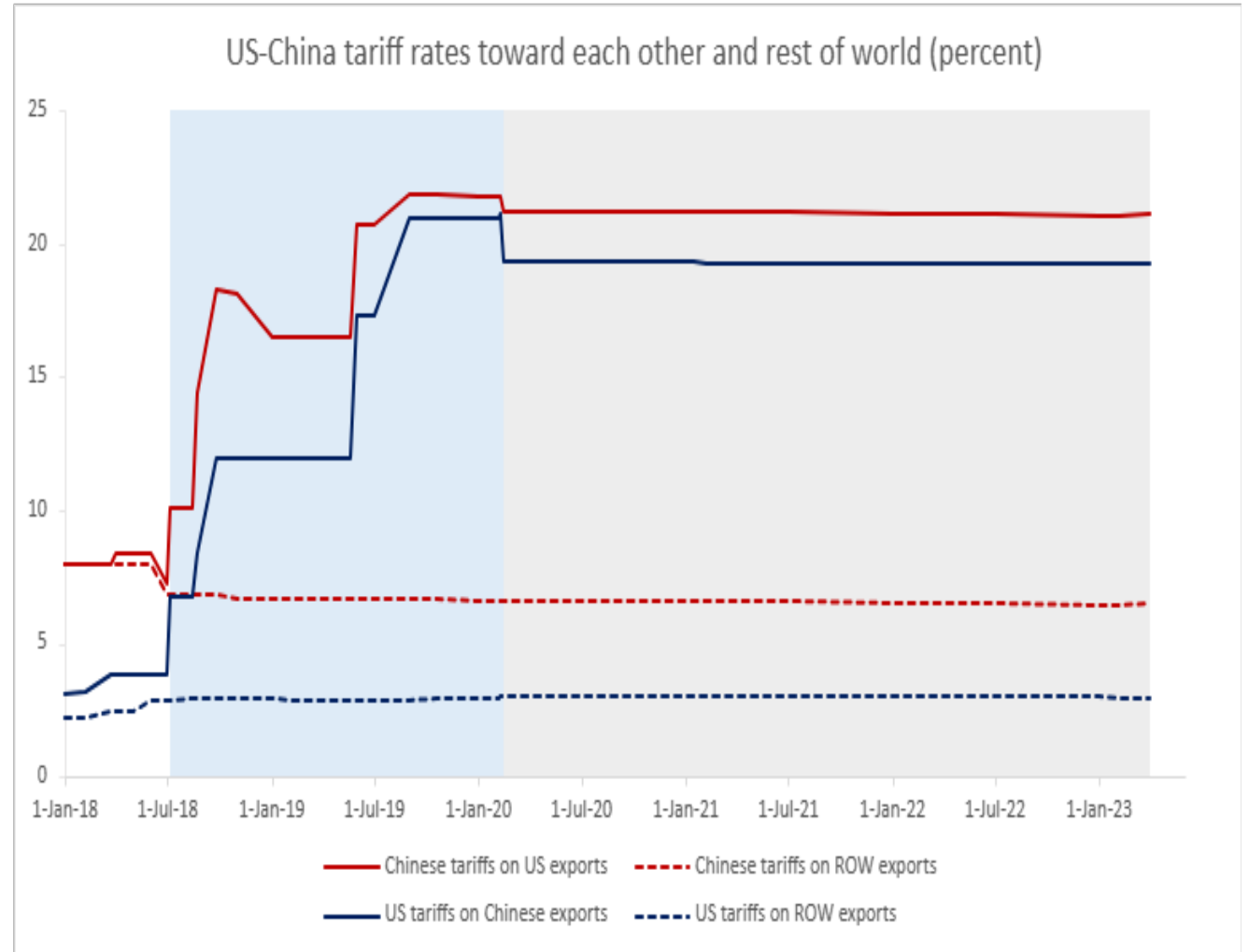
Growing Protectionist Measures

- **Interventions: subsidies (excl. export subsidies), contingent trade-protective measures, tariff measures, trade-related investment measures, non-automatic licensing, quotas, etc**
- **Causes: growing inequality, COVID-19, Geopolitical conflicts**

New Government Interventions

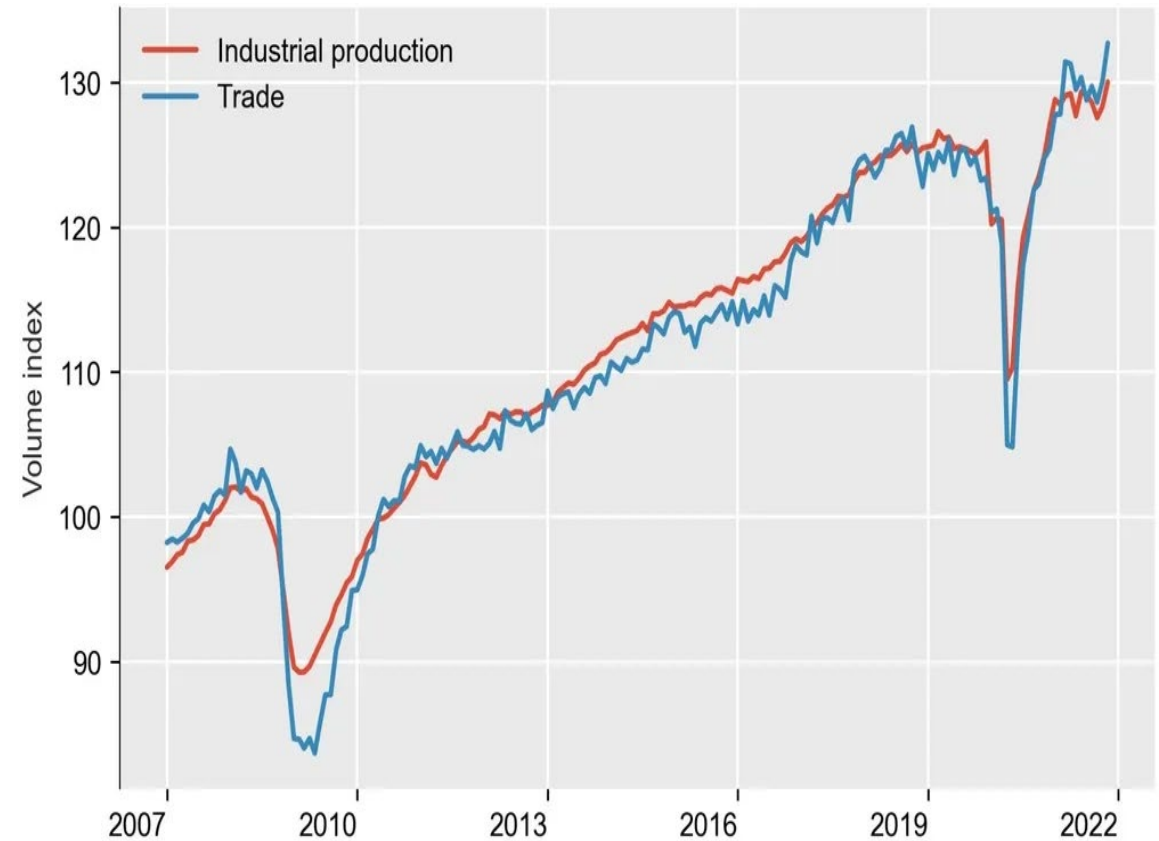


US-China Trade War: 2018~Present



COVID-19 Pandemic

- Impact on world trade and production
- Sharp decline in 2020
- Quick recovery in 2021-22
- Lockdowns, factory closures
- Restriction on people's mobility
- Export restrictions



4. Globalization: Challenges and Future Prospects

- Factors affecting globalization (supply chain resilience)
- Geopolitical risks: US-China rivalry => trade and FDI restrictions => decoupling (de-risking)
- Climate change: carbon neutral => import restriction
- Natural disasters: infectious disease => restriction on trade and people's mobility
- Trading system: WTO, FTAs => ineffective monitoring and enforcement of trade rules
- Digital transformation => promotes trade and FDI
- Social environment: e.g. Inequality => rising protectionism

- **Possible impacts on globalization**
- **Slobalization**
- **Regionalization**
- **Friendshoring**
- **Onshoring/reshoring**
- **Shortening supply chains**
- **Low economic growth**
- **Ways to promote globalization**
- **Establish/reestablish a rules-based open trade/investment system**
- **Expand regional FTAs**
- **Reform the WTO**