Globalisation in retreat

It is being challenged by a nationalist politics. But a nationalist economics is unlikely to take its place

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- Ireland on the verge of snap election after Deputy PM refuses to resign

In the US, Wisconsin's Winnebago county has lately made news. In 1872, Kimberly-Clark, a legendary company of paper products that earned $18.6 billion in worldwide sales in 2015, was born there. While Kimberly-Clark continues to be profitable, in part because it manufactures in 39 countries, smaller paper mills have shut down, one by one. Cheaper imports, especially from China, have wiped out the factory sector. Winnebago flipped from voting Democratic to voting Republican last year. Its residents were drawn to Donald Trump's tough message on trade.

Trump's opposition to globalisation, of course, remains stark. He is still to appoint his emissaries to the World Trade Organisation (WTO). Opposed to multilateralism in trade, he also wants American corporations to invest less abroad.

But globalisation's retreat is not confined to the US alone. Germany, Britain, France and Italy are the four biggest European economies. Via Brexit, Britain has already given in to an inward-looking pullback; right wing populist political forces are showing signs of revival in Italy; the nativist party led by Marine Le Pen finished second in France; and now, a right-wing populist party has emerged from nowhere in Germany to become the third largest party in parliament, causing a substantial erosion of popular support for the centre right and centre left, and making it hard for a government to emerge. Under Merkel, Germany was unambiguously committed to the European project and, by extension, to a less nationalistic, more pro-global stance. We don't know how the political crisis will be resolved in Germany, and whether the resolution will be stable.

It is natural to ask: Where is globalisation, the ruling economic orthodoxy of the last four decades, headed?

- UK launches plan for industry as Brexit looms, wins Merck investment

- Ireland will block Brexit talks unless border issue agreed

In its purest economic form, globalisation represents free movement of capital, goods and labour across national boundaries. The reality, of course, departed from this ideal type. Compared to capital and goods, labour was always allowed lower freedom to move. Moreover, since different countries opted for varying degrees of integration with the global economy, even the movement of capital and goods, while less constrained than before, was not entirely free. India and China globalised incrementally, Argentina with a big bang in the mid-1990s.

Eventually, the actually existing globalisation came to mean two things: One, greater economic freedom beyond national borders than perhaps ever before; and two, within that larger trend, freer movement of capital and goods than of labour. Economic historians also make it clear that the hundred years until the First World War constituted the first era of globalisation. We have been watching Globalisation 2.0 over the last four decades.

India and China were among the worst sufferers during the first globalisation. But they have been two of the biggest beneficiaries of the second globalisation. In 1980, China and India were not even among the 45 largest economies of the world. In 2016, at $11.2 trillion, China's GDP was second only to the US ($18.6 trillion) and at $2.3 trillion, India's GDP was the seventh largest in the world, ahead of Italy ($1.9 trillion) and Canada ($1.5 trillion), and only slightly behind Britain ($2.6 trillion) and France ($2.5 trillion), though its per capita income continues to be a fraction of all four.

China and India have not objected to Globalisation 2.0; the West has. Further, it is not economic arguments against globalisation that have forced the retreat. It is the new political forces that have done so. If market-based economics mastered politics for the last four decades, politics is now displaying its mastery over economic policy, though in a manner disconcerting to most liberals.

Two economic arguments against full-blown globalisation, made in the 1990s, are worth noting. In 1998, Jagdish Bhagwati, famous for his arguments in favour of trade globalisation, wrote vehemently against free movement of capital, arguing that capital markets were prone to extreme instability — "panics and manias" — unlike trade in goods, which was more stable and durably welfare-enhancing. In 1996, Malaysia, Indonesia, Thailand, the Philippines and South Korea received $93 billion in capital inflow, but had an outflow of $12 billion in 1997, causing a massive East Asian economic crisis. Trade in goods can never wildly fluctuate in this manner.

A year before, Dani Rodrik, though not against globalisation per se, had argued against unrestricted free trade, claiming that many losers from trade liberalisation would lose permanently, not simply in the short run, as arch trade globalisers were suggesting. All boats would not be lifted. The freer the trade, the bigger the government would have to be — to help those hurt by trade liberalisation.

These economic arguments and others, however, did not alter the globalising thrust of the time. Instead, it is two recent and strictly political contentions that have reshaped the emerging trends. The first is the claim that there is a grave imbalance between the global nature of markets and the national scope of state sovereignty. If wages in the US are high, businesses can simply move overseas, hurting US work force. Greater popular control over capital, according to this argument, was necessary.

The second argument is even more forceful in politics. Even though movement of labour across national boundaries has been less free than the movement of capital and goods, international migration has nonetheless been more substantial than before. The anti-immigrant wave of politics, often taking ugly racist forms, is born out of the anxiety produced by the changing demographic composition of polities. In the US, the Hispanics and Muslims became the object of a majoritarian ire; in France, North African Muslims; in Britain, new migrants from Europe and elsewhere; in Germany, refugees from the Middle East, etc.

Where might all this end up? The short run is clearer than the long run. Labour migration will almost certainly be badly hurt: Ethnicity continues to be an obsessive concern of modern nation-states. Capital is likely to be hit least. Its power is ubiquitous. Moreover, the complex supply chains and other international networks in which businesses have got deeply embedded cannot be easily broken. Trade restrictions are the most unpredictable. The tricky part for populist rulers will be how to impose higher tariffs to protect domestic businesses without triggering a trade war.

In sum, globalisation is in retreat, but nationalist politics is unlikely to fully morph into nationalist economics, at least in the short run.

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