# The end of Globalization?

by Anne O. Krueger

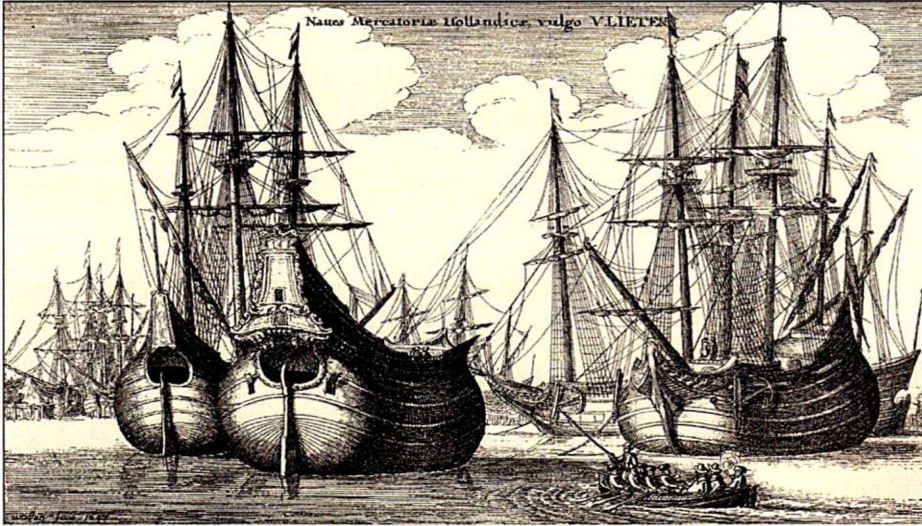
*A steelworker in a protective suit checks the temperature of molten metal in a furnace at the TMK Ipsco Koppel plant in Koppel, Pennsylvania, on March 9, 2018.* (MICHAEL MATHES/AFP/GETTY IMAGES)

The transformation of life in the Western world from "nasty, brutish, and short" to today's longer life expectancies, better health and nutrition, and vast increases in knowledge and living standards has certainly been among mankind's greatest achievements. Countries in the developing world are now following the western world and have embarked on the transition to modern lifestyles. Globalization has been both an important factor leading to the sea change and a result of it.

Globalization has been ongoing throughout recorded history. Migrations from Asia to the North American continent and from Africa to Europe were perhaps the earliest globalizing activities. But soon movement of goods became equally important. The Roman Empire depended on imports of African wheat. Seaborne trade among Asian countries was well established by 1000. All school children learn of Marco Polo's travels to and from India and China and the "exotic" silks and other goods that were sought by Europeans. By the beginning of the 17th century, the East India Company and other national companies were sailing to and from South and Southeast Asia with high-value low-volume goods sought halfway around the world.

Once the industrial revolution started, trade and other economic relations between countries intensified even more rapidly. As trade volumes increased, so did living standards in the Western world. A turning point in economic history

**ANNE O. KRUEGER** *is the Senior Research Professor of International Economics at the School for Advanced International Studies, Johns Hopkins University. She is also a Senior Fellow of Center for International Development (of which she was the founding Director) and the Herald L. and Caroline Ritch Emeritus Professor of Sciences and Humanities in the Economics Department at Stanford University.*




*A ship of an East Indiaman, a ship of the Dutch East India Company, 17th century.* (FALKENSTEINFOTO/ALAMY)

is the beginning of the "Great Divergence," as most aspects of life in the West grew better for most people. It is impossible to reimagine a world history in which economic growth since around 1800 could have been anywhere close to what it has been if people, goods, and services, could not have been able to move outside their own country.

In many regards, the economic history—if not all history—is a story of the increasing interconnectedness and integration of people throughout the world, i.e. of globalization. To be sure, a few nations (for example Myanmar until the 1990s, China until the 1980s, and North Korea to the present day) have attempted to isolate themselves to the maximum extent possible, but they have paid the price by becoming increasingly irrelevant and a diminishing part of the international economy. Nations with open trading policies have been among the most successful. Economic history suggests that over the longer term, markets have almost always won out over the efforts of sovereigns to thwart them with controls, as richer nations (with open trade) became more powerful and grew more than the restricting ones.

For this essay, globalization is taken to mean the process of increasing interconnectedness of the world economy. It thus covers faster and cheaper communications and transportation. It includes the increased speed of travel and the rapidity with which ideas, information, and news spreads. International trade in goods and services is a major part of it.

Globalization increases when a commodity produced in a particular place in the world is sold over a wider geographic area and when events in a particular location affect those at points further and further distant. It grows when the change in price of a commodity produced in a particular place starts affecting producers of that same commodity at points further away. For example, a poor wheat crop in India in the 21st century can affect the prices wheat farmers in North Dakota receive even if there is no trade in wheat between the two places: the wheat market is now global, and anything that affects world supply or demand has an impact on every other producer and consumer of wheat and its close substitutes.

By the late 20th century, transport and communications costs had fallen so much that trade in services (such as tourism, including such new phenomena as "medical tourism") became increasingly important. Moreover, the volume of international trade increased rapidly and was an "engine of world economic growth." Businesses everywhere can now purchase more of their needed inputs of parts and components from low-cost producers in other countries and can sell their products worldwide. These phenomena have resulted from, and added to, the growth of real incomes, which further stimulated the demand for foreign goods and services.

Interdependence is well illustrated by the effects of the Japanese tsunami of 2011. Researchers at the World Trade Organization (WTO) estimated that the tsunami led to large supply shocks for producers in many Asian countries and elsewhere. For example, they estimated that Thailand's producers of industrial machinery experienced a supply shock, meaning a downward shift in their supply of inputs, of about 7.5%. For the U.S., supply-driven shocks were smaller, but still averaged about 0.5%. For some critical inputs, the situation was much more serious..

Integration of the world economy has resulted not only from improvements in transportation and communications, but also because government-imposed barriers to trade have been greatly reduced. Policy-induced barriers to trade include measures such as tariffs, import and export licensing (i.e., putting a ceiling or floor on the quantity of an item that can be exported or imported), holding imports to higher safety standards than domestic goods, requirements that inputs be sourced domestically, and more. In 1900, it is estimated that many tariffs on imported goods were still over 50%, while transport and communications costs were equally expensive. That meant that a commodity shipped from the U.S. to, say, Italy could cost the importer more than twice as much as the exporter received.

In the second half of the 20th century, countries agreed on and established an international organization to set rules for trade that would prevent discrimination against imports from abroad. Rules governing international transactions are essential for a well-

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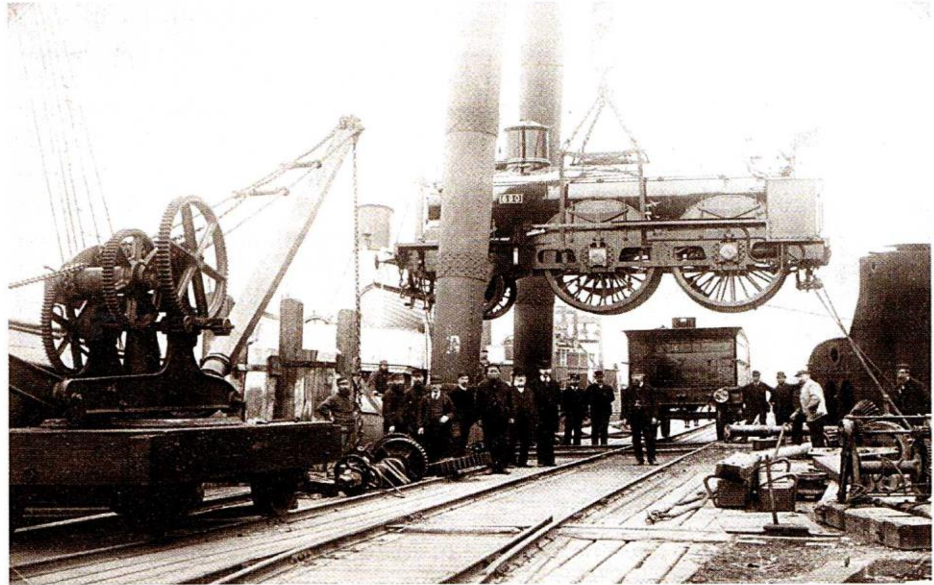
functioning global economy and have underpinned the increased role of trade in goods and services. With transport and communications costs falling to less than 15%, on average, and tariffs falling to an average of 4%–5% on many industrial goods, the prices of many imports had fallen by more than half since the late 1940s for those reasons alone.

Not only have communications, transport, and goods exchanges between countries become relatively more important as costs fell, but that increase has been accompanied by a rapid growth in the flows of international finance: financing of exports and imports, short-term lending and borrowing across borders, private foreign direct investment, and equities have all increased in absolute and relative importance.



*The British locomotive-building industry expanded rapidly in the 19th century and cultivated a thriving export market. Locomotive No 690, built in 1883 by Neilson & Co of Glasgow for the Chemin de Fer de l'Ouest, is seen here being loaded on board ship en route to France.* (SSPL/GETTY IMAGES)

## Globalization over the centuries

Despite Alexander, Marco Polo, and Chinese shipping, trade was usually confined to high-value, low-volume goods such as spices, gold, and silver until the middle of the 17th century. Around that time, trade and other contacts began increasing more rapidly: the East India Company was founded in 1600, and other European countries followed with their own trading companies. Each company received a royal charter giving it monopoly rights to trade goods in South Asia. The intended purpose was to engage in profitable trade, generate a surplus of revenues over expenditures, and thus enrich the sovereign by earning gold and silver.* Initially, the trade was highly profitable, despite dangers associated with shipwrecks, pirate assaults, and uprisings in the partner trading company.

Over time, each of these companies experienced rising expenses and falling profits. By the 19th century, they were no longer dominant traders. In 1776, Adam Smith wrote his *Wealth of Nations,* challenging the ideas underlying the monopolistic trading companies. On one hand, he contradicted the notion that the objective of trade was to accumulate money to finance royal wars. Instead, he insisted that its purpose was to have private companies compete and let each country devote its resources to the most profitable lines of production. Productive capacity was the true wealth of nations. He also destroyed the idea that monopoly trading companies were desirable, explaining how competition forced companies to be efficient (or go out of business).

The industrial revolution began at about the same time as the *Wealth of Nations* was gaining influence. It is no coincidence that Smith's precepts were adopted first in Great Britain and that that country was the fastest growing country in the world in the 19th century. Before briefly sketching what happened and the effects, it is worth recalling how different life was in the 18th century, even in northern Europe, from what it is today.

**Rising Standards of Living, Health, and Well-being.** As trade volumes increased, so did living standards in the western world. That was a major turning point in modern economic history, known as the beginning of the Great Divergence (between living standards in the west and in other countries), as already noted.

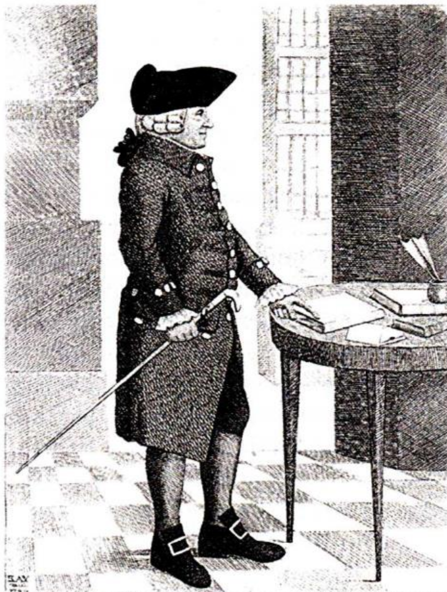
To those living in advanced countries today, the living standards at the turn of the 18th century are almost inconceivable. Average life expectancy was a fraction of what it now is: it is estimated to have averaged 38 years in Britain in the second half of the 18th century and only 28 years in France. Of those born, 56% died before they were 15 years of age. Life expectancy in ancient Egypt and China is estimated to have been about the same (29 and 26 years respectively) as in northern Europe at the beginning of the Great Divergence.

Economic historians estimate that there had been virtually no change in standards of living worldwide in the

**It was believed that a country's wealth was determined by its gold and silver holdings. For Western European countries at that time, that meant a country had to earn more foreign exchange through exports than it spent on normal imports so that gold and silver could be purchased and accumulated.*

four millennia prior to 1800. In 1800, about 75% of an English laborer's wage was spent on food and drink, 10% on clothing, 6% on housing, 5% on heating, and 4% on light and soap. Most of that consumption was produced within a short distance of where consumers lived.

Living standards in the western world rose sharply until World War 1. The U.S. was a leader. Gordon describes American living standards in 1870 contrasted with 2010: life expectancy at birth was 45.2 years, compared to 77.9 years in 2010; infant mortality was 175.5 per thousand births whereas in 2010 it was 6.8; "most Americans lived on farms and produced much of their food and clothing at home"; central heating and plumbing were virtually nonexistent; most rural households remained largely isolated even from nearby towns by poor or nonexistent roads. These low living standards were in large part the reason for low life expectancies and high infant mortality—reflecting poor nutrition (recall there were no refrigerators), lack of access to health care, and absence of the medical knowledge accrued over later years. But by around 1870 they were beginning to rise rapidly.




*Adam Smith (1723–90) Scottish philosopher and economist. Author of* Inquiry into the Nature and Causes of the Wealth of Nations *1776. Etching by John Kay, Edinburgh 1790.* (UNIVERSAL HISTORY ARCHIVE/GETTY IMAGES)

The divergence in living standards between the advanced countries and the developing countries began increasing. Even by 2019, when many developing countries had already grown rapidly for two decades, divergence was wide. Estimated annual income per person in 2020 in developing countries was only a little higher than it had been two millennia earlier. Between them and the advanced countries, the gap was huge. Per capita incomes in the U.S., UK, Japan and Germany were $65,118, $42,305, $40,247 and $46,258 respectively. By contrast they were $10,261 in China (where per capita incomes had more than doubled since 2000), $3,552 in Bolivia, $8,717 in Brazil, $1,643 in Cambodia, $2,104 in India, $554 in Niger, $776 in Uganda, and $1,464 in Zimbabwe. To be sure, a number of countries that were poor in the period after WW II changed their economic policies in later years. Among the most prominent were South Korea, which undertook far-reaching reforms in economic policies in the 1960s and 1970s, Chile in the late 1970s, China in the 1970s and 1980s, and India in the 1990s. In those and a number of other instances, growth rates rose markedly, and by 2020, per capita incomes were much higher than in developing countries such as Niger and Zimbabwe.

By any measure, life had improved enormously in the advanced countries, although not all in those countries had benefitted equally and a few had lost out along the way. The advanced countries enjoyed higher living standards and also longer life expectancies, health improvements, increased literacy and more. That is evident in the data, but also in the popular demands for accelerated development and higher living standards in the poor countries.

## What accounts for the phenomenal transformation?

It is difficult to exaggerate the difference in lifestyles in the west in the two centuries after 1820. The divergence in per capita incomes between the advanced and the developing countries is almost equally incomprehensible. A key question is what made this enormous leap forward possible? Much of the answer lies in globalization.

As late as 1800 the world was still a fairly insular place. Travel and communications were time-consuming and costly. Only about 2% of world GDP was traded between countries at that time. Although we read about pilgrims reaching the New World and other travel adventures, it is a reasonable guess that a very high proportion of the world's population never went more than 25 miles from place of birth in 1800, and about 90% of the world's population was engaged in agriculture.

Travel times were, however, starting to fall. It took about 90 hours to make the trip between Manchester and London in 1700 and 33 hours in 1800. Clark estimates that in Roman times news traveled from Rome to Egypt in 56 days, or at about 1 mile per hour. News of the signing of the Treaty of Nanking in 1842 reached London in 84 days (1.1 miles per hour), and of Lincoln's assassination in 1865 in 13 days (1.2 miles per hour).

Not only was travel slow until the 19th century: it was also costly. Then, the steamship began to replace sailing ships. Travel times and costs were cut because steamships were faster and because they were not wind-dependent. By the 1850s, piracy was virtually eliminated so that ships no longer had to carry heavy cannons on their decks, which greatly increased cargo capacity. Of course, the advent of canals and the railroad reduced travel time and cost for land routes (including the cost of transporting goods between inland points and coastal ports).

These and other innovations greatly reduced transport costs. The cost of shipping a ton of cotton goods from Liverpool to Bombay, for example, fell from £31 in 1872 to £1.9 in 1907.

The invention of the telegraph greatly speeded communications by several hundred percent. The first transatlan-

tic underwater cable was laid in 1858. Later, of course, came the telephone. By standards of the 21st century, intercontinental (and even intercity) calls remained expensive. It is estimated that even in 1930, a three-minute transatlantic call between London and New York cost $290 in prices of 2000. Today, of course, the cost is less than 1% of that, and email is instantaneous and virtually free.

While transport and communications costs were falling, the leading countries in the industrial revolution were reducing and removing their tariffs on imports. The UK was the first to abandon its tariff policies and adopt virtually free trade.* Other northern European countries followed the UK's lead. Tariffs had averaged 50% or more while transport and communications costs had been very high. The cost of importing a commodity was two or more times the price in the exporting country. But by the mid-1800s, Adam Smith's message was influencing policy and the relative prices of imports (including tariffs, shipping costs, and ex-factory price in the exporting country) had probably fallen almost by half, if not more.

With transport and communications costs (and times) dropping dramatically and tariffs and other barriers to trade reduced or eliminated, the volume of international trade mushroomed.** The U.S. did not adopt free trade as rapidly as did the northern Europeans. But falling costs of shipments combined with the rapid growth in European demand for wheat and other American products nonetheless led to rapid growth of American exports. It is estimated that by 1913, the volume of world trade was about 22% of world GDP. The move to greater reliance on private markets resulting from Smith's seminal ideas also resulted in a sharp increase in the rate of innovations and technical change. During the 19th century, the steam engine (Scotland), the telegraph, the telephone, electricity (and electric lighting in 1870), refrigeration (Persia), railroads (England), internal combustion engines (Germany), the reaper, the cotton gin, the radio (Italy) and many more new products and techniques appeared. Their development proceeded in both Europe and North America: ideas quickly spread between countries as part of the globalization process. It took little time for inventions to be adopted and improved upon by citizens of other countries.

Lowered costs of transport and communication, and hence increased trade and information exchanges, reduced artificial barriers to trade. The shift toward more reliance on private enterprise and a level playing field and innovation also each contributed to the quantum leap in living standards in the west that marked the past two centuries.

These phenomena interacted and a virtuous circle resulted. Increasing trade flows meant that countries such as England could import grains more cheaply than they could be produced at home, freeing workers to move to more productive occupations and raising their real wage (and those of the poor) as food products became cheaper. Innovations in refrigeration combined with shorter sailing times combined to provide more nutrients in food in northern climes.

These and many other changes contributed to a healthier and longer-lived population, which in turn led to a more productive labor force. Whereas the printing press with movable type was invented in China around 1040, communications were so sparse that it had to be invented all over again in Europe around 1600. By contrast, it took less than 5% of that time for personal computers to emerge in many countries at the end of last century.

*(L-R) U.S. Treasury Secretary Henry Morgenthau Jr. and British economist John Maynard Keynes conferring during international monetary conference to plan for postwar reconstruction.* (ALFRED EISENSTAEDT/TIME/GETTY IMAGES)

## The lost years

Life as those in the west knew it by 1914 was already a very different experience from life 200, or even 100, years earlier. There was a stark difference between lifestyles in the West and those in the "underdeveloped," as they were then called, countries

WWI and the Great Depression resulted in a sharp slowdown, if not a retrogression, in globalization. Many trading ties were loosened, if not lost, in WWI. The European countries then struggled to restore prewar international financial arrangements in the 1920s, while the reparations payments required of Germany led to further international dislocation. By the end of the 1920s, the Great Depression had started. Country after country began raising barriers to international trade in the hope that higher-priced imports would lead consumers to buy domestic substitutes, thus raising domestic production levels. Instead, other countries retaliated and shrinkage of the volume of international trade intensified. The period from the beginning of WWI until the end of WWII is generally regarded as one in which globalization dramatically slowed down if it did not reverse.

** The UK also was the first to follow the precepts of Smith, David Ricardo, and other economists of the time and to rely on market economies with competition and level playing fields to deliver goods and services.*

*** The U.S. was a laggard in reducing its tariffs. The U.S. nonetheless benefited from lower costs of shipping and communication and increasing demand in Europe for imports, especially of agricultural commodities, from America.*

# The economic situation at the end of the war

At the end of the war in 1945, wartime destruction and the disruption of shipping routes and trading patterns had left much of the world economy in dire straits. Europe and Japan were near starvation and capital was needed to enable investment to convert to peacetime production and restore critical infrastructure. The leaders of the devastated economies had little immediate choice but to impose stringent controls on foreign trade as there were few items available for export. Those controls themselves exacerbated the plight of war-torn economies, and the first several years after the war witnessed political and social disruption.

The U.S. emerged stronger than ever. The American leadership recognized the perilous situation. Instead of demanding reparations and seeking vengeance as victorious countries had done after past wars, the U.S. administration adopted the Marshall Plan and other measures, extending aid to the war-afflicted countries.* Under the Marshall Plan European countries received funds that could finance needed investments. But the Americans insisted that the pattern of bilateral trade balancing between countries should be dropped and trade opened up quickly.

## Building a better global economic architecture.

Analysis of what went wrong in the interwar period pinpointed two key culprits: the collapse of the international financial system in the 1930s with competitive devaluations, and the sharp increase in tariffs in the early 1930s after the American Smoot-Hawley tariff and the "beggar thy neighbor" retaliatory tariffs across countries.

During and after the Second World War, the U.S. took leadership in planning an "international economic architecture" intended to prevent any recurrence of the disasters of the interwar period. That architecture has evolved over time, but its essential characteristics remain until today, and have underpinned much of the success of globalization since 1945.

The U.S. emerged from WWII as the unquestioned preeminent leader of the advanced countries. Instead of using its power bilaterally (as had happened with demands for reparations payments from Germany after WWI and in other conflicts), the U.S. chose to build a multilateral geopolitical and economic system. In coordination with other countries, plans for multilateral institutions were developed: the United Nations for political purposes, three "specialized agencies" for economic purposes (although they were and are part of the UN system). That architecture has remained the essential backbone of the international economy ever since.

The three major global economic agencies are the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO). Although a few countries still have not joined, membership in each has grown over the years: to 190 countries in both the IMF and the World Bank, and 164 in the WTO.

The IMF, as its name suggests, was tasked with providing the stability and smooth functioning of the international monetary system. That, in turn, was intended to underpin an open multilateral trading system. The World Bank is the agency that supports economic development, especially of developing countries, primarily through loans, with very low interest rates (concessional loans) to the least developed countries to finance development projects.

The proposed International Trade Organization (ITO) was not ratified by the U.S. Congress and never came into being, but some of its articles were taken and used to inaugurate the General Agreement on Tariffs and Trade (GATT) in 1947. The GATT was an "agreement" joined by the U.S. by executive order, whereas the World Bank and IMF are international organizations whose members have signed their Articles of Agreement as a treaty. In 1994 the GATT transformed into an international organization, the WTO. The GATT/WTO provided the legal framework for the international economy. It collected and disseminated data from members about their trade and trade policies. It also reduced trading costs by agreeing on arrangements for such things as customs forms, permissible of phytosanitary and other standards (which could otherwise be used as protective devices), and much more. In addition, the GATT/WTO Secretariat served as the body to service members in multilateral trade negotiations (MTNs) for negotiating reciprocal reduction of trade barriers.

Three core principles underlie the WTO. Members are to extend national treatment to foreign traders, which means they have the same rights as nationals in domestic courts. Protection against imports should be provided only through tariffs (so that trade policies are transparent) and there should be no export subsidies. There should be most favored nation treatment (MFN) by each country of goods and services transactions with other countries, which assures nondiscrimination among trading partners (so that the same tariff protection is applied to all countries).

The WTO has done much for the international trading system. It has served as a secretariat for eight successful rounds of negotiations for reciprocal tariff reductions. The outcome was that, as of the implementation of the last (Uruguay) round, tariffs on manufactured goods averaged between 3% and 5% in advanced countries (compared to 45%-–50% after World War II), and the WTO classified any tariff above 15% as being a "tariff peak." The WTO's Articles also provided for a dispute settlement mechanism (DSM), under which countries could bring their complaints if a trading partner were deemed to violate its obligations under

** There was other important American assistance, including Point IV (aid to Greece and Turkey), loans to Great Britain, and much more.*

the Articles or the agreed-upon tariff reductions agreed in successive MTNs. Disputes such as the Boeing-Airbus dispute between the U.S. and the European Union might well have resulted in a trade war without the DSM.

## Accelerating globalization and growth after WWII

Despite much pessimism at the end of the war about global economic prospects, by 1953 the war-devastated advanced countries had rapidly attained prewar levels of output while the other advanced economies also prospered. Spurred on by the trade liberalization in Europe under the Marshall Plan and the first round of MTNs under GATT, international trading volumes grew at unprecedented rates.

Transport and communications costs and times resumed their fall after 1945. In the late 1940s, transport costs of exports added about 20% of their cost to the importers and have fallen to around 5% in this century. From rates of 40% and more in the late 1940s, average tariff rates on manufactured goods by the advanced economies fell in successive rounds of MTs to less than 5% by early in this century.

In the first years after WWII, the "international economy" essentially consisted of two groups: the rich advanced countries (most of Europe, the U.S. and Canada, Japan, Australia and New Zealand) and the poor countries of the developing world. China, the USSR, and other centrally planned economies endeavored to reduce trading and other ties with the advanced countries to the maximum feasible extent.

For the advanced countries, the quarter century after WWII was a "golden" period, with rates of growth of trade, real incomes, and real GNP never before witnessed over such a long period. From the end of WWII for more than 60 years, international trade in goods rose at twice the rate of growth of world GDP both because of falling real costs of international transactions and because of the reduction and removal of tariffs and other trade barriers.

*A shop selling black and white televisions. The clients wear traditional Mao Zedong style jackets.* (ERIC PRÉAU/SYGMA/GETTY IMAGES)

The WTO estimates that world merchandise trade was 7% of world GDP in 1947 and rose to 17% by 1998; in 2019, it was just over 60%. Globalization certainly contributed significantly to the accelerated growth rate of world GDP.

## The emergence of developing countries

It was already seen that prior to WWII living standards in areas outside the west rose at a much slower rate, if at all, than they did in the west. The Great Divergence was taking place. The countries left behind this rapid growth became known as "developing countries" and that is the terminology that will be used here.

In the immediate postwar period, most developing countries were still governed by colonial powers, and even those that were independent, such as Brazil, Turkey, and Thailand, had strikingly lower living standards and productivity than the advanced countries. By the 1970s, almost all developing countries had become independent.

The new governments aspired to achieve economic growth and attain lifestyles similar to those of the advanced countries, including health and life expectancy, for their people. They tried to do so by putting up high tariffs and other trade barriers and refused to join in the liberalization of trade under GATT/WTO. They hoped to use protection to encourage domestic production of many items that had been imported from advanced countries. They were exporters of raw materials (agricultural products, oil, and minerals). Their share of international trade fell over the 1950–70 period and trade linkages to the advanced countries weakened. Because of the rapid growth in the advanced countries, demand for raw materials was rising, and developing countries were able to grow modestly, although the advanced countries grew even faster.

Worse yet, over time economic growth in most developing countries was slowing. A few in East Asia (Hong Kong, Singapore, South Korea, and Taiwan), known as the "East Asian tigers," already had undertaken economic policy reforms in the 1950s and 1960s and began growing rapidly but they were exceptions at that time. Indeed, they were so successful that they are regarded as "advanced economies" today.

By the 1980s and 1990s, however, other developing countries began following the examples of the East Asian tigers and unilaterally reforming economic policy. Tariffs and other trade barriers were lowered and developing countries' economies were increasingly integrated with those of the rest of the world. China, by virtue of her size and earlier poverty, was the most spectacular reformer, but many others also ex-

*Trade ministers of 11 countries of the Comprehensive and Progressive Trans-Pacific Partnership attend the Commission meeting on January 19, 2019, in Tokyo, Japan.* (THE ASAHI SHIMBUN/GETTY IMAGES)

perienced greatly improved economic performance. Their rates of economic growth accelerated and, by the turn of the century, they were growing more rapidly than the advanced countries.

Economic growth rates accelerated in the 1990s for the entire world economy. The developing countries that had abandoned their import substitution policies generally began growing more rapidly and by the turn of the century, many had begun further integration in the world economy. As well, Russia negotiated to join the WTO and finally became a member in 2012. China's accession was in 2001. As is well known, by 2010, the People's Republic of China's economy had been transformed. Other countries including India experienced accelerated growth following the dismantling of their highly protectionist trade regimes and inner orientation. Globalization had accelerated for the developing countries.

## Preferential Trading Arrangements (PTAs)

The GATT/WTO articles called for nondiscrimination among trading partners, but provided for an exception in cases of preferential trading arrangements under which two or more countries would mutually agree to lower all of their tariff barriers among themselves and form a free trade area (FTA) or customs union (CU).* In the late 1940s, six European countries – Belgium, France, Germany, Italy, Luxembourg and the Netherlands – agreed to form a customs union. The reduction of tariff barriers between the countries was taking place at the same time as external tariffs against the rest of the world were falling after WTO MTNs and as those countries were reaching their prewar production levels.

It was anticipated that the collective growth of the six would slow down, but it instead accelerated. In the rest of the world, many observers attributed the successful growth of the six to the customs union, which certainly contributed. But the fact that external tariffs were falling was also important.

Over time, many other countries joined the original six. Now there are 27 members of the European Union (there were 28 until the UK withdrew). While some developing countries formed FTAs or CUs, they did so with very high external tariffs and did not greatly affect economic growth. The U.S. policy was to maintain open multilateral trade, and with exceptions of politically motivated instances (primarily Israel), remained nondiscriminatory until the late 1980s when first Canada and the U.S. agreed to an FTA and then Mexico also joined to create NAFTA. Also in the early 1990s, the USSR broke up, and many of the newly independent countries negotiated FTAs with trading partners initially while they waited to align their policies with those that were WTO-compatible and join the WTO. PTAs have become increasingly important in the international economy. Late in 2020, the Chinese and 14 other Asian countries agreed to form the Regional Comprehensive Economic Partnership (RCEP), which is to be an FTA among those countries, covering 30% of world trade.

** A free trade area is one in which there are zero tariffs between the members, but each country retains its own tariff schedule against the rest of the world. A customs union is an arrangement for countries to lower their tariffs to zero among themselves and have a common external tariff.*

## Globalization as of the 2010s

By 2010, the process of globalization had been proceeding for more than 60 years after WWII. As already seen, life expectancies, real per capita incomes, educational attainments, and most other indicators of living standards and well-being had greatly improved throughout almost the entire world.

Whereas international trade in the 19th and early 20th century had been almost entirely in finished commodities, trade in services and in parts and components began increasing rapidly after WWII. From small beginnings, both grew enormously in size and importance. Companies located production facilities where costs were lowest: simple assembly processes using unskilled labor were shifted to countries with an abundance of unskilled labor and low wages. That enabled labor in advanced countries to be employed in higher productivity industries requiring more skilled and highly educated workers and fewer unskilled. As such, "value chains" expanded globalization and interdependence in yet another important way.

By 2018, global trade in services was about 30% of the total for goods and services and equal to about 7% of world GDP. As transport and communications costs fell, international trade in tourism, financial services, health care,

transport, and much more had grown even more rapidly than trade in goods.

Other aspects of globalization had also intensified. A high and increasing fraction of university students studied abroad. International conferences and rapid communications enabled ideas and research findings to disseminate at an ever-increasing pace. The rate of innovations, as measured by the number of patents granted, had accelerated.

Last, but certainly far from least, international financial markets have become increasingly globalized. Companies from around the world listed their equities in New York, London, Frankfurt and elsewhere. International banks conducted business throughout the world, and even small exchange rate movements had international repercussions. Just as international finance has grown and facilitated trade, the growth of trade has necessarily spurred international finance. After the Great Recession, questions arose as to the adequacy of the governance of the international financial system. Doubtless more can be done, but the benefits of a well-functioning international finance system are unquestionable.

*(L. to R.) Ron Kirk, U.S. trade representative, Representative Dave Camp, a Republican from Michigan, and Thomas Conway, vice president of the United Steelworkers union, watch as U.S. President Barack Obama signs the Korea, Panama, Colombia Free Trade Agreements and the renewal of Trade Adjustment Assistance for workers in the Oval Office of the White House in Washington, DC, Oct. 21, 2011.* (BRENDAN SMIALOWSKI/BLOOMBERG/GETTY IMAGES)

### The successes of globalization

By 2015, global poverty had been greatly reduced and was still falling. Living standards, life expectancy, and other measures of well-being were all rising worldwide, in many cases dramatically in developing countries. International trade had increased from about a fifth of global output in the early postwar years to almost half 70 years later. Globalization had accelerated and played a major part in these successes.

For the world as a whole, real living standards had never been higher (although some within countries and some countries were left behind. For example, Argentina is an example of a country whose per capita income was among the highest in the world in 1900 and is now a developing country). The electronics revolution had not only enabled cell phones, internet, and much more in advanced economies, but also huge advances in developing countries. Fishermen in countries such as India, when beginning to return to land, were able to learn in which ports their catch commanded the highest price. Health care workers with little training in rural areas were able to obtain advice by phone and internet from clinics and hospitals in rich countries. Online courses gave access to more education and training to many.

The IMF, WTO and World Bank were continuing to work to support countries in financial difficulties, oversee international finance, lend to poor countries for development projects, provide data and forums for trade issues and more. The ninth round of MTNs had failed to reach a conclusion, however, and new issues such as ecommerce and cybersecurity called for attention in the WTO. Overall, however, the international economy had never been so important, and never delivered so much, as it did by 2016.

## Skepticism about trade and globalization

By the second decade of the 21st century, there was virtually universal agreement that increased trading and other ties between nations had benefited the entire world enormously. The rate of poverty globally had fallen sharply. Other indicators of well-being were continuing to rise in most developing countries, and real incomes in advanced economies had risen, albeit more slowly than in earlier postwar periods. To be sure there were some who had been harmed along the way, and although social policies had been designed to buffer or offset them, problems remained.

Several phenomena had led to mounting skepticism about the value of globalization. In hindsight, the 9/11 attack on New York and Washington was a jolt to the U.S. and led to weaker support for internationalism. Doubts about open trade and finance were then intensified by the financial crisis of 2007–08.

Except for the years of the global financial crisis, however, trade values and volumes continued to grow, albeit at a slower rate than they had in earlier years. Until 2017, the WTO and other international institutions functioned much as they had. Some observers noted that recessions normally induce increased protection and that the global

*A worker checks the quality of steel plate in Handan, Hebei province, China, July 16, 2020.*
(COSTFOTO/BARCROFT MEDIA/GETTY IMAGES)

crisis had generated a smaller increase than might have been expected.

Several criticisms intensified during the decade after the Great Recession. A major concern was expressed in many advanced economies about a loss of jobs, with the losses attributed to international trade. In macroeconomic perspective, that complaint collided with the facts that employment had expanded very rapidly and the unemployment rate had fallen. Research indicated that even in those cases where jobs had been lost, a major part of the blame fell on technical change (not trade). Hardship was largely concentrated in towns and rural areas in which a key factory or other activity had been unable to survive.

Despite strong pressure from areas in which jobs had been lost, a majority of Americans still supported free trade and a leadership role for the U.S. in the world. There were skeptics in European and Asian countries, too, but the skepticism was generally more muted as most of those economies were highly dependent on trade.

American economists, especially, noted that adjustment assistance for workers was and is relatively spartan. Adjustment assistance had been added to unemployment compensation for those losing jobs because of the impact of trade. However, it was difficult for the authorities to determine that trade was the major factor in leading to unemployment, as technical change and other factors were usually more important.

A better solution to the problems of job loss and hardship that arise should cover all causes of job loss, without differential treatment of workers because of the cause of their job loss. Until measures such as that are taken, however, it is likely that those harmed by plant closures will tend to blame foreign trade out of all proportion to its importance.

## Rejection of multilateralism in trade

Until the election of President Donald Trump in the U.S. in 2016, however, interdependence continued to increase, although at a slower pace than before the Great Recession. There was widespread agreement that globalization had resulted in large positive benefits for almost all.

The Trump administration, however, chose to attack the open multilateral trading system on many fronts. An FTA (the Trans-Pacific Partnership, TPP) had already been negotiated between the U.S., Japan, and ten other Pacific-Rim countries. President Trump withdrew the U.S. from it in one of his first moves in office. He attacked Chinese trade policies, and declared a "trade war" with China, imposing tariffs on Chinese exports to the U.S. He considered, wrongly, that the U.S. trade deficit could be cured by raising tariffs on Chinese goods, but China retaliated, and from there tensions and protectionist measures between the two largest trading countries in the world rose. There was little or no impact on the trade balance, as economists had predicted.

In addition to the "trade war" between the U.S. and China, the Trump administration imposed tariffs of 25% on steel imports (and 10% on aluminum imports) on "national security" grounds. The president denounced the WTO as inimical to the U.S.; among other actions, the U.S. refused to approve any new judges for the DSM to the point where the entire DSM was inoperative. He attempted to have companies bring their production facilities back to the U.S. and condemned Chinese companies. And much more.

These and other actions took place even before Covid-19 began. The pandemic and its economic consequences both put still further pressure on the open multilateral trading system as some countries have sought to impose measures to protect their supplies of products needed in the health care system, and other protectionist pressures arose. Although many other countries have sought to maintain economic efficiency by having health care products originate from the lowest-cost sources, it is not clear how the issue will resolve over time.

The advent of e-commerce, cybersecurity concerns, and other new issues calls for a coordinated and negotiated international response. Environmental concerns raise the need for international cooperation but in its absence, politicians experience pressure to resort to protection to address environmental issues.

With the WTO partially paralyzed and the leading country rejecting the system, the needed multilateral negotiations to resolve these problems are-apparently lacking. Simultaneously, the recession-induced impacts of lockdowns and other measures designed to fight covid-19 have also led to increased calls for additional protection.

## Whither globalization?

The confluence of doubts and challenges to the international economic system raises serious questions as to the future of globalization. The loss of U.S. leadership has only served to underline how important it was in the years prior to 2017. The antagonism of the U.S. administration to an open multilateral system has already damaged it. The fact that the U.S. had abandoned its support for the system has strengthened protectionist pressures in many other countries.

Given all the benefits still to be had from further global integration, the timing of the new issues with the pandemic and the withdrawal of American support are particularly unfortunate.

*Construction workers are seen as they work with steel rebar during the construction of a building on May 17, 2019, in Miami, Florida. The Trump administration had just announced that it would be lifting tariffs on Canadian and Mexican steel imports, nearly a year after imposing the duties.* (JOE RAEDLE/GETTY IMAGES)

The question, therefore, is what the future holds for the open multilateral trading system and further globalization. Clearly, increasing protectionist measures will further stress the system and other trading nations may seek shelter from that with measures of their own. Offsetting that, over time observers will note that, by and large, countries that remain open will experience more satisfactory economic performance than those that shut their doors.

There are several possible outcomes. In the most optimistic scenario, countries would meet to negotiate and address some of their issues and restore the WTO and the open multilateral system. In some cases, such as concerns about Chinese theft of intellectual property, a multilateral approach would in any event be more likely to yield results than a single country's efforts. But in the most pessimistic alternative, countries turn inward with increasingly stiff walls of protection and insulation from international shocks.

In between these two extremes—restoration of the open multilateral system and reversion throughout the world to Smoot-Hawley-like tariffs—some observers have suggested that there may be a middle path: separation of the global economy into PTAs. One possibility would be an Asian bloc, a bloc in the Western Hemisphere, and an Afro-European bloc. There are many other possibilities (such as a Sino-East Asian African bloc, and a Russian bloc with some surrounding countries and North Africa joining).

It is very doubtful that most countries will revert to high-tariff regimes, à la the Smoot-Hawley tariffs and retaliation in the 1930s. Most countries are simply too dependent on trade. The members of the EU are closely intertwined, and likely to stay that way. They could raise tariffs against the rest of the world, but the EU imports a high fraction of its energy, raw materials, and items intensive in the use of unskilled labor. The economic losses from high tariffs would be great.

The situation for Asia is similar. The region has a significant share of its trade with the EU and with the western hemisphere. Likewise, the countries of the western hemisphere have a large fraction of their trade outside the region.

Moreover, it is hard to imagine the continuation of scientific and educational exchanges, collaboration on innovation, value chains for factory inputs, and much more if protectionist measures were high and applied country by country. Disruption costs would be sizeable as companies relocated their production units, but the losses would be great even after those transitory costs were absorbed.

The world may learn more about the costs of disentanglement with Brexit once the UK leaves the EU customs union at the end of 2020. Analyses anticipating trade disruption suggest the costs will be sizeable. While the costs may fall over the longer run, the prospective disruption appears to be huge.

The likelier alternative to a move toward protectionist regimes in individual countries is probably regional trading blocs. Even these would be very costly. An African PTA with Europe would perhaps result in relatively smaller losses than the EU and USMCA would incur. However, the EU trades more with Asia and the U.S. than it does with Africa. Disruption would appear substantial.

However, some countries will surely opt for maintaining open trading ties with the rest of the world. Over time, they are likely to prosper and grow more rapidly than countries or regions that have turned inward. As citizens of countries with heavier protection observe the difference, political pressures would likely again arise to lower tariff barriers, just as they did in developing countries observing the success of the East Asian tigers.

There are still many potential benefits from further globalization, including greater efficiency in services trades of many kinds, ecommerce, efficient means of addressing environmental issues, and much more. It is to be hoped that the great benefits from globalization that have already taken place will serve as a lesson and persuade countries to continue its progress.

## discussion questions

**1.** Can any country afford to ignore the growing trends of globalization in favor of isolationist policies?

**2.** How can globalization be improved so that it can benefit more and more of the global populace? What has prevented this in the past?

**3.** What does the "next stage" of globalization look like? Would we see more power ceded to international organizations? Does globalization have a future 20 years from now?

**4.** What are the biggest drawbacks to globalization? What are some ways governments can better combat the disadvantages of globalization?

**5.** Which nation in your opinion is the "leader"of the globalization movement? Why is it and can they find a way to make it more appealing to the global masses?

## suggested readings

Krueger, Anne O. **International Trade: What Everyone Needs to Know,** 268 pg, Oxford University Press 2020. With evidence-based analysis and an even-handed approach, *International Trade: What Everyone Needs to Know* lays the foundation to understand what trade does and does not do. Focusing on the importance of trade in both goods and services, Krueger explores the effects of various trade policies step-by-step and demonstrates why economists generally support free trade.

Raboy, Marc. **Marconi**, 872 pg. Oxford University Press, 2018. As Marc Raboy shows us in this enthralling and comprehensive biography, Marconi was the first truly global figure in modern communications

Clark, Gregory. **A Farewell to Alms: A Brief Economic History of the World,** 432 pg, Princeton University Press, 2009.

Findlay, Ronald and O'Rourke, Kevin. **Power and Plenty: Trade, War, and the World Economy in the Second Millennium** 648 pg. Princeton University Press, 2009. Ronald Findlay and Kevin O'Rourke examine the successive waves of globalization and "deglobalization" that have occurred during the past thousand years, looking closely at the technological and political causes behind these long-term trends.

Gordon, Robert J. **The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War** 784 pg. Princeton University Press, 2017. Weaving together a vivid narrative, historical anecdotes, and economic analysis, *The Rise and Fall of American Growth* challenges the view that economic growth will continue unabated, and argues that the life-altering scale of innovations between 1870 and 1970 cannot be repeated.

Stiglitz, Joseph E. **Globalization and Its Discontents Revisited: Anti-Globalization in the Era of Trump,** 515 pg, W.W.Norton & Company, 2017. In this crucial expansion and update of his landmark bestseller, renowned economist and Nobel Prize winner Joseph E. Stiglitz addresses globalization's new discontents in the United States and Europe.

**Don't forget: Ballots start on page 104!!!!**

**To access web links to these readings, as well as links to global discussion questions, shorter readings and suggested web sites,**

**GO TO www.fpa.org/great_decisions**

**and click on the topic under Resources, on the right-hand side of the page.**