

Will globalisation survive Covid-19 - speech by Klaus Regling

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Good morning from Luxembourg, and good afternoon to everyone following this panel in Asia.

I want to use the next few minutes to touch on two topics:

- The future of globalisation after Covid-19
- The changing international financial architecture

Globalisation moves in cycles

Over the past two centuries, globalisation has moved in cycles.

Economic crises have often led to periods of de-globalisation or at least slower globalisation. Covid-19, with many borders closed and the biggest economic crisis in a century, has of course a negative impact on

globalisation.

Looking at the trade-to-GDP ratio, the speed of globalisation was extremely fast between the early 1980s and 2008. Trade to GDP almost doubled. An era of “hyperglobalisation”.

This was driven by the digital revolution, falling trade costs, the founding of the WTO, and, in particular, the integration of China into the global economy.

This hyperglobalisation could not continue for very long!

The onset of the global financial crisis in 2008 and the ensuing economic downturn marked a reversal in the trend of high-speed globalisation.

Since 2008, the global trade-to-GDP ratio has remained fairly stable, so the strong rise of the previous decades came to a halt. However, I do not interpret this as systemic de-globalisation, but rather as a normalisation after the very rapid pace of integration previously.

What is particularly striking is that the export-to-GDP ratio of China dropped the last 15 years significantly and this drop explains all of the slowdown in overall globalisation.

China today consumes more of what it produces and exports less, while its domestic supply chains are intensifying.

If there is one factor that could effectively slow down globalisation, it is rising inequality. In advanced economies, some of the rise in inequality comes from globalisation.

This often leads to backlashes against globalisation among the affected populations. As a result, we have seen policy decisions to reduce migration and to impose trade barriers.

In response, governments in advanced economies should provide a better safety nets to those who are negatively affected by globalisation.

In the future, I think globalisation will continue but at a slower pace. Globalisation will survive Covid-19. I do not expect a wave of “de-globalisation” overall as important parts of the world economy, e.g. India and Africa, with their positive demographics, have a huge potential to open up.

A stronger international monetary system

However, we should think how to support globalisation by improving the functioning of the international monetary system.

The US dollar has dominated the international monetary system since the end of World War II. That dominant role of the dollar has at times fuelled global imbalances, excess capital flows and volatility, liquidity shortages and exchange rate volatility, particularly in emerging economies.

A multi-polar currency system would make the world economy less vulnerable to shocks linked to one specific currency. This does not mean replacing the dollar, but rather aiming for a multi-polar system, in which several currencies have a comparable role, including the dollar, euro, and renminbi.

This is not something that can be decided at a summit. It would have to be a market-driven process. But Europe and China can create the pre-conditions to make their currencies more attractive.

In Europe, we are doing that by deepening EMU further, through completing the banking union, creating a Capital Market Union (CMU), strengthening the financial infrastructure, reforming the ESM and creating more safe assets.

In China, Governor Zhou has worked for many years to open up the economy, including the capital account, strengthening and deepening further the domestic financial system while safeguarding fiscal and financial stability.

The results are promising!

Building resilience against crises: regional crisis fighters

Let me mention one other aspect of the international financial architecture: regional cooperation has been increasing.

In recent years, we have seen the creation of new multilateral development banks, such as the Asian Infrastructure Investment Bank (AIIB), and the New Development Bank, established by the BRICS countries.

In addition, we have seen the emergence of new Regional Financing Arrangements (RFAs), in particular in Europe and Asia. These are agreements through which groups of countries mutually pledge financial support in times of crisis. The ESM is the Regional Financing Arrangement for the euro area and in recent years we have established a very close cooperation network with the other RFAs.

The firepower of the different RFAs combined is slightly bigger than the lending capacity of the IMF. Well-structured cooperation between the IMF and these regional crisis fighters can generate synergies for resource allocation and surveillance.

To conclude, the pandemic crisis has contributed to the slowing pace of globalisation, as was the cases with previous crises. To make sure there is an upswing once the crisis is over, policymakers can actively develop and deepen regional cooperation and integration. Multilateralism is the way forward to ensure an equitable process of globalisation and enhance social prosperity. Thank you.

References

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