

Deglobalization, inequality, and the green economy*

Peter Sanfey 

Fikret Čaušević:

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Fikret Čaušević has written a fascinating and timely book on deglobalization, financial inequality and the green economy. The author, whom I am privileged to call a long-standing friend, is Professor of Economics and Finance at the University of Sarajevo and is well-known as a leading authority on his native Bosnia and Herzegovina and the Western Balkan region. But his current volume is truly global in nature. Čaušević draws on a wide range of cross-country macroeconomic datasets, covering almost all parts of the world to support his arguments. The result is a book that is both concise and readable, but also thought-provoking and even shocking at times when global disparities and inequalities are laid out so starkly.

Many of the findings the author presents are both familiar and at the same time jaw-dropping. Some examples illustrate the point. We all know China's foreign reserves have grown dramatically in the current century, but I was still amazed to see that they had risen from US\$ 166 billion in 2000 to US\$ 3.84 trillion in mid-2014, an increase of much more than twenty-fold. Or look at the disparity across countries in assets: they average just US\$ 173 per capita in the bottom decile of countries (in 2020) versus more than US\$ 2.2 million in the top decile. And when it comes to GDP per capita, it is useful to be reminded that, even after several decades of rapid growth in many developing countries, the GDP per capita of the top decile countries is greater than the bottom decile by a factor of 119.

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

Peter Sanfey: EBRD, Deputy Director of Country Economics, Strategy and Policy. Email: SanfeyP@ebrd.com

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Čaušević's book consists of six chapters. In this review, I briefly summarise the main contribution of each chapter and add my thoughts on what I see as the most important insights, including, in some cases, areas where the arguments could be modified or extended in future work.

Chapter 1 contains a brief introduction and a short, selective overview of the literature on globalization and financial inequality since the start of the current century. Much of the discussion covers familiar ground, of course: the collapse of the dotcom bubble in 2000, the continued rise in globalization in the first decade until the global financial crisis and the inevitable rethink of globalization in the aftermath. I found most useful the discussion of recent books and papers on the imperfections on global capital flows and the pervasive role of tax havens. The difference between “real” and “phantom” FDI, to use the distinction made by *Damgaard and co-authors*¹, is one that I think should be given more prominence. FDI is often viewed uncritically as a “good” thing, but this makes no sense if much of it is simply based on an artificial registration of legal entities in a foreign jurisdiction in order to avoid taxes.

Chapter 2 is where we start to get to the meat of the book by taking a first look at the raw data on GDP across the globe and how it has evolved across countries in the current century. Čaušević adopts a simple but instructive approach, namely, to look at the evolution of the ratio between a country's GDP per capita and the world average of GDP per capita. I was surprised to see that the top 50 countries in terms of GDP per capita growth in the first decade of this century were all emerging and developing countries. A similar pattern is evident in the second decade. Despite this, at the end of 2020 economic inequality seems more or less unchanged from the level in 2010. I would have liked to see some further discussion of this result in this chapter. Much of the discussion focuses on the most advanced countries and the differences among them during this period in terms of variables such as net capital imports, credit to the non-financial sector (CNFS) and public debt. I was not entirely convinced by the arguments here. For example, a rise in the ratio of CNFS to GDP is seen as a bad thing for countries with very weak GDP performance like Greece or Italy, but it is also noted that this indicator shot up in China between 2010 and 2020, alongside the country being the second-fastest growing economy worldwide between 2010 and 2020. The chapter concludes with a useful discussion of the energy transition and the distribution across countries of important natural resources.

¹ <https://www.imf.org/en/Publications/fandd/issues/2019/09/the-rise-of-phantom-FDI-in-tax-havens-damgaard>

Chapter 3 delves into global financial assets and liabilities. Again, I found it very useful to see the data laid out in simple, even stark terms. Čaušević shows how Europe retains a dominant role in assets and liabilities, with more than 50 per cent of both, although this has fallen a few percentage points since 2010. He then reiterates the point from the previous chapter about the importance of looking at data on credit and net imports of capital. A link is drawn with Post-Keynesian economic theory, but the point is not really developed and could perhaps have been omitted in what is really a short, data-driven chapter.

Chapter 4 contains the main thrust of the whole book, linking GDP growth with changes in financial and environmental variables. Čaušević draws on a database provided by the Bank for International Settlements covering 43 countries and combines it with World Bank data on GDP. In essence, the idea is to weight GDP growth rates by a measure of financial efficiency (or by environmental sustainability later in the chapter) and compare countries in each of the two decades of the current century, as well as the whole 20-year period. The assumption underlying the analysis is that countries are performing “better” than others if they can combine high economic growth with only limited rises in credit and preferably net exports rather than imports of capital. Israel, for example, is singled out as a country that combined strong GDP growth between 2000 and 2020 with virtually no change in its CNFS/GDP ratio and a major shift from a net capital importer in 2000 to net capital exporter in 2020. Contrast this with the case of France, which combined anaemic growth over the past two decades with a shift from being a net capital exporter in 2000 to being the third largest net capital importer in 2020. I believe this is a novel and illuminating way of looking at data on GDP and financial asset flows, but I would caution about reading too much into these patterns. Ranking countries’ economic performance in global tables is a complex task and cannot be captured by a single metric. The same point applies to the latter part of the chapter, when growth rates are weighted instead by greenhouse gas emissions. Again, the rankings are informative, but do not necessarily give the full picture on which countries are performing best in their efforts to develop renewable energy and combat climate change.

Chapters 5 and 6 are more discursive and less data-driven than the previous chapters. I enjoyed both chapters nonetheless, particularly the latter one on Fintech which contains a very nice overview of recent contributions in this often-confusing field. I particularly liked the reference to *Eichengreen’s “trilemma”* – namely, the impossibility of simultaneously satisfying the goals of introducing a digital currency, maintaining the confidentiality requirement in transactions, and achieving financial stability. This is a lesson that needs wider acceptance in my view, in light of the often very frothy discussion of the potential of such innovations.

In summary, I very much hope this book attracts a wide readership. It is short, easy to read even for non-specialists and full of interesting insights and data patterns. One does not have to agree with all of the author's conclusions to benefit from reading this volume and using it as a platform for further research and investigations into the great economic and financial trends and challenges facing policy-makers around the globe.