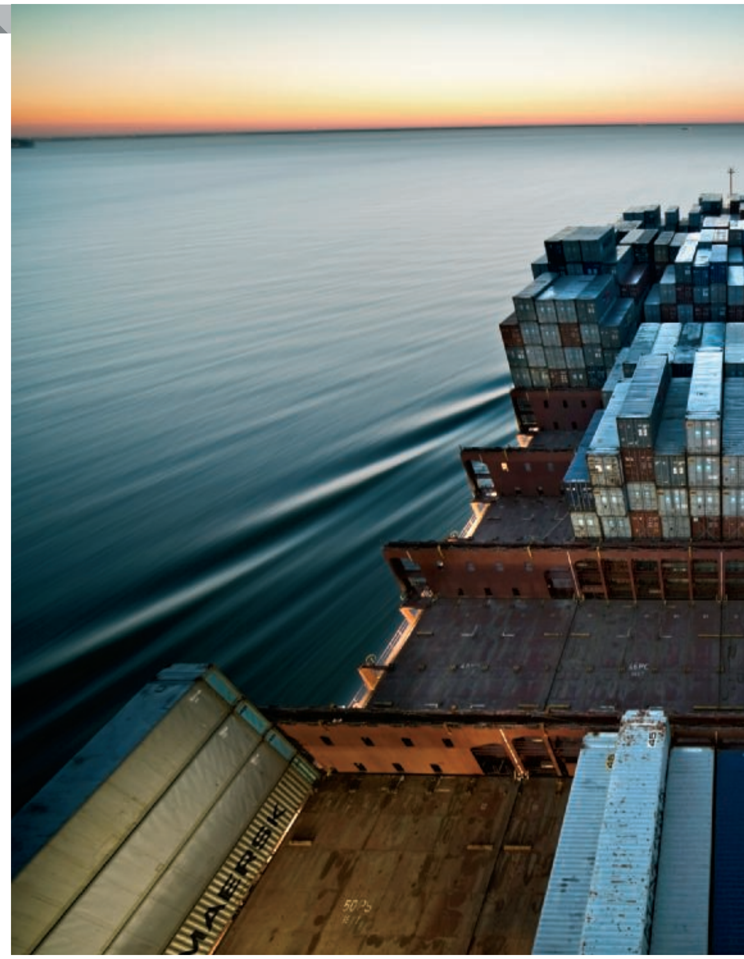
ECONOMY



Has the world reached peak trade?

BY RANA FOROOHAR

GLOBALIZATION IS USUALLY DEFINED as the free movement of people, goods and capital. It's been the most important economic force of modernity. Until the financial crisis of 2008, global trade grew twice as fast as the global economy itself. Yet, thanks to both economics and politics, globalization as we have known it is changing fast.

Statistics tell the story: According to the World Trade Organization, average global trade flows grew around 10% a year from 1949 to 2008. But those numbers slumped to 1.3% from 2009 to 2015 and show no signs of picking up, even as the global economy has partially recovered from recession. Meanwhile, flows of financial capital have become balkanized—which is to say that after decades of coming closer together, global markets and banking systems are pulling apart. While cross-border goods, services and financial flows represented 53% of the world economy in 2007, they are a mere 39% now. And there is a drastic political pushback against the free flow of people across national borders—globalization at its most human.

The question is: Have we reached peak trade? "If you think about globalization in traditional terms, in terms of old-line trade in goods, for example, then yes," says McKinsey Global Institute research director Susan Lund. "But if you think of it in terms of the flow of digital data and ideas, then no—it's actually increasing." Indeed, the cross-border flow of digital data—e-commerce, web searches, online video, machine-to-machine interactions—has grown 45 times larger since 2005 and is projected to grow much faster than the global economy over the next few years. The real questions are whether that activity will buoy the global economy as much as trade in physical goods once did, and whether a more inclusive kind of globalization could help counter protectionism, nationalism and xenophobia.

There's no doubt globalization has increased wealth at both global and national levels. According to the U.S. Council of Economic Advisers, the reduction of trade barriers alone raised U.S. GDP by 7.3% from the end of World War II through 2014. But free trade can also widen the wealth divide within countries, in part by creating concentrated groups of economic losers. Free trade has made goods and services cheaper for Americans—think of all the inexpensive

Digital globalization may yet offer a new paradigm for global trade

JAKOB WAGNER

Chinese-made goods at Walmart—but it hasn't always helped their job prospects. From 1990 to 2008, the areas most exposed to foreign competition saw almost no net new jobs created. That's one reason the new generation of Americans is on track to be poorer than their parents.

Conventional economic wisdom argues that these forces should simply push Western workers into more productive areas of the economy like white-collar work and services. But many studies—including an influential one by economists David Autor, David Dorn and Gordon Hanson—have shown that's not always the case. The gains of free trade do not always outweigh the losses. Their study shows that sagging wages in U.S. labor markets exposed to Chinese competition reduced adult earnings by $213 per year.

The realization that the tide of globalization doesn't raise all boats has fed into the anti-free-trade movement. And companies themselves are backing away from globalization. For several years, there's been a growing trend in business toward so-called vertical integration, in which companies put high-end jobs—in research and development or product design—closer to lower-end factory and logistics jobs. The aim is to better satisfy consumers who, for example, want product selection in stores to change every few weeks rather than once every three to six months. Firms like American Apparel, Zara, L Brands and many others now create multiple product hubs in regions, rather than building complex global supply chains based on where each element of a product can be sourced most cheaply. This "localization" is now being touted by companies from GE to Caterpillar and IBM.

And what about the free flow of people? Thanks in large part to the Syrian crisis, global flows of migrants, particularly asylum seekers to OECD countries, have increased dramatically over the past few years. They haven't been welcomed with open arms. Intense political pressure against migration threatens to topple Chancellor Angela Merkel in Germany and has become a defining issue in the U.S. election. According to the latest OECD migration-outlook report, more people than ever before in the developed world hold anti-immigration views.

There is one reason to be optimistic about the future of globalization—at least, the new information-based kind. McKinsey data project that the companies responsible for the jump in flows of digital goods, services and information will include a much higher proportion of small businesses than in the past. An estimated 86% of tech-based startups surveyed by McKinsey now do some cross-border business—impossible before the Internet, when globalization was dominated by behemoths. That means that more of the wealth generated by globalization could trickle down to the 80% of the population that hasn't benefited as much as it should have.

If those individuals feel they are being empowered by open borders and freer trade, it could help swing the political pendulum back toward globalization in some form. Despite its flaws, it has been an economic force that has lifted more people out of poverty than anything else the world has ever known. □

PERCEPTIONS OF TRADE DEPEND ON EDUCATION LEVEL

NEW OPPORTUNITIES

69%

Percentage of people with a college degree or higher who think U.S. involvement in the global economy is "good" because it provides access to new markets and growth. Only 41% of those with a high school diploma or less hold the same view.

LOSING JOBS AND WAGES

55%

Percentage of those with a high school diploma or less who agree that U.S. involvement in a global economy is "bad" because it lowers wages and eliminates jobs in the U.S. Just 28% of those with a college degree feel the same.

STAYING COMPETITIVE

48%

Percentage of Clinton supporters who think the U.S. is making progress overall, compared with 4% of Trump supporters. 72% of Trump supporters think the U.S. is falling behind, vs. 23% of Clinton supporters.

SOURCE: TIME/SURVEYMONKEY POLL