



## *The Myth of De-globalization*

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The Economist Michael O’Sullivan argues in his new book *The Leveling: What’s Next After Globalisation* that globalization is dead. As long-standing scholars of globalization and competitiveness our response to that alleged demise was uttered most appropriately 122 years ago by American writer and humorist Mark Twain who exclaimed: “The rumors of my death have been greatly exaggerated”.

The counter-arguments to globalization’s death must be understood within the context of the current economic milieu, the resurgence of populist politics, the changing nature of trade, and the evolution of global production systems and supply chains.

Admittedly, the world economy is in a period of contraction. The World Trade Organization has slashed its forecast for trade growth for this year and next. World trade in merchandise is now expected to expand by only 1.2 percent during 2019—less than half predicted in April. In the business realm, the Institute for Supply Management reported its manufacturing index fell to 47.8 in September, the lowest level since June 2009, from 49.1 the prior month. An indicator less than 50 means contraction that raises costs for business and consumers.

Nevertheless, none of these numbers indicates a trend towards de-globalization. Actually, global GDP is *growing*, thanks to China; in fact, world trade overall has *increased* from 39% of GDP in 1990 to 58% last years and now represents a larger share of U.S. output, with foreign sales comprising a growing share of U.S. corporate profits. Recognizably, there has been a dip in the trade numbers since the 2008 Great Recession, from 61% to 58% and a fall in intermediate inputs from 19% to 17%; but these declines are hardly significant.

Unquestionably the worldwide economic contraction we are witnessing can be attributed as much to politics, in the form of nationalism and populism, as to economics. The U.S. has been in the vanguard of protectionism, according to many, while others assert that the Trump administration is merely seeking fair rules and a leveling of the playing field. President Trump tweeted in July of last year: “Tariffs are the greatest!”. However, U.S. tariffs on over \$300 billion of Chinese exports have triggered retaliatory tariffs of 20% by China (versus only 8% that China levies on other nations), higher prices for consumers, and the cost of welfare payments to U.S. farmers to compensate them in part for their export losses due to China’s retaliatory tariffs on the U.S.

Whatever one's perspective, intensifying trade conflicts threaten jobs and livelihoods and dissuade companies from expanding and innovating. U.S. withdrawal from the Trans-Pacific Partnership; tariff wars with China and trade conflicts with Mexico, Canada and other key trading partners—not to mention the EU's anxiety over the UK's withdrawal from the union (Brexit)—have created high anxiety and uncertainty among trading nations.

Stepping back from the numbers, any objective assessment of de-globalization—and globalization in general—must recognize that cross-border trade in manufactured goods cannot be the only, or even most important, measurement tool.

Measures of globalization and trade, in general, focus on manufactured goods, yet *services* comprise the most robust, fastest-growing and dynamic sector of the economy, worldwide. In the case of the U.S., foreigners who visit our country and study at our universities as well as consulting, engineering, and accounting firms operating abroad (Accenture, Bechtel, KPMG) are correctly classified as U.S. exports.

The de-globalization argument also does not account for start-ups, later-stage companies and supporting firms and cross-border data flows. As writers Shawn Donnan and Lauren Leatherby point out, we are living in a new era in which data is the new shipping container.

Nor does de-globalization consider one of the most revolutionary trends of all during the last two decades---the explosion of middle and lower class consumers, especially in emerging markets. This economic dividend means that local firms of all sizes that focused largely on export markets have been increasingly turning *inward* because of a growing domestic market—their own people can afford their products! Prudent economic policies, especially low levels of inflation and access to capital, have also enabled domestic manufacturers and suppliers to upgrade their capabilities, thereby facilitating local sourcing (at the expense of foreign imports). This means that the domestic producer of electrical machinery can now source a larger amount of inputs for manufacturing from a local company instead of importing them.

Are we de-globalizing? No. While there may be a stall, interruptions, and setbacks in the flow of global trade, investment, finance and the migration of human capital, the juggernaut of globalization, beginning with the trade links between Sumer and the Indus Valley Civilization in the third millennium BC, will continue. Simply stated: rumors of its demise lack foundation--globalization is here to stay.

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