

Globalisation

Globalisation and its defences Premium

The open world economy is stronger than you may think

Free Lunch

AN HOUR AGO by: **Martin Sandbu**

While Free Lunch was on holiday, the BBC World Service has been airing a documentary series called *Economic Tectonics* about the big changes reshaping the global economy. I presented the [opening programme \(http://www.bbc.co.uk/programmes/p04vhftr\)](http://www.bbc.co.uk/programmes/p04vhftr) on politics (do listen to the [whole series \(http://www.bbc.co.uk/programmes/p04vhf86\)](http://www.bbc.co.uk/programmes/p04vhf86), which includes programmes on finance, demography and technology).

The main political question regarding the world economy is of course whether the current rise of anti-globalism and the protectionist policies it calls for will put an end to the open global economy as we know it. In an FT comment [article \(http://next.ft.com/content/1a4e31ce-0333-11e7-aa5b-6bb07f5c8e12\)](http://next.ft.com/content/1a4e31ce-0333-11e7-aa5b-6bb07f5c8e12) that accompanies the radio programme, I point to three ways in which the globalised economy is more robust than the current liberal angst often gives it credit for. Today, I add some background facts to those three strengths.

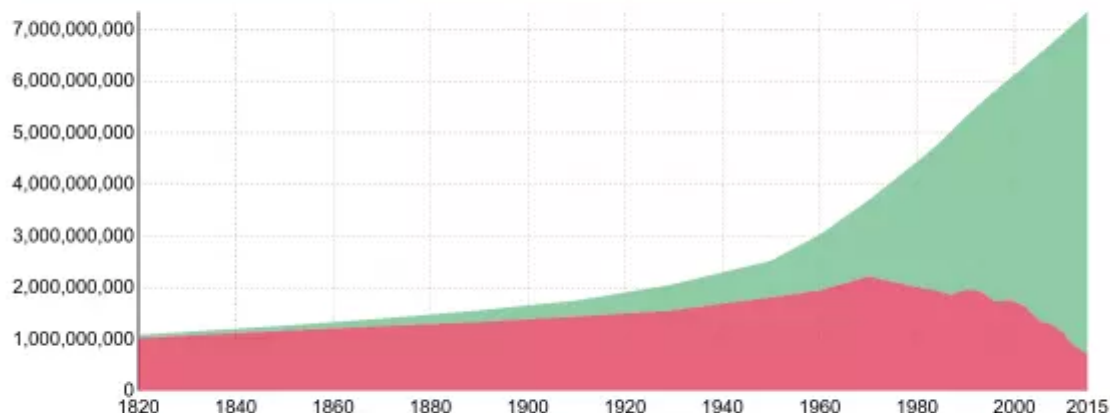
The first is that globalisation has created its own defenders. Thanks to economic integration, (much of) the developing world has become richer — which constitutes both a benefit and a source of power to shape world affairs. To see the benefit, consider that in the quarter-century from 1990, which corresponds to the last intense wave of globalisation, the absolute number of people living in “extreme poverty” (\$1.90 a day) has [fallen from 2bn to less than half \(https://ourworldindata.org/extreme-poverty/\)](https://ourworldindata.org/extreme-poverty/) that, almost exclusively in poor (now “emerging”) economies.

World population living in extreme poverty, 1820-2015

Our World
in Data

Extreme poverty is defined as living at a consumption (or income) level below 1.90 "international \$" per day. International \$ are adjusted for price differences between countries and for price changes over time (inflation).

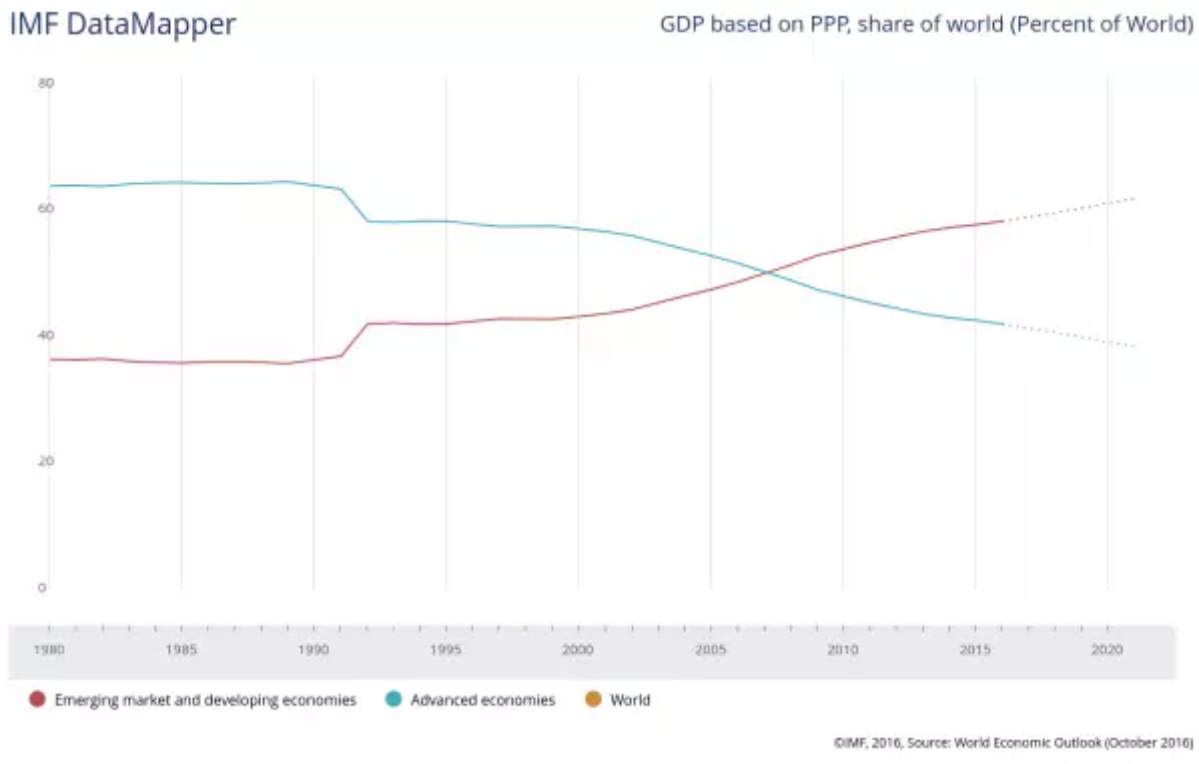
Number of people living in extreme poverty Number of people not in extreme poverty



Data source: World Poverty in absolute numbers (Max Roser based on World Bank and Bourguignon and Morrisson (2002))

OurWorldInData.org/extreme-poverty/ • CC BY-SA

To see the power, consider that rich countries made up 80 per cent of nominal global economic output in 1990; now that number is barely (<http://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD>) 60 per cent. Adjusting for national price differences (“purchasing power parity”) advanced economies account for less than half (<http://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEOWORLD>) of the world total.



Second, global trade integration is quite different now from just a generation ago — and indeed throughout much of history. There is an entrenched, but by now inaccurate, impression that trade across borders takes the form of buying and selling either final goods or raw materials, while the production that turns the latter into the former takes place largely within national boundaries. But the latest wave of globalisation has internationalised production processes too. [According to the OECD \(http://www.oecd.org/development/istanbul-g20-trade-ministers-meeting-presentation-of-the-oecd-wbg-inclusive-global-value-chains-report.htm\)](http://www.oecd.org/development/istanbul-g20-trade-ministers-meeting-presentation-of-the-oecd-wbg-inclusive-global-value-chains-report.htm), three-quarters of global trade takes place within “global value chains” — across national boundaries but within the external boundaries of clusters of linked companies.

That makes protectionism much costlier because it is much more disruptive than it may have been in the past (it wasn't cheap then either). The outdated view of trade, which sees production as a national affair, is likely to inspire unsuccessful policies as it [exaggerates \(http://voxeu.org/article/rise-trade-intermediates-policy-implications\)](http://voxeu.org/article/rise-trade-intermediates-policy-implications) the importance of final export demand and the substitutability of national production for global supply chains.

Third, the fact that anti-globalism [cannot deliver the goods \(http://next.ft.com/content/foa3e89c-f2ab-11e6-8758-6876151821a6\)](http://next.ft.com/content/foa3e89c-f2ab-11e6-8758-6876151821a6) it promises will either make it lose support or keep its leaders from pursuing it in earnest lest they be exposed. Conversely, there are plenty of

policies available to governments to address the economic plight of those who support anti-globalist populists, as we have discussed in [earlier \(http://next.ft.com/content/c500bcda-7f22-11e6-8e50-8ec15fb462f4\)](http://next.ft.com/content/c500bcda-7f22-11e6-8e50-8ec15fb462f4) Free Lunches. (My interviewees for the BBC programme bring up Canada, Denmark and Japan as examples of countries that have used domestic policy successfully even as they have globalised as much as anyone — and as a result face less protectionist backlash).

In this regard, I differ with Dani Rodrik (whom I also interview in the programme). Rodrik has famously [posited \(http://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html\)](http://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html) a “trilemma of globalisation”, which says you can at most have two out of the following three: national sovereignty, democratic decision-making and a high degree of economic globalisation. Rodrik is by far the best thinker on these issues, and everyone interested in the future of the global economy should take on his intellectual challenge to globalisation, in particular those who feel sympathetic to dismantling economic borders.

My answer to the trilemma asserted by Rodrik is that whether or not it holds in theory, it has not actually been tested in practice. If national policies have let down those left behind by economic change — and in many rich countries they indisputably have — it is not because the constraints of globalisation made it impossible to do better. It is, rather, because national politicians gave up even trying, long before hitting whatever constraints may or may not be present. Is that because of a lack of democratic politics?

Perhaps — or perhaps that the left behind have not had the numbers to matter in democratic politics until recently. Not a lack of national democracy, then, but a failure of it. Or, at least in the US, it may be fair to say that true democracy has been eroded by the power of money: studies show the rich are [much more conservative \(http://faculty.wcas.northwestern.edu/~jnd260/cab/CAB2012%20-%20Page1.pdf\)](http://faculty.wcas.northwestern.edu/~jnd260/cab/CAB2012%20-%20Page1.pdf) than average voters and have [much greater influence \(http://www.newyorker.com/news/john-cassidy/is-america-an-oligarchy\)](http://www.newyorker.com/news/john-cassidy/is-america-an-oligarchy) on policy decisions. But then it is not globalisation that forced an end to national democracy but that national democracy was eroded for other reasons, in parallel with and perhaps facilitating a certain kind of globalisation (one that is good for the rich).

But the logical links matter. We may today only enjoy two — or one — of the three good things in Rodrik’s dilemma. But that does not prove that we could not have all three. And if

we could, then turning against globalisation will not help us get more democracy and national sovereignty; [it could make things worse \(http://next.ft.com/content/e476f21e-7e7d-11e6-8e50-8ec15fb462f4\)](http://next.ft.com/content/e476f21e-7e7d-11e6-8e50-8ec15fb462f4). To the extent that realisation takes hold, globalisation will survive intact.

Numbers news

- Foreign investors [reduced their holdings \(http://next.ft.com/content/489b4952-6f97-3f5f-a3b4-86dbb5ab9d12\)](http://next.ft.com/content/489b4952-6f97-3f5f-a3b4-86dbb5ab9d12) of eurozone bonds last year, for the first time since the single currency's creation.

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