Headwinds of de-globalisation in the air

Monday, Oct 10, 2016

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Hillary Clinton, the Democratic nominee for the US Presidency, was known as one of the architects of the much-vaunted Trans Pacific Partnership (TPP), until she landed on the campaign trail when she turned against it. Newly leaked documents on her speeches to Wall Street and Goldman Sachs revealed that she was really for “open trade”, a key theme of the TPP. These days it is hard to find a political leader in the advanced countries who is ready to stand up for free trade…and its compatriot, globalisation.

Once the favourite of academics, business leaders, and open economy protagonists around the globe, globalisation is now squarely on the dock of public opinion. From Washington to London, and even Berlin, one can perceive strong headwinds of opposition to this global phenomenon that brought prosperity to all continents of this world lifting millions out of poverty in the shortest time in history. Is globalisation running out of steam?

For more than half a century since the Second World War, trade growth outpaced output growth and was acclaimed as the driver of prosperity around the globe, though not evenly. Freer trade among nations was indeed the driving force behind globalisation. For decades, large swaths of population in developed and developing countries reaped the benefits of trade expansion. “Beggar thy neighbour” policies of the 1930s had given way to “grow thy neighbour” strategies of economic development, with notable success. Developed countries were benefiting from the growing incomes in developing nations; the latter gradually climbing out of poverty having found ready markets in the rich countries, giving credence to the phraseology of export-led growth.

It was a validation of the free trade mantra espoused by leading thinkers of the post-war world. For the most part they were right. Rising global trade was lifting all boats, as it were.

Jobs and income were created aplenty through movement of goods, capital, and people, both in the East and in the West. And no one was complaining, until now. If Nobel Laureate economist Joseph Stiglitz (Globalisation and its Discontents) was to be believed, it was the turn of poor developing countries to do the complaining. That they did not goes to the credit of the multilateral trading institution such as the World Trade Organisation (WTO) which institutionalised the logic of Special and Differential (S&D) treatment for poor countries in a world of liberalised trade.

Paradoxically, we now find that the strongest opposition to globalisation is taking roots in the developed world. Trade openness seems to be the main source of discontent in the streets of US and Europe. Yet, a closer look will show that it is more the politics than economics of the phenomenon that is stoking the fires of the trend reversal, de-globalisation as it is being called. If recent political developments in the USA and Europe are any guide, the sources of de-globalisation thinking become all too evident. Populism has overtaken reason, and the facts. So much so that a political leader who is also a champion of free trade, a key component of globalisation, will be hard to find in most member-countries of the Organisation for Economic Cooperation and Development (OECD) countries. Trade economists on either side of the Atlantic have been aghast at the rising political headwinds against freer movement of goods, capital, and people. So what if anything has given fodder to the rising voice against a historical trend that brought so much good to so many.

Even while the going was good, Harvard University professor, Dani Rodrik, found in a global survey more than a decade ago that protectionism was more popular than free trade amongst people in both developed and developing countries. Then came the Great Recession of 2007-08, afflicting developed economies more severely than developing ones. It is painfully true that the developed world is still grappling with high unemployment and sluggish growth with no signs of a return to prosperous times. Demonising free trade for job losses was easy.

Though Wall Street and its risky financial innovations (credit default swaps or CDs, collateralised debt obligations or CDOs) triggered the crisis, soon the blame began to be laid on the global economic system and on the doorstep of globalisation. In Europe, and industrial America, globalisation is increasingly being blamed for job losses, rising wage inequality, and sluggish gross domestic product (GDP) growth. This is in stark contrast to the 1960s and

1970s when leading experts extolled the virtues of open trade regimes epitomised by the East Asian Miracle of export-oriented development. The transition of Asian Tiger economies (Hong Kong, S. Korea, Taiwan, Singapore) from poor to rich economies did not come at the cost of jobs and growth in the West. Not so this time around.

The rise of China as an economic powerhouse is a different ball game altogether – politically, at least. Perhaps none of the economic pundits in the West visualised the emergence of China as an export powerhouse, rising to become the second largest economy in the world, an event that would tip the balance of global economic power in a way that could not be ignored — politically. It was political dynamite with deep and global ramifications. Job losses in the US and Europe could be more easily linked to the proliferation of cheap Chinese exports. And political leaders were quick to seize the opportunity to revile trade openness, giving de-globalisation sufficient political legitimacy to generate a backlash against the two largest Regional Trading Arrangements (RTAs) on the move, the Trans Pacific Partnership (TPP) of the US and 11 Pacific Rim nations, and the Trans Atlantic Trade and Investment Partnership (TTIP) between European Union (EU), USA, and other North Atlantic countries. Now, these two colossal RTAs, touted by some as the 'gold standard' of trade agreements, look all but dead on arrival.

The China factor aside, there is consensus among trade economists that trade openness produces winners and losers. Unless the losers are duly compensated, stiff opposition can be expected, and policy reversals are inevitable. Unfortunately, neither were the losers identified, nor were compensatory policies undertaken. Hence, much of the political backlash we see can then be viewed as a reaction to the underlying policies that, in the past, have produced many 'losers' – not just 'winners' – and especially left large segments of the population in advanced countries in distress.

Stiglitz, in his latest prognosis (Globalisation and its new Discontents) of globalisation, argues that income inequality in the US has taken egregious shape with the bottom 90% of the US population having endured income stagnation for a third of a century. Income inequality has deepened as the tech revolution and skill dividend favoured college educated workers over non-college educated workers. Following the financial crisis of 2007-08 and the sluggish recovery, college educated workers regained jobs and income faster than non-college educated workers. Bernie Sanders, a populist former contender to the US Presidency, frequently claimed that the top 1.0% of the population had as much wealth as the bottom 90%.

In his new book, Global Inequality: A New Approach for the Age of Globalisation, Branko Milanovic, provides stark insights about global winners and losers over two decades from 1988 through 2008. The winners were the top 1.0%, the global tycoons, and the middle class in newly emerging economies; the losers were those at the bottom and the middle and working classes in the advanced countries. Even the United Nations Conference on Trade & Development (UNCTAD) confirms that rising inequality has led to a tendency for under-consumption in the world as a whole, contributing to slow growth. Not surprisingly, globalisation is increasingly blamed for job losses, rising wage inequality and sluggish GDP growth. Together with BREXIT in Europe, and whatever the outcome of US elections, not only will TPP and TTIP be revisited, the entire free trade logic could be under the political microscope for some time.

The preceding story encapsulates much of the thinking on the street, though not across academia, about where the advanced economies and their politics are headed. Our hope is that after all the political dust has settled sanity will prevail. There is enough sophistication and understanding about what is likely to work (and what does not work) in the global economic system. The Group of Twenty (G20) leaders are well aware of what an upsurge of protectionism might do to the global economy — make things much worse.

Where does that leave developing countries like Bangladesh that are only beginning to see and derive the benefits of trade openness on a global scale? We were counting on reaping the demographic dividend by creating millions of jobs in labour-intensive export industries by emulating the much-revered export-led growth model that transformed so many East Asian economies into developed countries from poor agrarian countries. If the elitist plurilaterlism under RTAs is going nowhere so much the better for WTO’s multilateral agenda of which Bangladesh has been a major beneficiary. We should be heeding the messages coming out of the world trade body.

According to the WTO, trade growth in 2016 at 1.7% (lowest since the Great Recession) has been slower than GDP growth of 2.2%, which is the opposite of what is needed for global prosperity to be sustained. Weak import demand in North America and slower GDP growth in several major developing economies as well as in Europe were the reason for this weakness in trade performance. The WTO Chief, Azevedo describes this as a “wake up call” in light of the spread of anti-globalisation sentiment in advanced economies. It would be a strategic mistake if the current state of politics leads to misguided policies of trade protectionism that would not only result in further trade contraction but would be harmful for job creation and economic growth and development, he lamented.

Two important lessons stand out from the de-globalisation current of today. First, it is not enough to believe there will be winners and losers from trade openness. The losers have to be identified and duly compensated. Bold initiatives are needed to ameliorate the plight of those left behind. Evidence suggests that, where others failed, the Scadinavian countries were successful in expanding the scope of work, and of the labour market, to make jobs available to segments of the population that otherwise would have lacked access to well-paid employment. Second, it is the criticality of equitably sharing the widely recognised gains from trade by making trade more inclusive not only across developed and developing nations, but also among entrepreneurs, large and small companies, and marginalised groups in advance economies. That is work cut out for the next WTO round, if it comes about.