

# De-globalization? Re-globalization!

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# Main message



- Globalization is in a deep **crisis**, even though the situation is more nuanced than the de-globalization headlines suggest
- This crisis is fueled by a perception that international trade is part of the **problem** when it comes to addressing the main challenges of our time
- Main **challenges**: Maintaining peace and security, achieving a sustainable economy, reducing poverty and inequality
- This is a dangerous misperception since international trade can really be a crucial part of the **solution** if the right policies are in place

# Globalization crisis



- The **narrative** has changed fundamentally. Economic interdependence is no longer viewed as a virtue but as a vice
- This paradigm shift has already begun to shape **trade policy**: China-US trade tensions, industrial policy, export restrictions on critical goods, ...
- Despite these developments, and perhaps surprisingly, we do not yet see any dramatic signs of decoupling or deglobalization in the **economic data**
- In 2022, China-US total trade reached a record high of \$691 billion. Also, the share of (non-fuel) intermediate goods in (non-fuel) world exports remained roughly constant at 50%

# Security



- **Economic security** has come to the forefront of policy discussions, as a series of crises have disrupted global supply chains
- Reshoring and **friend-shoring** have become popular policy prescriptions to make countries less vulnerable to such disruptions
- Evidence is mounting that the "**flexicurity**" offered by the multilateral trading system is highly effective at mitigating supply shortages
- Global trade has been remarkably **resilient** - and also an important source of resilience - during the COVID-19 pandemic and the war in Ukraine

# Sustainability



- International trade is typically seen as part of the problem as ubiquitous "**buy local**" initiatives illustrate
- The argument is that international trade causes **transport emissions** and therefore contributes to damaging the environment
- However, trade can help reduce production emissions by allowing countries to specialize according to their **environmental comparative advantage**
- In ongoing work, I estimate that 1/3 of the overall emissions reductions achieved by a global carbon tax would be due to such **environmental gains from trade**

# Inclusiveness



- Trade also has a bad reputation when it comes to **inequality**, largely due to the disruptions caused by the “China shock” in some developed economies
- It is important to recognize the adverse effects trade can have on within-country inequality and mitigate them with appropriate **social policies**
- The big picture, however, is that the rise of China **lifted hundreds of millions of people out of poverty**, with trade playing an instrumental role
- The **future of trade** is in services - particularly digitally delivered services – and this is where the new inequality question will arise

# Taking stock



- The globalization crisis is fueled by a perception that trade is part of the **problem** when it comes to security, sustainability, and inclusiveness
- However, trade is really a crucial part of the **solution** when it comes to addressing these major challenges of our time
- For this to work, we need to create the right framework with a strong **multilateral trading system** at its core
- We are developing this argument more fully in this year's **World Trade Report**, which will be launched at the Public Forum on 12 September 2023

# Academic research



- The freedom of research enjoyed by academics is a historical achievement that deserves to be defended forcefully
- But this freedom also comes with the responsibility of using it in the interest of society by conducting relevant research
- The future of globalization is being debated now and we need to do more to inform this debate!
- The good news is that research matters, judging by the interest of WTO delegates



# Sample questions



- Why has the trade-to-GDP ratio stopped growing? This is not unlike the labor-share debate in macro
- What was the role of trade in China's growth? The literature on the "China shock" focuses almost entirely on the plight of the American worker
- What do optimal climate policies look like given realistic political constraints? It is not enough to say that a uniform carbon tax would be best
- How should the WTO deal with the security exceptions provided in GATT Article XXI? This could derail the multilateral trading system

# Thank you!

