Global Economic Turbulence and Cooperation: A View from the Tropics

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Overview

• Yesterday
  • ideological and economic convergence between West and “Rest”

• Today
  • ideological divergence, threatening convergence
  • China: ideological counter-weight, source of turbulence

• Is cooperation possible in a “G Minus 2” world?
Ideological convergence

• “Washington consensus” formed in 1980s

• Key to prosperity:
  • Liberal trade
  • Less-regulated markets
  • Private sector-led growth
Economic Convergence, Unconditional

\(\beta\)-coefficient of unconditional convergence

Regressing real per capita GDP growth to present day on the log of initial per capita GDP

Maddison

Each point represents the coefficient from a separate, bivariate regression. The dependent variable is the annual real per capita growth rate from the year listed until the most recent data round. The independent variable is the log of real per capita GDP in the base year.

NB: Sample excludes oil-rich countries (i.e. ‘Export Earnings: Fuel’ in IMF DOTS), and countries with populations under 1 million.
Key element: globalisation

GDP per capita growth (%)

Divergence in post-war reglobalisation

Convergence during hyperglobalisation

High income countries

Middle income countries
“Things Fall Apart”: Ideological Divergence

• Main concerns: Macro-cyclical
  • **West**: Dealing with slow growth (secular stagnation, zero lower bound, austerity etc.)
  • **Rest**: Maintaining rapid growth; Preserving macro and financial stability, exiting from balance sheet stress

• Main concerns: Long-term
  • **West**: Addressing inequality, hollowing middle
  • **Rest**: Building state capacity
“Things fall apart”: threats to convergence

• De-globalisation
  • Threatens EM’s export-based models

• IT revolution
  • Threatens Rest’s ability to industrialise and create decent jobs
China’s Rise

• Discrediting of Western “model” creates opening for alternative

• But China a premature hegemon
  • Old before rich
  • Powerful before rich
  • Powerful before appealing (little soft power)

• And now China is a potential source of systemic risk, undermining hegemon credentials
China: Potential Source of Systemic Risk

The Xi turn

West's gamble: China returns to normalcy

Potential Spillovers

- Slowing growth
- Financial strains
- Beggar-thy-neighbor currency declines
Quo Vadis Cooperation?

• World has changed but cooperation discourse/analytics remains the same
  • “Reduce trade barriers, improve safety nets, strengthen multilateralism”

• Two major hegemons unwilling to provide one Kindelberger public good
  • Open markets

• Hegemons arguably supplying public “bads”
  • Closing borders
  • Retreating on climate change
  • Appropriating technology

• (Third quasi-hegemon—Europe—consumed by internal challenges)
Questions for a “G minus 2” world

• How will we handle next source of turbulence?

• Are we fiddling while Rome burns?