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Globalization's Backlash Is Here, at Just the Wrong Time

The world economy became more interconnected in the 1990s and 2000s, delivering immediate pain to rich countries, along with benefits that only now are starting to be more apparent.

By Neil Irwin

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No one should be surprised that there has been a backlash to globalization, given the scale of disruption that has resulted from more interconnected economies. What is surprising is that it has arrived now.

That's because globalization, at least in the form we have known it, leveled off a decade ago. And that shows a crucial risk of the recent push to re-set the terms of the global economy — including tariffs on steel and aluminum and punitive actions against China that President Trump has introduced.

It is coming after the major costs of globalization have already been borne. And it comes just as billions of people who have become integrated into the global economy over the last three decades are starting to become rich enough to become valuable consumers.

In short, the anti-globalization drive that is spreading across the Western world may be coming at exactly the wrong time — too late to do much to save the working-class jobs that were lost, but early enough to risk damaging the ability of rich nations to sell advanced goods and services to the rapidly expanding global middle class.

It is tempting to think of globalization as a constant process, but historically that's not the case. It moves in fits and starts, and occasional reversals. The 1990s and the first years of the 2000s were one of those extraordinary periods in which economies became more interconnected, according to a range of data.

Now, globalization has entered a new phase, in which cross-border trade in goods and services is steady as a share of the economy, and the international flows of capital are lower than they were before the global financial crisis. It is now the spread of information that is rising, with different implications for workers in rich countries than the earlier phase.

Starting in the 1990s, improvements in communications and shipping technology made global outsourcing more feasible. Trade deals reduced tariffs and other barriers to commerce. And many once-poor nations became more integrated into the global economy, especially China.

This adjustment provided a wave of affordable goods and opened up new markets for rich countries, but it also devastated certain sectors and geographical areas, especially those involved in manufacturing low-tech products. Workers in American and Western European factory towns found themselves in competition with Chinese electronics assemblers, Indian call center employees and auto factory workers in Eastern Europe, Mexico and beyond.

The flow of goods and services across national borders as a share of all economic activity hovered near 16 percent through the 1980s and early 1990s, then from 1993 to 2008 shot up to 31 percent. Then it stopped rising, instead bouncing around that level, according to data from the McKinsey Global Institute.

If you look at the international flow of money instead of goods and services, the results are even more stark. Cross-border financial flows peaked in 2007 at 22 percent of world G.D.P., but were down to 6 percent in 2016, about the same as the 1996 level.

“The interesting thing about tariffs on steel or other goods is that it’s fighting the last battle, not the future one,” said Susan Lund, a partner at McKinsey who has researched these global flows. “Global manufacturing has already reconfigured itself. That change happened, and the horse is out of the barn. We don’t think globalization is over, but it has taken a new form.”

That form consists of greater connectivity and communication, which may not show up in traditional data on trade or capital flows. That includes more people using social media platforms to connect with people in other countries, companies relying on freelance labor located around the globe, and small enterprises doing business with partners around the world through the internet.

In other words, it’s not a form of globalization that endangers factory jobs, but one that could have big consequences in other areas — leading to more competition for technologically advanced white-collar jobs, while also creating enormous new opportunities for American and Western European firms. That, in turn, helps explain why much of the trans-Pacific Partnership, the trade deal that the Trump administration withdrew from, focused on intellectual property rights, data security and privacy.

The M.I.T. economist David Autor and colleagues have done extensive work showing that the "China shock" that ensued with that country's entry into the World Trade Organization caused lasting pain to communities in the United States that competed with Chinese companies in making a range of manufactured goods.

Even as those effects linger, he sees the risks involved in commerce with China as shifting elsewhere.

"The China shock on large-scale manufacturing and its mass employment effects, that part is largely behind us," Mr. Autor said. Now, the challenge is Chinese competition on more technologically complex products, like automobiles, airplanes or microprocessors. The manufacturing of more labor-intensive, less technologically complex products like apparel is migrating to lower-wage countries like Bangladesh and Ethiopia.

But a shift in *where* certain products are made is different from a net increase in the level of global connectivity. The level of economic integration is remaining level, even as the details of exactly what is made in which country are changing.

"I don't think there's any turning back the clock," Mr. Autor said, referring to a return to a world where less technologically complex and more labor-intensive products are again made in the United States. "I think we should be girding ourselves for the real challenge, which is struggles over intellectual property and frontier industries."

The Trump administration's efforts to pressure China, if they succeed, would do some of that. But those actions have been paired with tariffs on steel and aluminum that appear more aimed at protecting American manufacturing of the metals. The administration's approach could backfire if it unleashes a series of escalating tit-for-tat tariffs on all sorts of goods, undermining global commerce without fixing the underlying problems in information-intensive industries.

If the latest trade skirmishes do blow up into a trade war, those new barriers to international commerce might also block a long-predicted reward of globalization: a new world of customers. The rise in global economic integration, for all the disruption it has meant for certain workers in the United States and Western Europe, has also been a story of hundreds of millions of people becoming more connected to the worldwide economy, and achieving higher standards of living in the process.

Homi Kharas, a senior fellow at the Brookings Institution, studies the rise of the global middle class — which in his calculations includes people with income of at least $10 per person per day in 2005 dollars. For a family of four, adjusted to 2018 dollars, that works out to

around $19,000 a year.

In 1990, only 23 percent of the world's population fit that category. Today 45 percent do, meaning an additional 2.3 billion humans are now able to afford the luxuries that the global economy provides: abundant food, motorized transportation, mobile phones and the like.

Mr. Kharas argues that it's wrong to view these billions of people only as competition for good jobs.

"What we see is that as the middle class emerges, they have a massive demand for all types of services," he said. "Whether that is Hollywood movies or Bollywood movies or Hong Kong movies, or the ability to eat out in franchises like KFC or McDonald's, or using internet applications, or taking out insurance, they're driving massive changes in the structure of the global economy that include consuming goods that the United States is good at producing."

In other words, globalization shouldn't be viewed as a perpetual onslaught in which American workers are facing waves of more and more people willing to do the same job for lower wages — even though it may have seemed that way during the 1990s and early 2000s when trade was soaring faster than the global economy.

Rather, everyone is both a competitor and a customer. With trade battles looming on the near horizon, the open question is whether the United States and Europe, having already borne the costs of competition with the developing world, will stick with open trade long enough to enjoy its benefits.

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