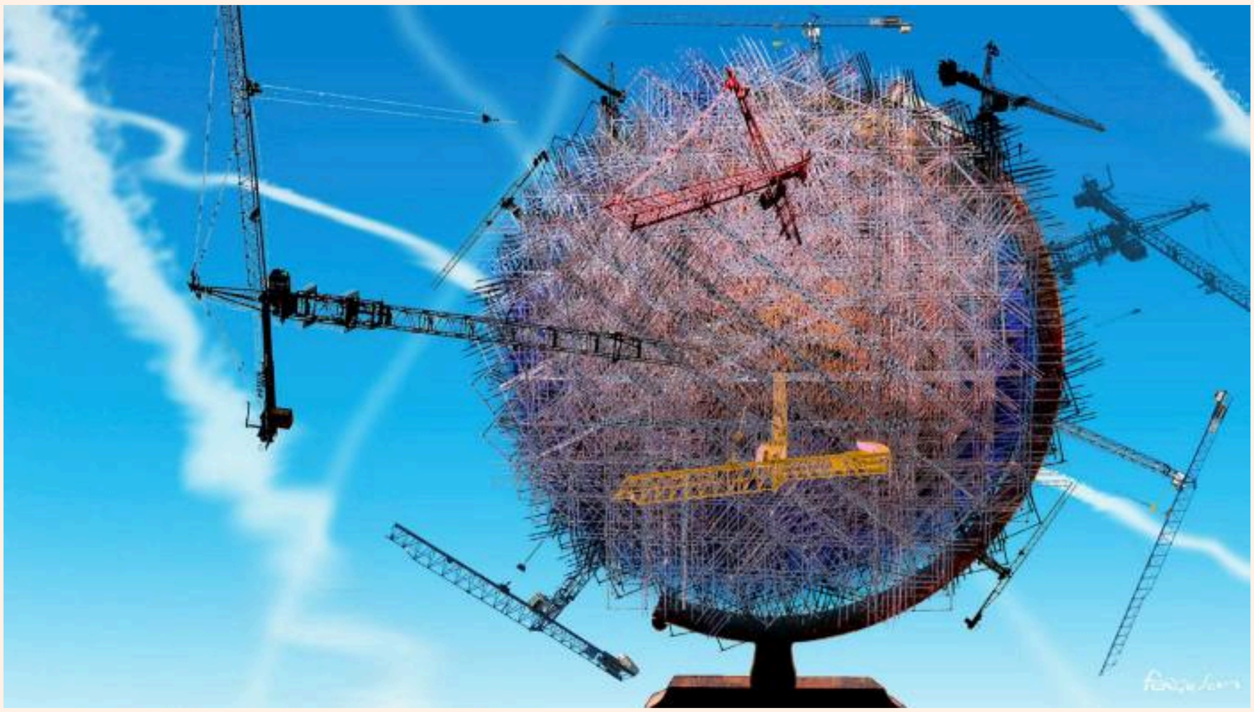
Opinion **Globalisation**

The big mistakes of the anti-globalisers

From treating trade as optional to overstating the merits of self-sufficiency, these are errors to avoid as we head into a new world

MARTIN WOLF



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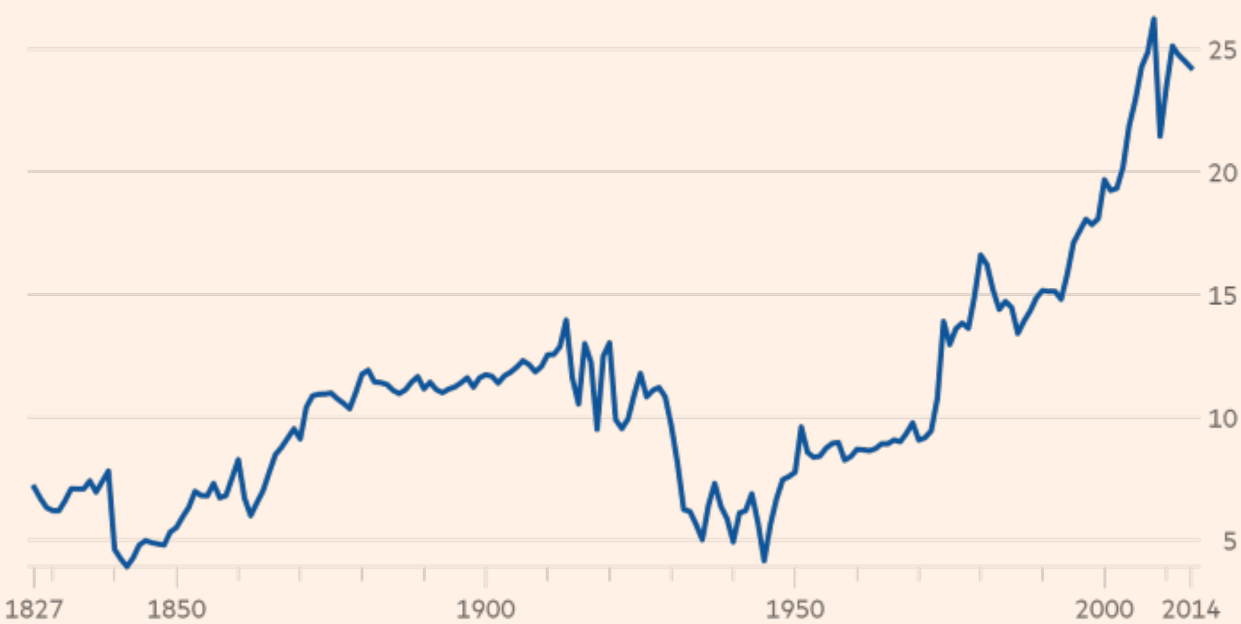
Martin Wolf 9 HOURS AGO

Globalisation is not dead. It may not even be dying. But it is changing. In the process, the institutions that shape it, notably the World Trade Organization, are being forced to change, too. We are moving towards a different and far more difficult world. But, in setting our new course, we need to avoid some mistakes. Here are seven.

The first is to focus attention only on trade. As Maurice Obstfeld, former chief economist of the IMF, has noted, today's fluid global capital markets have generated waves of financial crises, while bringing little evident benefit. Insufficient attention is paid to this reality, largely because the interests in favour of free capital flows are so powerful while their economic impact is so hard for most people to understand.

The recent era of globalisation is unprecedented and has not reversed

Global merchandise trade as a share of GDP (%)



Sources: Fouquin and Hugot (CEPII 2016), Our World in Data

The second is a belief that the era of globalisation was an economic catastrophe. In a recent note, however, Douglas Irwin of Dartmouth College observes that between 1980 and 2019 virtually all countries became substantially better off, global inequality declined and the share of the world's population in extreme poverty fell from 42 per cent in 1981 to just 8.6 per cent in 2018. I make no apology for having supported policies with such outcomes.

The third is the idea that rising inequality in some high-income countries, notably the US, is principally the result of openness to trade or, at the least, a necessary consequence of such openness. Evidence and logic are to the contrary. Indeed, this is a superb example of "lamppost economics" — the tendency to focus attention and blame where politics casts the brightest light. It is easy to blame foreigners and resort to trade barriers. But the latter are a tax on consumers for the benefit of all those in a specific industry. It would be better to tax and redistribute income less arbitrarily and more fairly and efficiently.

How average prosperity and the relative size of economies has changed since 1980

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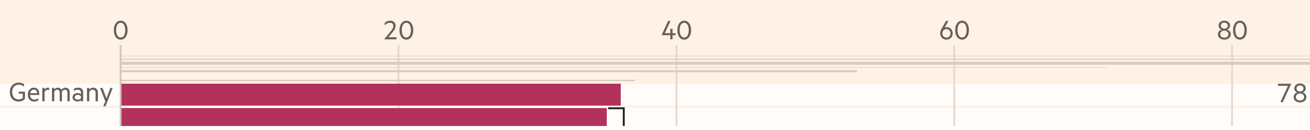
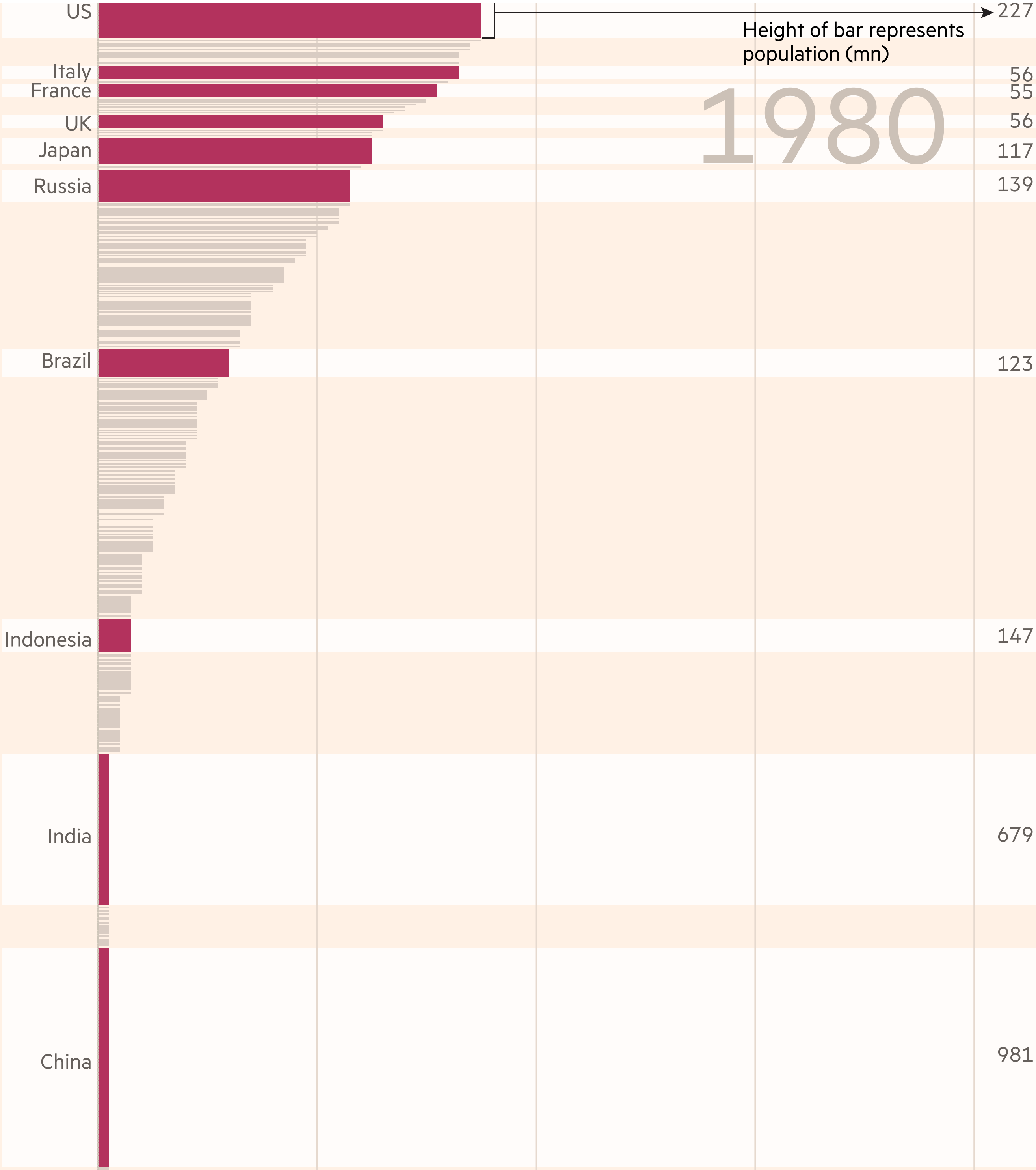
GDP per head (2021 constant $'000)*





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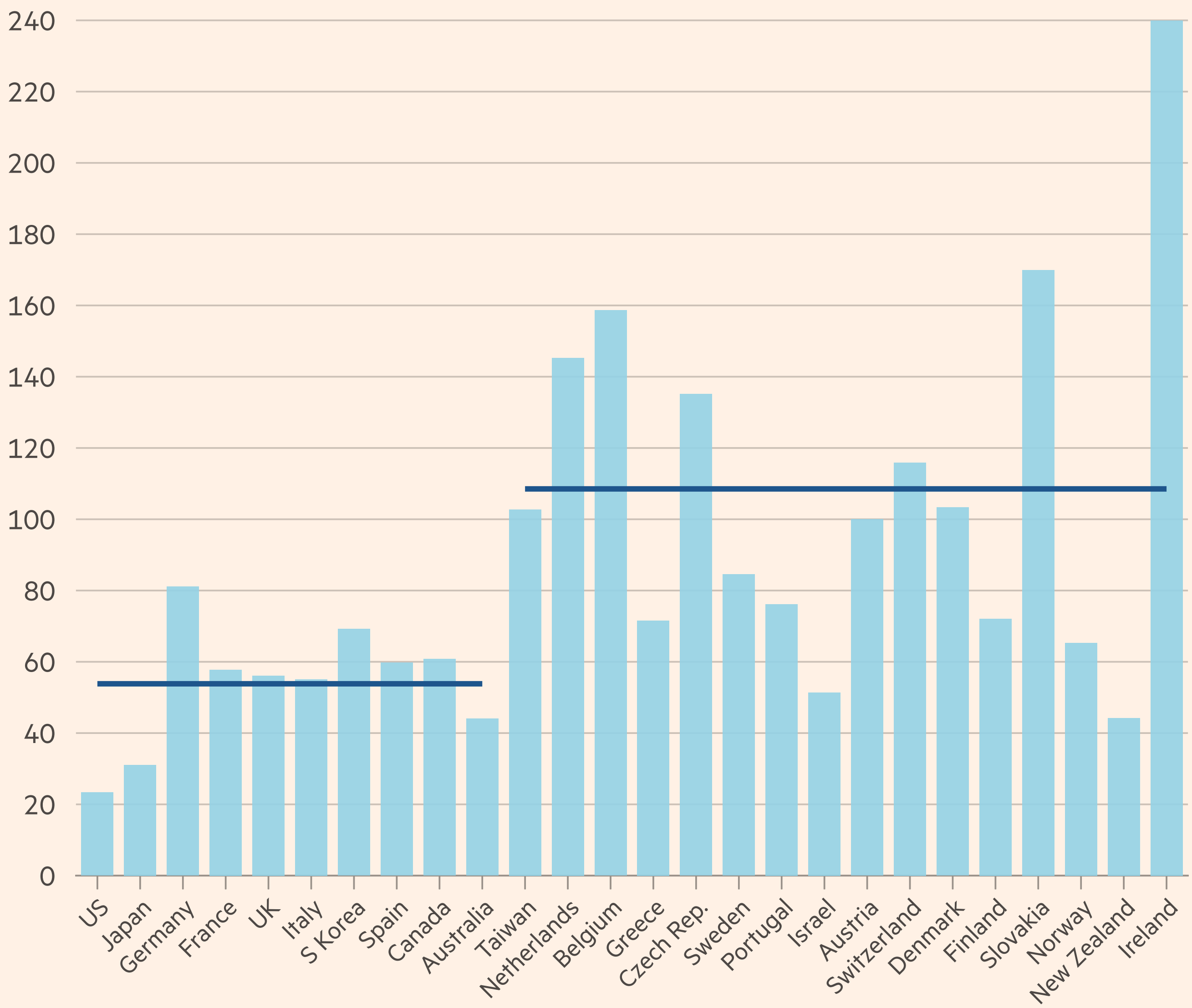
Source: Source: The Conference Board • *Converted using Purchasing Power Parities

The fourth is the supposition that a greater self-sufficiency might have protected economies from recent supply chain disruptions, at modest cost. To someone whose country was forced into a three-day week by a miners' strike in 1974, this has never seemed plausible. The recent shortage of baby formula in the US is another example. Greater diversification of supply makes sense, though it can be costly. Investment in stocks can make sense as well, though that will also be costly. But the idea that we would have floated through Covid-19 and its aftermath if every country had been self-sufficient is ludicrous.

The US is the biggest high-income country and, predictably, also the least dependent on trade

Trade (exports and imports) as % of GDP, 2020. Advanced countries ranked by population, with averages for top ten and others



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Source: IMF • Excludes Hong Kong, Singapore, and countries with population below 5mn

The fifth is the notion that trade is an optional economic extra. Here lies a paradox in trade policy: the countries that matter most in trade are the ones to which trade matters least. The US is the only economy in the world that could conceive of being largely self-sufficient, though even it would find this costly. Smaller countries are dependent on trade and the smaller they are the more dependent they tend to be: Denmark or Switzerland could not have attained their current prosperity without it. But big countries (or, in the case of the EU, large trading blocs) shape the world trading system, because they have the biggest markets. Thus, the trading system depends on the most indifferent. Smaller countries must try hard to offset that indifference.

The sixth is to presume we are already in an era of rapid deglobalisation. The reality is that the ratio of world trade to output is still close to an all-time high. But it stopped rising after the financial crisis of 2007-09. This is the result of the dwindling away of fresh opportunities. Global trade liberalisation essentially stalled after China's accession to the WTO in 2001. Given that, the world has by now largely exploited trading opportunities. But, as the World Bank's World Development Report 2020 pointed out, this is a loss: the ability to participate in global value chains has been an engine of economic development. These opportunities need to be spread more widely, not less so.

Trade grew far faster than world output for more than two decades

Difference between global growth in trade volume and growth in GDP* (average of previous five years, % points)

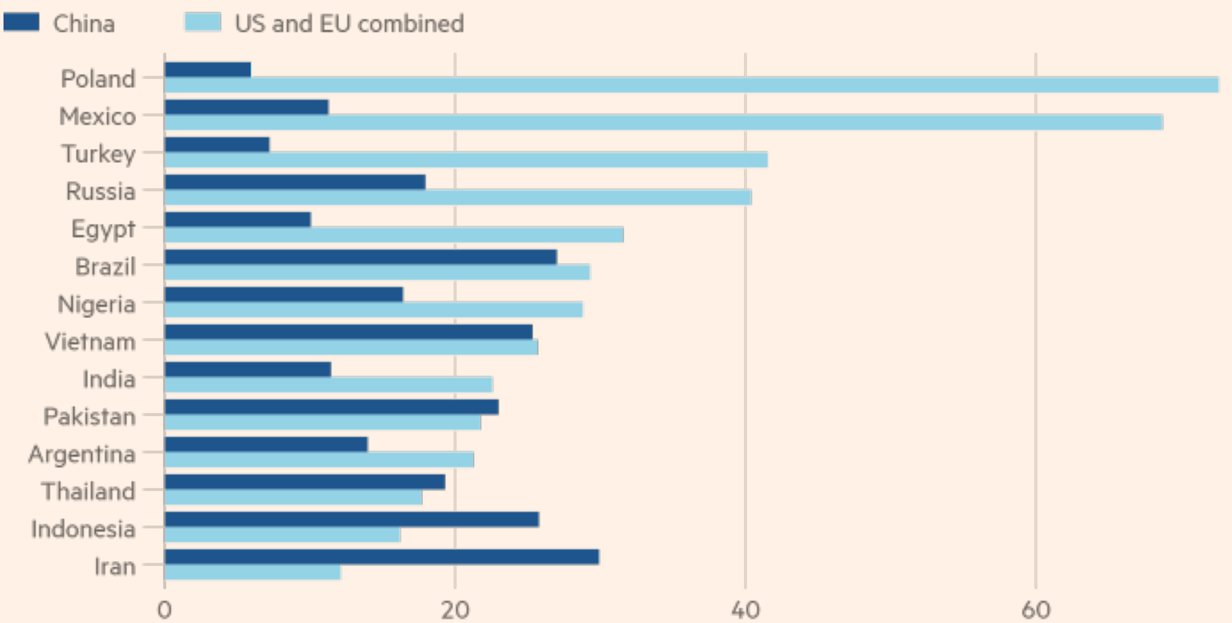
* trade in goods and services; GDP at purchasing power parity
Sources: IMF, FT calculations

The final mistake is the view that the WTO is redundant. On the contrary, both as a set of agreements and a forum for global discussion it remains essential. All trade involves the policies (and so the politics) of more than one country. A country cannot "take back control" over trade. It can only decide policies on its side. But if businesses are to make plans, they need predictable policies on both sides. The more dependent they are on trade, the more important such predictability becomes.

This is the essential case for international agreements. Without them, the recent backsliding would surely have been greater. The WTO is also necessary to ensure regional or plurilateral agreements fall within some set of agreed principles. It is not least the place to carry out discussions of issues that connect closely to trade, such as the digital economy, climate or the biosphere. Some seem to imagine that such discussions might happen without engagement with China. But China is too important to too many for that to be possible.

China is a crucial trading partner for many developing economies

Developing countries' trade with China & US/EU, as a % of total trade (2021, %)



Largest developing countries by GDP. Trade = exports +imports.
Sources: IMF, FT calculations

As Ngozi Okonjo-Iweala, director-general of the WTO, remarked back in April, the impact of new competitors, rising inequality within countries, the global financial crisis, the pandemic and now the war in Ukraine "have led many to conclude that global trade and multilateralism — two pillars of the WTO — are more threat than opportunity. They argue we should retreat into ourselves, make as much as we can ourselves, grow as much as we can ourselves." This would be tragic folly: consider the economic damage that would be done in the process of reversing most of the trade integration of the past few decades.

Yet the disruptions of our age — above all, the rise of populism, nationalism and great power conflict — put the future of global trade in question. So how should we try to reshape trade and trade policy? That will be my topic for next week.

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