



KEEPING AN OPEN DOOR TO WORLD

Trade Policymakers need to continue to make the case for the benefits of globalisation, writes Stephen Kirchner.

The partisan divide in American politics is now said to be one between nationalists and globalists, with President Donald Trump leading the nationalists. Ironically, this recent popular backlash against globalisation came only after the pace of globalisation had already slowed dramatically.

On some measures, globalisation has still not recovered from the financial crisis a decade ago. This suggests that it is a reduction in economic dynamism that is driving both populist politics and the retreat of globalisation. A renewed commitment to international openness can help regain that dynamism and defeat populist nationalism.

There was rapid growth in globalisation and international connectedness in many countries during the 1980s, '90s, and early 2000s, including Australia. This broadly coincided with the Great Moderation, a period of reduced volatility in economic growth and inflation during the 1990s and 2000s until the onset of the global financial crisis in 2008. This does not mean that globalisation caused the Great Moderation. It is also possible that more stable macroeconomic conditions provided an environment that was more conducive to policies that increased openness.

The financial crisis led to a pronounced slowing in the growth rate of global trade, cross-border capital flows and other measures of globalisation. After four decades of growing one and a half times faster than global GDP before the crisis, growth in trade slowed to less than that of GDP in its aftermath. This more subdued pace of globalisation has proved remarkably persistent, suggesting it may be more than just cyclical. The former secular trend in favour of increased globalisation may have suffered a

permanent setback as a result of the financial crisis.

The empirical evidence supports the theory that globalisation benefits not only economic growth and well-being as measured by average income per person, but also numerous other dimensions of human development. Greater openness is associated with increased productivity.

The globalisation trend is also associated with the largest reduction in global poverty in human history. According to the World Bank, the number of people living in extreme poverty has fallen by 1 billion in the last 25 years. As of 2018, a tipping point has been reached whereby, for the first time in human history, the majority of the world's population is no longer poor or vulnerable to poverty.

Yet this massive reduction in global poverty has gone largely uncelebrated. Recently, when I polled a class of undergraduate students at the University of Sydney whether global poverty had increased or decreased over the last 25 years, they were evenly split on the direction of the change, much less aware of its magnitude.

Globalisation is not an unqualified good. The distributional consequences of increased openness within individual countries is more mixed than at a global level and this can undermine domestic political support for globalisation. While the winners from globalisation can, at least in principle, compensate the losers, the required increase in taxes and fiscal transfers is costly and may not take place in practice.

The shock to global labour supply from the entry of China and the former socialist economies of Eastern Europe and Soviet Union into the world economy has adversely affected some workers in advanced economies, although also benefited others by creating new export markets. Increased cross-border capital

flows can amplify domestic capital market imperfections, leading to an increased incidence of banking and financial crises.

As early as 1997, economists like Dani Rodrik were questioning whether globalisation had gone too far. The protests against the World Trade Organisation Ministerial Conference in Seattle in 1999 were an early manifestation of anti-globalisation sentiment. The campaign against the OECD's Multilateral Agreement on Investment, also in the late 1990s, was another manifestation.

The mid-2000s were perhaps the high point of pro-globalisation sentiment, as exemplified by two books published in 2004: Martin Wolf's *Why Globalization Works*, and Jagdish Bhagwati's *In Defence of Globalization*. However, as their somewhat defensive sounding titles suggest, these books were written largely in response to globalisation's critics.

The 2016 Brexit referendum and the election of Donald Trump have been interpreted as further evidence for a backlash against globalisation. Yet these events came after a pronounced slowing rather than acceleration in the pace of globalisation.

Nor can the recent backlash be explained by growing inequality. Inequality in the US, for example, was rising faster in the 1980s and 1990s than more recently.

Surveys show that the public dramatically overestimates the true extent of globalisation and international connectedness. In

particular, people systematically overestimate migrant numbers and underestimate migrant quality. These misperceptions drive anti-globalisation sentiment, highlighting the need to put globalisation in proper perspective.



At the same time, opinion polls suggest the public remains favourably disposed to international trade. In Australia, 88 per cent of those polled say “growing trade and business ties with other countries is a good thing for our country”, in line with the median response in advanced economies of 87 per cent. In the US, only 74 per cent view such ties as “good”, although this percentage has actually increased in recent years. Favourable views of trade are positively correlated with average GDP growth on a cross-country basis. Maintaining economic dynamism is the key to maintaining public support for openness.

While the policy changes that internationalised the economy in the 1980s and 1990s are still viewed positively in Australia, economic reform has lost political momentum. Protectionist and isolationist sentiment is never far below the surface of Australian politics. Immigration, in particular, is a potential catalyst for anti-globalisation sentiment, even though Australia ranks relatively high on opinion poll-based measures of migrant acceptance.

Australian politicians have successfully navigated the politics of immigration for many decades, but public policy failures in housing supply and infrastructure could undermine the bipartisan consensus in favour of immigration. Australian politicians could be tempted to blame foreigners and Australia’s openness to the rest of the world for their policy failings at home, putting the openness of the economy at risk.

Around 70 per cent of the variation in a country’s openness and international connectedness is explained by structural characteristics such as country size, geographical location and the level of economic development. Australia’s international goods and services trade as a share of the economy is one of the lowest in the OECD. This is partly attributable to Australia’s isolation, size and large services share of overall output, although policy choices also play a role. As the centre of gravity of the world economy moves closer to Australia with the growth of the Chinese, Indian and other regional economies, geographical isolation should become less important.

Australia’s ratification of the Trans-Pacific Partnership, helping to bring the agreement into force, is a positive step, but domestic policies will remain an important influence on Australia’s economic openness and dynamism.

My survey of the global connectedness of the Australian and US economies for the United States Studies Centre shows that

Australia’s openness to the rest of the world peaked around 2010 along with the terms of trade boom and has declined modestly since then. Australia outperforms the US on the depth of its international connections and on people and information flows, but underperforms in terms of the breadth of its trade and capital flows.

The fact that cross-border people flows are the most politically salient dimension of globalisation in Australia is a classic case of globalisation being a victim of its own success. Australia, along with the US, the UK and Canada, attracts 70 per cent of the world’s skilled migrants and immigration is an important driver of economic growth.

Conditioning the migration intake on domestic public policy failures in housing and infrastructure would only compound the damage caused by these failures. Housing supply needs to be liberated from its regulatory straitjacket.

At the margins, Australian public policy has become increasingly restrictive in relation to cross-border flows of goods, services, capital and labour. The use of temporary trade barriers, in particular anti-dumping measures, has been growing. Consumption taxes have been applied to low-value imports and digital goods. Increased barriers to foreign direct investment, particularly in real estate and agriculture, have been erected, along with the imposition of foreign investment application fees. Australia’s relatively high corporate tax rate and unfavourable international tax rules remain resistant to reform. Unpredictable changes to visa programs have made it more difficult for business to hire abroad.

While globalisation has always had its critics, some economic liberals are suffering a crisis of intellectual confidence that is leading them to give the game away. The same Martin Wolf who wrote in 2004 about why globalisation worked now writes that “the liberal international order is crumbling, in part because it does not satisfy the people of our societies”. According to Wolf, “liberalisation of trade ... is no longer a high priority. Still less pressing is opening borders further to free movement of people or even maintaining free flow of global capital”. In another article, Wolf writes that “elites must promote a little less liberalism ... and pay more tax”.

Wolf seems to think that the best way to defend the liberal international order is to give up on further liberalisation. But this position only validates globalisation’s critics. It is the loss of economic dynamism, reflected in more subdued globalisation, that inspires populist and protectionist responses. Wolf’s capitulation to globalisation’s critics, if operationalised as public policy, would only

reduce economic growth and further fuel political populism and opportunism.

It is incumbent upon policymakers to continue to put globalisation in historical and comparative perspective and to correct popular misconceptions. They need to continue to make the case for the benefits of globalisation.

Australia’s 2017 Foreign Policy White Paper stated that, “the government will be a determined advocate for an open international economy. We will stand against protectionism and promote and defend the international rules that guard against unfair trade actions and help resolve disputes”.

To give this advocacy credibility, Australia should aim to set an example as a country that prospers because it has embraced openness and eschewed protectionism. The danger is that, for some, giving up on economic reform and accommodating anti-globalisation sentiment may appear to be the path of least political resistance. **AFR**

Dr Stephen Kirchner is program director, trade and investment, United States Studies Centre at the University of Sydney. His report, *An Open Door: How Globalised are the Australian and US Economies?* is released this week.

Globalisation is associated with the largest fall in global poverty in history.



Martin Wolf and Jagdish Bhagwati wrote books defending globalisation in the mid-2000s. Wolf seems to have backed off since.



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Page 3 of 3



A renewed
commitment to
international
openness can help
regain economic
dynamism and
defeat populist
nationalism.