

# Opportunities and Challenges of being a small open economy

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Michael O'Sullivan, author of The Levelling – what's next after globalization? (PublicAffairs)

[thelevelling@gmail.com](mailto:thelevelling@gmail.com)

*The*  
LEVELLING

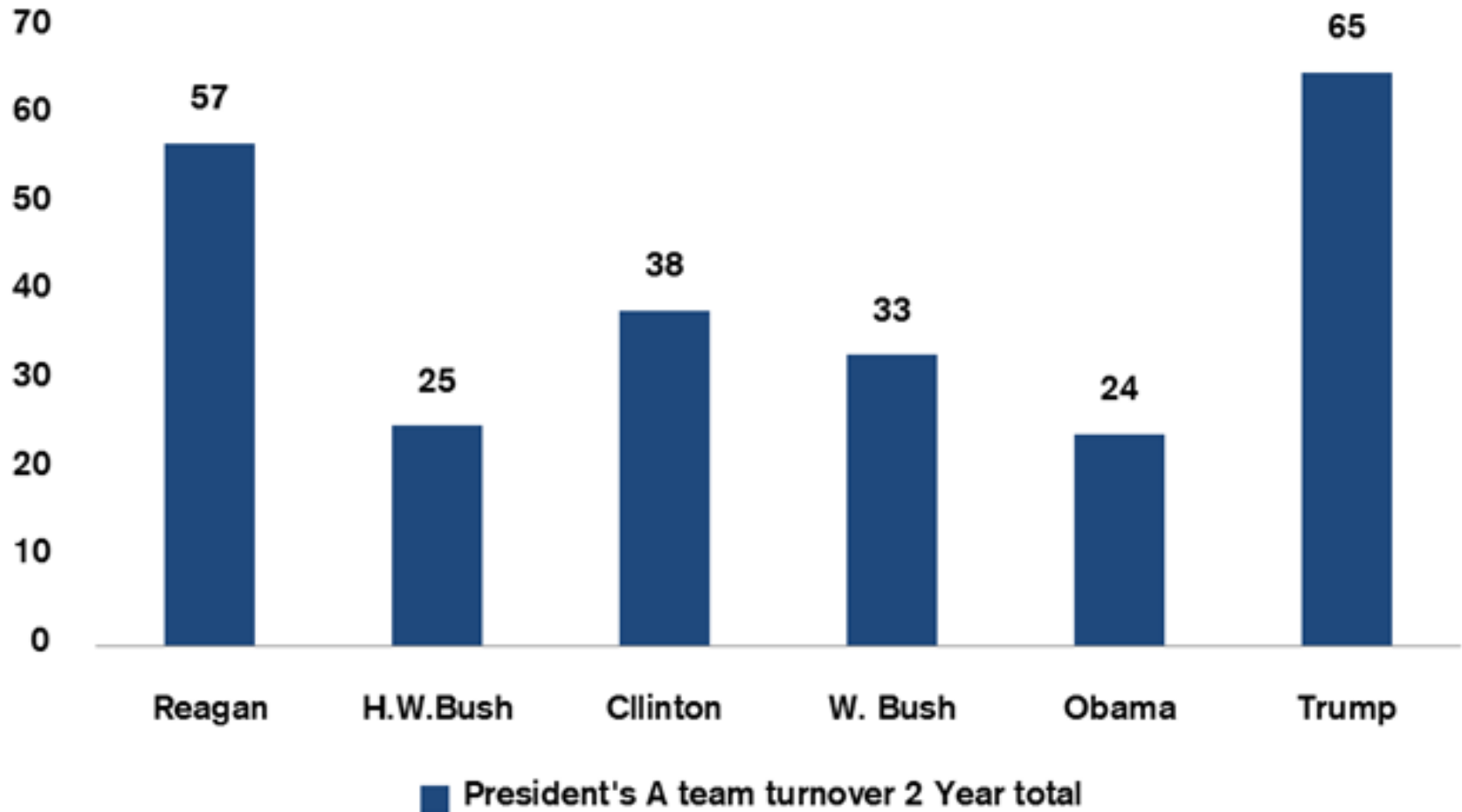
WHAT'S NEXT AFTER  
GLOBALIZATION



MICHAEL  
O'SULLIVAN

# An uncertain macro environment

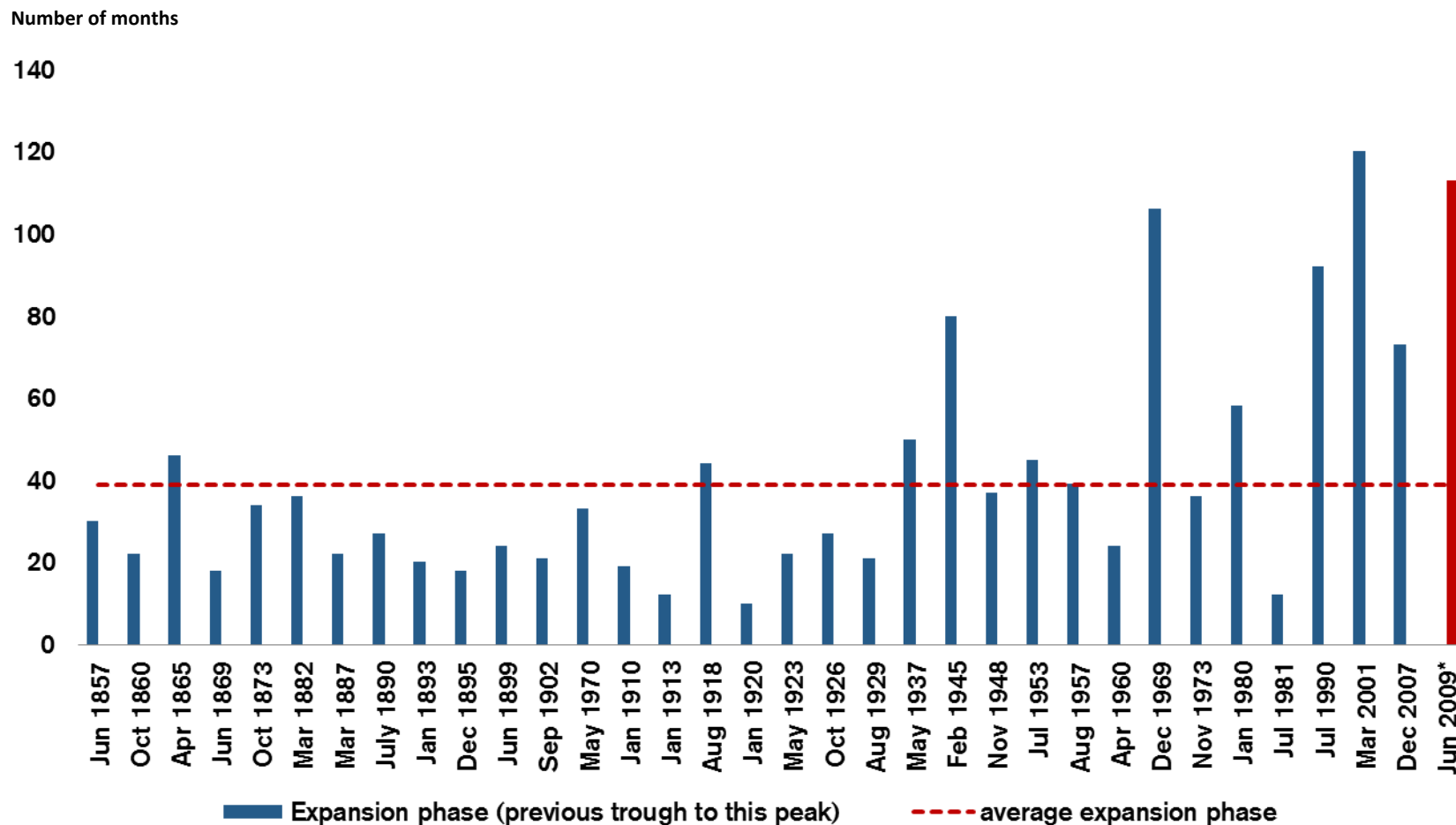
# Policy uncertainty



Source: Bloomberg

# The Business Cycle – still going

## Expansion cycle now the second longest in history



\*Note: Current expansion phase started in June 2009, length calculated till November 2018. Average expansion cycle excludes current ongoing cycle  
 Last data point : November 2018

Source: NBER

# The risk is that trend growth resets lower



Source: Bloomberg

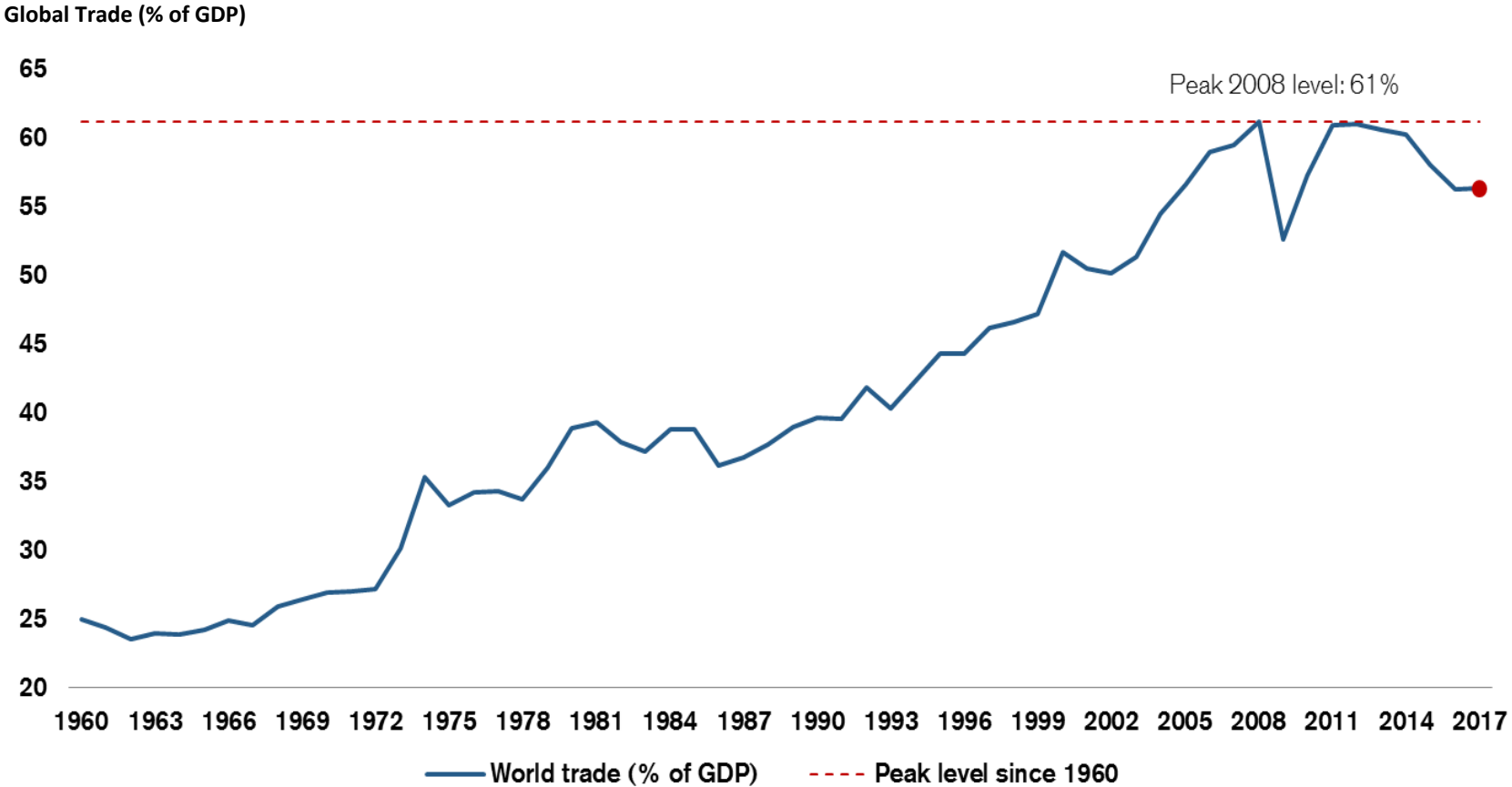
# Five 'Levelling' themes

- *Goodbye globalization, hello multipolar world*
- *Financialisation is like climate change, deal with it or we have a crisis*
- *Populism gives way to wisdom and then, to fiscal activism*
- *Geopolitics in flux – new rivals and new coalitions*
- *Hamilton project – what is new? And how are we positioned institutionally*

Goodbye Globalization, hello multipolar world



# Globalization is over



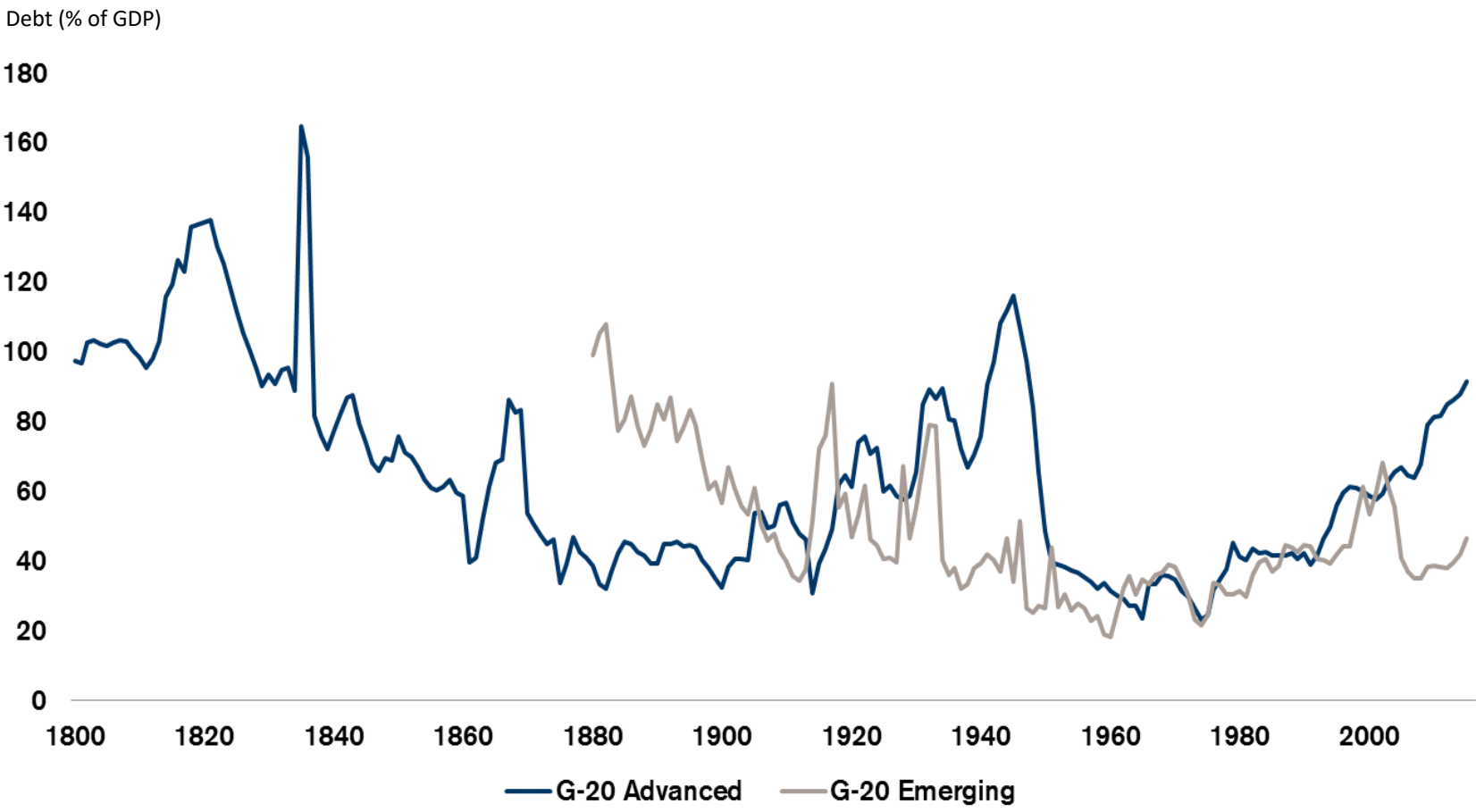
Source: World Bank

# Implications

- *Globalization gives way to a multipolar world*
  - *Broad, macro risk of a trade shock that produces a recession.*
  - *Small, open economies are even more so the 'canaries in the coalmine'*
  - *Trade flow and supply chain disruption will rise, but these can be an opportunity*
  - *Ireland will increasingly have to choose sides, or position itself as an intermediary.*
  - *Risk is that regulation, democracy, technology and other vectors become less universal and more multipolar*
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Financialisation is like climate change, deal with it or we have a crisis

# Global indebtedness continues to rise



Source: IMF

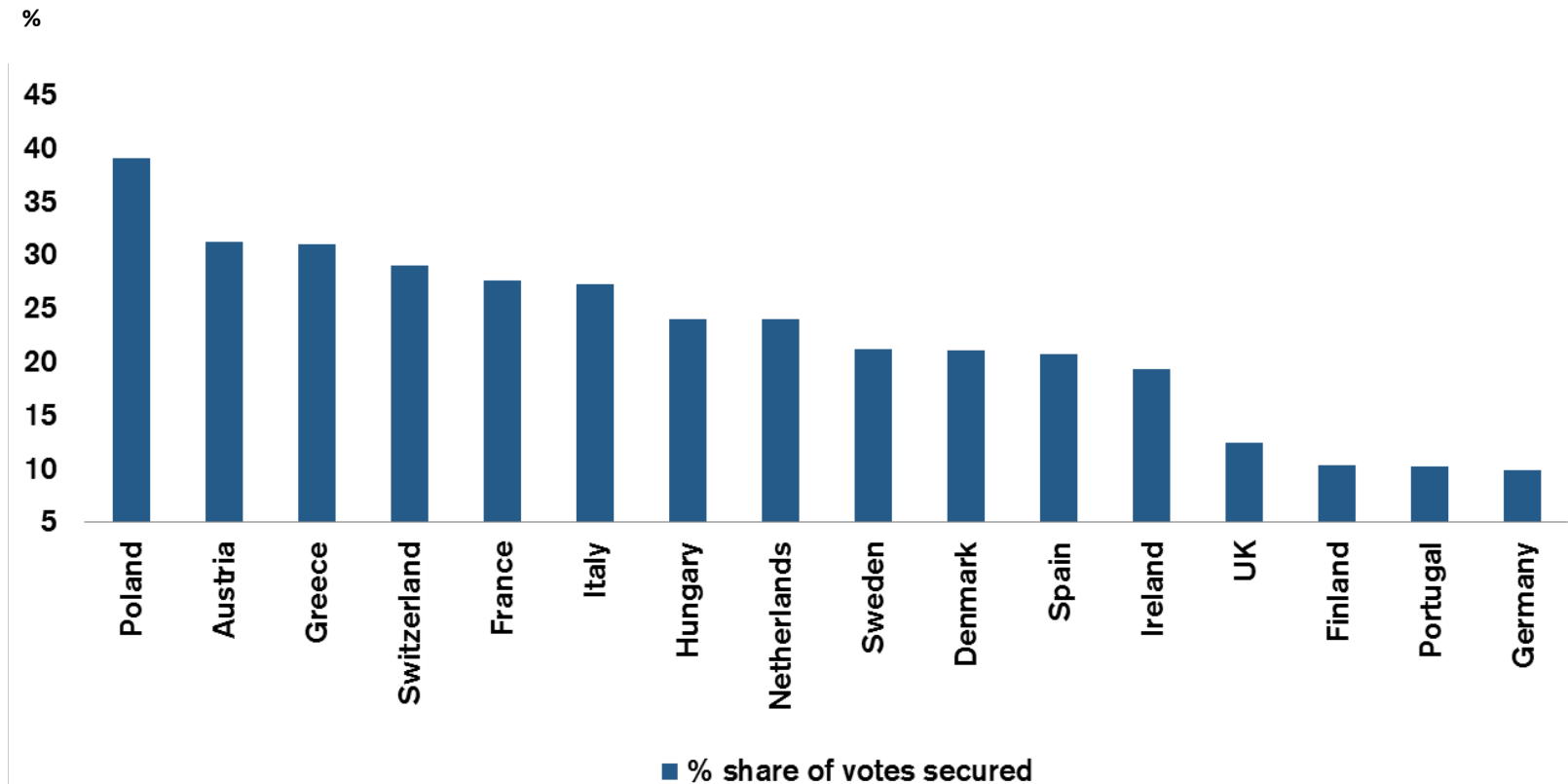
# Implications

- *Central banks are too dominant and have distorted the political economy*
- *Too much debt in EM, corporates and in large economies. Like climate change, the risk is to wait now and have a great crisis later.*
- *A solution would be to remake the international rules of finance – ‘Westphalia for Finance’.*
- *Euro-zone stress and consolidation a major theme. Opportunity for Ireland is in the ‘safe asset space’.*
- *Opportunities in finance in general – debt trading, the building of China’s financial infrastructure, impact investing.*

Populism gives way to wisdom, and then, to fiscal activism

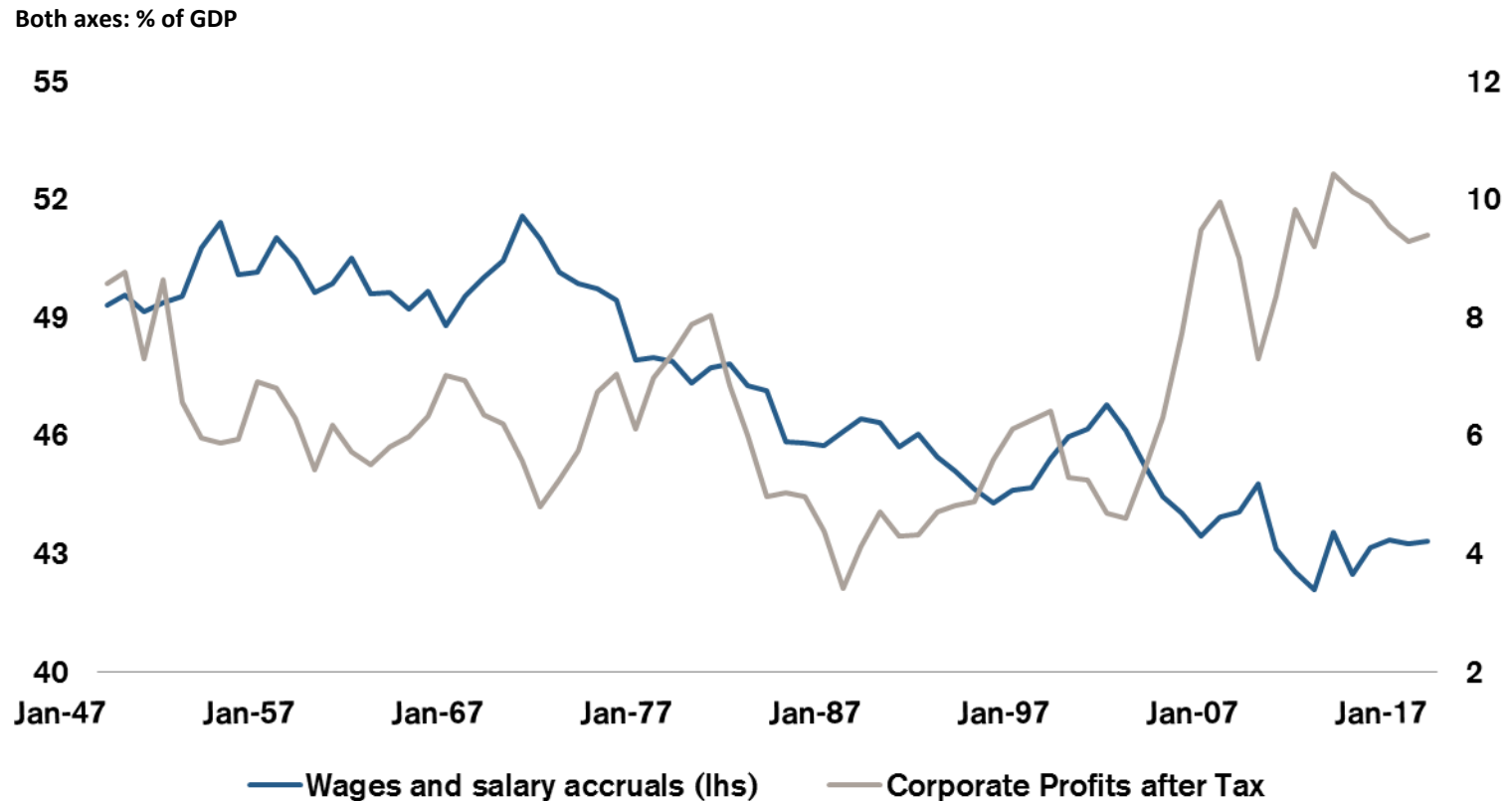
# Levelling of politics

## Rise of populism in Europe



Source: Eurasia Group

# US wages weakest in 70 years, corporate profits high



Source: FRED Economic Data



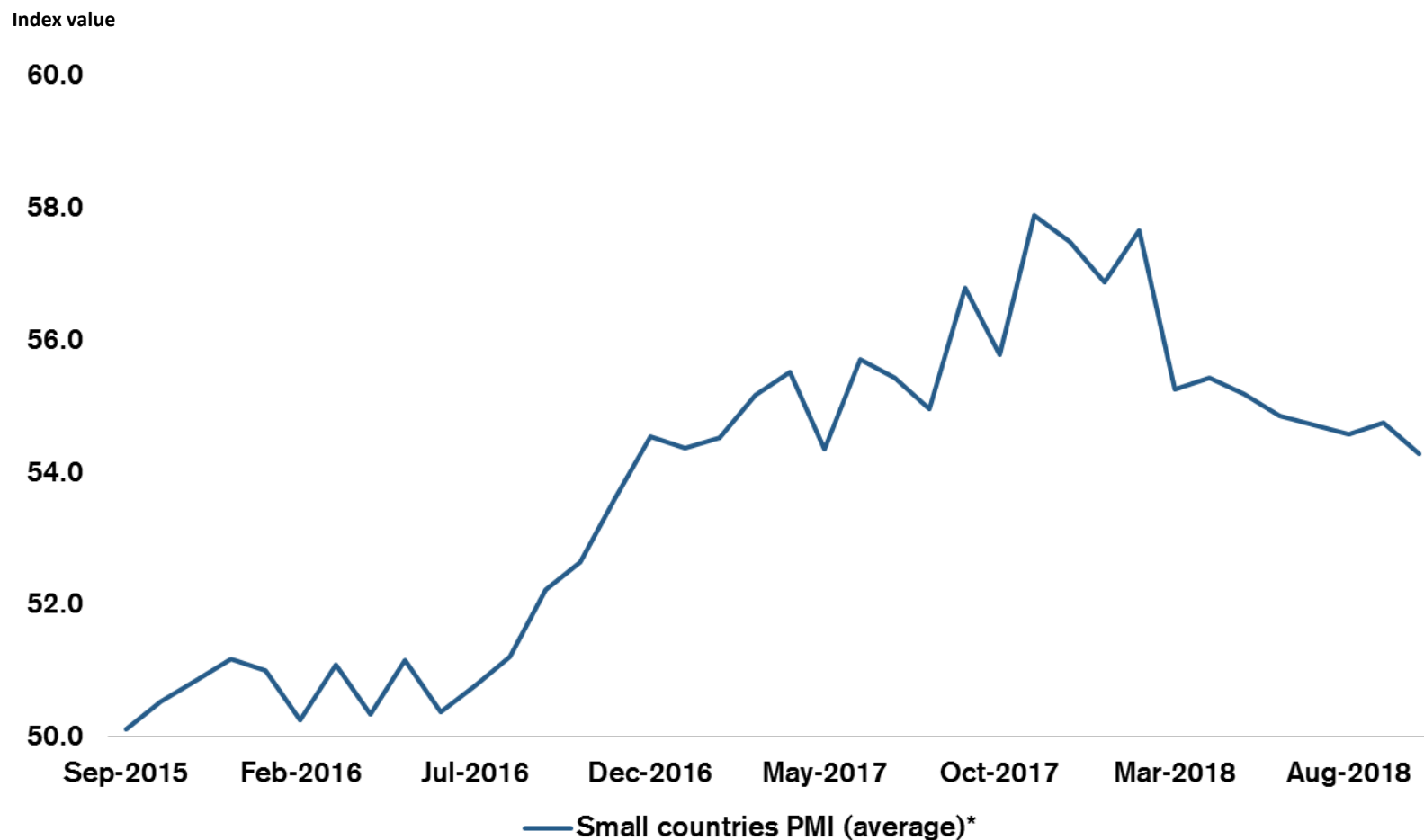
# Implications

- *Populism creates risks not solutions, eventually we get to an Agreement of the People*
- *Major trend towards fiscal activism to the benefit of households over corporations - Green New Deal an incoherent example of where policy is headed*
- *New parties, new issues (data, mental health)*
- *Investment spending may be local than international*
- *Search for a more balanced model of growth....small country secrets of success...intangible infrastructure. Idea of country strength becomes more important.*

# Geopolitics – Hanseatic 2.0, QUAD, SCO...and the end of the WB, IMF and WTO

# Small, advanced countries have the same problems and solutions

## Canaries in the coalmine



Note: small countries include Ireland, Switzerland, Netherland, Hong Kong, New Zealand, Sweden, Singapore  
Last data point : October 2018, data for NZ as of August 2018

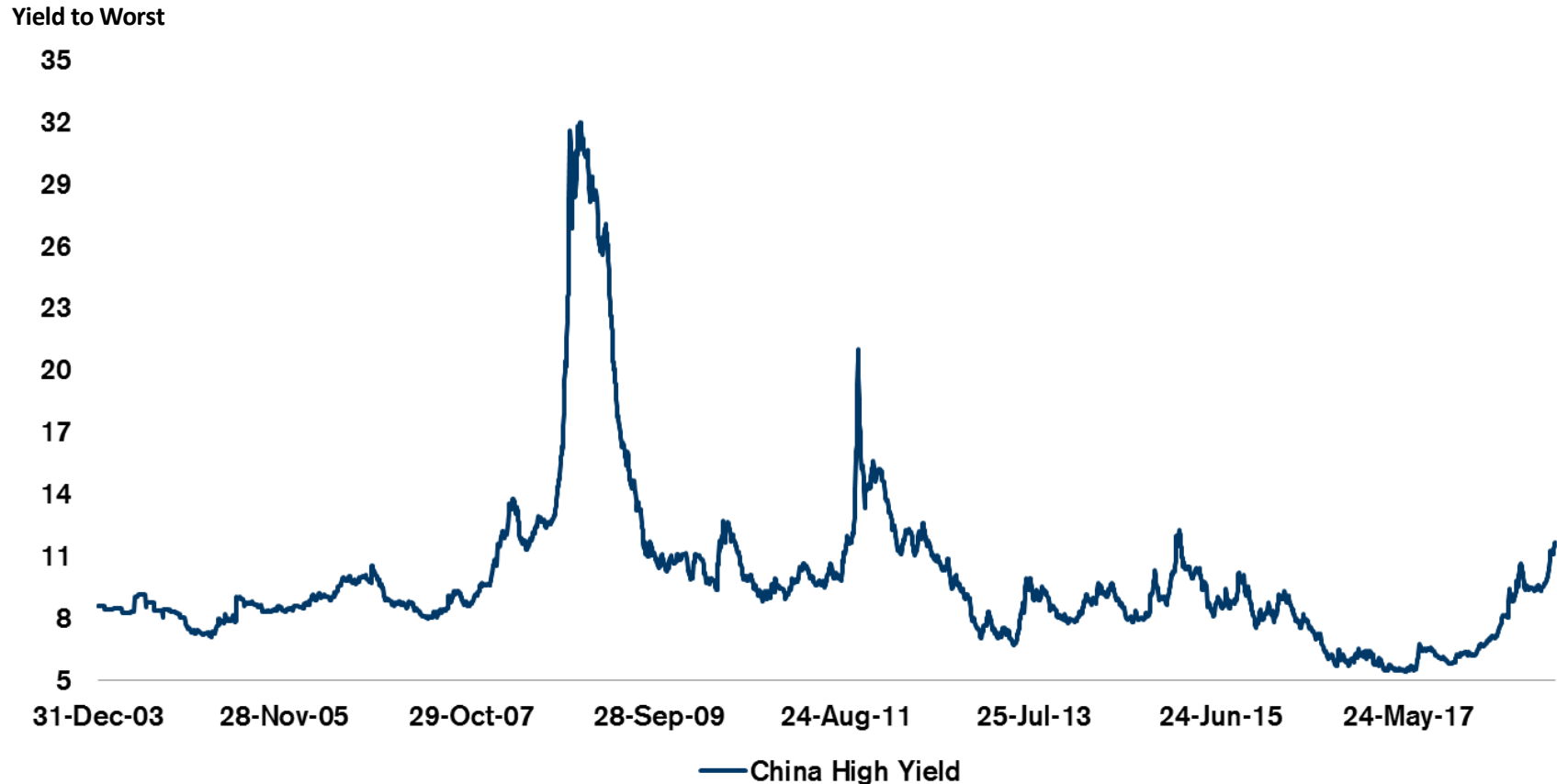
Source: Bloomberg

# Implications

- *Small countries clubbing together. Pro-growth, fiscally conservative group in Europe, Hanseatic League 2.0.*
- *New total wars, Thucydides, defense spending.*
- *Security and defence become much greater issues for the EU. EU Army.*
- *Old institutions like the WTO will fade...implications for the rules and regulations governing investment flows. SoftBank, ADB more important.*

# The Hamilton Project

# Building China's financial architecture, soft power



Source: Datastream,

# Implications

- *New tech (AI, blockchain, genetics, robots etc) – need to decipher what matters for Ireland. Are they fads, bubbles? And are life cycles so short that it is not worth chasing them.*
- *Ireland may need to become a leader in legal and compliance infrastructure...i.e. it could host the Internet Police.*
- *Need to complete the building of the euro-zone, and to bring the EU back in touch with people. Ireland has examples to offer – Citizen's Assembly.*
- *Risk is that Ireland's institutions are suited for the 19<sup>th</sup> and 20<sup>th</sup> centuries, and continue to fragment under the strain of 21<sup>st</sup> century challenges.*