Opinion **Free Lunch**

Globalisation will triumph over Donald Trump

Economic incentives outweigh politics in the long run

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Short-term political cycles are no match for the enduring power of international trade © AFP via Getty Images

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Happy Sunday. April 2 — or "liberation day", as Donald Trump has dubbed it — is imminent. US trading partners will soon discover what the president's "reciprocal" tariff plan looks like.

Fear of a deglobalising world is high. With the global goods trade slowing and national security doctrine in vogue, many worry that Trump's tariffs could be the straw that breaks globalisation's back.

So for this week's dialectic, I went in search of counter-arguments. Here's why Trump 2.0 will not be a fatal blow to international trade.

First, the importance of the US to global trade can be overstated, since it is the world's largest economy. America accounts for just 13 per cent of global goods imports — down from close to one-fifth two decades ago. That makes it the largest importer and a notable influence on trade patterns, but not sufficient to reverse importer and a notable influence on trade patterns, but not sufficient to reverse globalisation on its own.

For measure, Simon Evenett, professor at the IMD Business School, recently ran a helpful thought experiment. He found that even if the US cut off *all* goods imports, 70 of its trading partners would fully make up their lost sales to the US within one year, and 115 would do so within five years, assuming they maintained their current export growth rates to other markets.

The US isn't the main driver of global trade growth. Europe — and more recently China — are bigger contributors. And both economic powers are likely to continue advocating for free trade, according to recent analysis by Mallika Sachdeva, a strategist at Deutsche Bank Research.

China needs to secure raw material inputs (hence its Belt and Road Initiative) and global markets to support President Xi Jinping's growth strategy, which centres on "new quality productive forces". Beijing has already talked up the need to "resist unilateralism" as the US ramps up protectionism.

Still, for all the hubbub about the US-China trade war, the share of world merchandise trade that takes place directly between the two is only about 2.6 per cent.

The EU plays a more important role than both in driving global trade — one that will probably grow. Trade remains central to the European project. Intra-EU trade is likely to improve as the bloc boosts defence and economic integration efforts in response to Trump's belligerence. Brussels also recognises the need to be pragmatic in trading with China, given its ambitions to quickly go green and jump up the tech curve. (For instance, by using intellectual property transfer as a condition for Chinese production to shift into Europe.)

Beyond Europe and China, India, south-east Asia, east Asia and the Middle East are expected to prop up growth in global trade volumes until 2029, according to the DHL Trade Atlas.

Next, though governments are trying to boost national supply chain resilience following the Covid-19 pandemic and war in Ukraine, few are looking to emulate Trump. Most nations are aware of their resource limitations (particularly small and developing nations, which cannot maintain reasonable living standards without trade).

"As the US retreats from the global stage, other governments will want to lean in to offset potential sales and import losses with new deals," said Scott Lincicome, a vice-president at the Cato Institute.

Outside the US, bilateral and multilateral trade negotiations continue. Recently, the EU and Mercosur and Australia and the UAE reached agreements. The EU, the Gulf Cooperation Council, the UK and India are all also pursuing various deals across goods, services and investment.

To put the importance of other trading regions and their continued motivations to pursue openness into perspective, Steven Altman, a senior research scholar at the NYU Stern School of Business and lead author of the DHL Trade Atlas, ran through a worst-case scenario on US tariffs:

> Full implementation of tariffs proposed during the Trump campaign and retaliation by other countries against the US could cut global goods trade volumes by up to 10 per cent versus baseline growth in the long run. But even that downside scenario still implies about 5 per cent more global goods trade in 2029 than in 2024. This leads me to the view that US tariff increases are more likely to slow than to reverse the growth of global trade over time.

Sure, but isn't the historic rise in global merchandise trade already slowing? Might a worst-case tariff scenario worsen that trend?

What matters is *why* it's slowing in the first place. One factor is geopolitics. Asset manager PGIM argues that globalisation has entered a "dual-track era". It finds deglobalisation in items with national security implications, such as artificial intelligence, high-end semiconductors, critical minerals and military technology. (This captures most media and political focus.)

But outside the limelight, it finds continued, high-speed globalisation for goods and services, which account for the remaining *75 per cent* of global GDP. This includes professional and IT services, entertainment, consumer electronics and luxury goods.

Even so, the importance of trade to the global economy has ebbed and flowed throughout history. The elasticity of trade to world GDP fluctuates with geopolitical cycles, which influence national debates about protecting industries and workers. But economic reality has a way of reasserting itself; the goods trade keeps rising over time.

Efficiencies from specialisms around the world — which enable the import of cheaper, higher-quality or simply rare inputs and products — eventually undermine the logic of protecting inefficient jobs and industries (as do the profits that come from selling those specialisms at scale in a global market).

The inverse relationship between the KOF Globalisation Index — a measure of the economic, social and political dimensions of globalisation — and inflation in advanced economies is a case in point.

So, it is likely that once governments have built sufficient national capabilities and resilience in critical industries, economic rationale will take over. After all, the definition of critical industries is dynamic.

“Protectionism comes and goes in cycles, but the underlying structural force of comparative advantage eventually prevails to establish a new equilibrium that continues to favour expanding overall trade, especially when factoring in both goods and services," said Parag Khanna, a global strategy advisor.

In the long run then, it's hard to see how the hit from Trump's tariff assault in the current "dual-track era" will be more than a blip.

In the short run, the US president may even end up curbing his inflationary policies (as I explored in last week's newsletter). Import substitution is a decade-long undertaking. (US producers will take time to switch to domestic supply chains; imports won't drop off immediately.) Political cycles are shorter.

A recent survey by the Cato Institute and YouGov found 40 per cent of American voters consider inflation to be a major issue. Only 1 per cent mentioned globalisation and trade.

As Khanna alluded to, globalisation is more than just the trade in goods, which Trump is focused on (for now). The trade in commercial services — covering business, finance and ICT — has grown twice as fast as the goods trade since 1990. Rising digital trade is one component of that and is expected to rise faster as AI services grow.

The flow of services and data now plays a stronger role in the global economy (particularly as developing nations consume more of the goods they produce), notes a McKinsey report on the future of trade. It also reckons that, on net, new technology could dampen the global goods trade. (For example, electric vehicles need fewer mechanical parts than those with an internal combustion engine.) The point is that benign economic shifts — not just geopolitics — contribute to the slowing of the global goods trade.

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Overall, then, it's hard to see Trump's tariffs causing a sustained deglobalisation in trade.

Sure, there are broader dimensions of globalisation to assess, such as immigration and capital flows. But even then, DHL's Global Connectedness Index shows that international flows across trade, capital, information and people all rose between 2019 and 2024, a period when deglobalisation chatter amplified.

This does not mean that aggressive protectionism by the world's largest economy isn't harmful to the global economy. It is. But it is best countered by more free trade. Indeed, in the long run, the economic motive behind globalisation in all its forms gives it extraordinary staying power.

Send me your rebuttals and thoughts to freelunch@ft.com or on X @tejparikh90.

Food for thought

Can social media posts help predict the stock market? This VoxEu column analyses nearly 3mn investment-related posts on X, and finds that social media-based sentiment strongly predicts market trends in developed and emerging economies.

Globalisation