In the rush to end globalization, we're missing critical points

James Bacchus

January 31, 2023

Inescapable nowadays is the cascade of commentary announcing (and often celebrating) the "death" of globalization. Economic globalization is variously described as in "decline," in "retreat," in "reversal" and at an "end."

To hasten the *fait accompli* of this "deglobalization," we are "decoupling," "reshoring" and "friend-shoring" in ways that will further fragment the global economy and undermine global institutions. The ascent of this assumption is worldwide; yet, especially within the Washington Beltway, and on a bipartisan basis, the demise of globalization is increasingly treated as a foregone conclusion.

But wait.

Two recent studies — both largely overlooked — cast considerable doubt on the certainty of this conclusion. One, by researchers for the McKinsey Global Institute, reminds us of how interconnected the trade of the world truly is, and, thus, how hard it will be to disconnect it. The other, by staffers of the International Monetary Fund, warns us of the significant negative economic consequences that could result from full-blown global economic fragmentation.

Together, these two studies strongly suggest that worldwide decoupling will be much more difficult than many assume, and, further, that those who would lead us should stop and think again about the wisdom of favoring and facilitating economic deglobalization.

The McKinsey study found that, worldwide, "no region is close to being self-sufficient. Every region relies on trade with others for more than 25 percent of at least one important type of good." Furthermore, "about 40 percent of global trade is "concentrated." Importing economies rely on three or fewer nations for this share of global trade." In addition, "three-quarters of this concentration comes from economy-specific choices. In these cases (30 percent of global trade), individual countries source a product from only a few nations, even when global supply options are diversified." Moreover, despite widespread perception to the contrary, "Over the past five years, the largest economies have not systematically diversified the origins of imports."

This last finding is perhaps the most telling. It should give pause to those who speak glibly of the inevitability of deglobalization. Despite all that has happened globally in the past five years — the trade war between the United States and China, the economic shutdowns occasioned by the coronavirus pandemic, the supply chain disruptions caused by the pandemic, and, now, the economic dislocations and shortages that have resulted from Russian military aggression in Ukraine and the economic sanctions against the Russians that have followed it — there has been no systematic diversification of the origins of imports by the world's largest economies.

According to McKinsey's examination of global trade flows involving "more than 120 countries, roughly 6,000 products, and 8 million individual trade corridors," concentrated trade relationships "exist in all sectors, at all stages of the production process, and in all countries." Food, mining, electronics and pipeline natural gas are examples of sectors in which the imports of a country are often from only a few other countries — even where there is a much larger number of potential suppliers. And these concentrated trade relationships have largely not been altered by the disruptive events of recent years. Most product sectors have not registered "more than a 10 percent change in concentration" during that time. The persistence of this level of trade concentration is evidence that the aims of those who hope to deglobalize trade by diversifying the sources of imports and by "re-shoring" and "friend-shoring" production may not be easily realized.

The IMF study explains why trying to deglobalize trade and advancing other forms of "geoeconomic fragmentation" is a mistake. Obviously, it makes sense, in our increasingly unpredictable world, to increase domestic production of some essential goods to some extent, to diversify sources of imports geographically, and to refrain from reliance — and especially sole reliance — on suppliers who are not dependable because they are in countries with governments that pose real or potential threats to world peace and security. Achieving such resilience is a worthy and, indeed, a necessary goal. Yet, going further by breaking the vast multitude of binding links that integrate much of the global economy is a fool's errand, one doomed to fail in economic chaos and catastrophe for all.

Advocates of deglobalization assume that the result would be heightened and widened prosperity. The opposite is true. According to the IMF study, the cost to global production from a severe geoeconomic fragmentation could be a loss of 7 percent of global GDP, which, if accompanied by technological decoupling, could be as high as 12 percent in some countries. The size of the global economy has recently surpassed $100 trillion annually. Thus, the loss to global economic output from the severe fragmentation sought by some of the most fervent tribunes of deglobalization could range from $7 trillion to $12 trillion — every year.

What is more, the IMF study calculates that "the unraveling of trade links would most adversely impact low-income countries and less well-off consumers in advanced economies." Delinking could thus harm most the people in the United States and elsewhere that the anti-globalists say they are most trying to help.

In addition to these high costs from an unraveling of trade links, the IMF study details significant other costs from global economic fragmentation: "Restrictions on cross-border migration would deprive host economies of valuable skills while reducing remittances in migrant-sending economies. Reduced capital flows would hinder financial deepening in destination countries, especially through foreign direct investment which can be an important source of technological diffusion. And a decline in international cooperation would put at risk the provision of vital global public goods."

Among the global public goods at risk would be the World Trade Organization, the World Bank and the IMF. These and other international institutions are necessary venues and tools for the international cooperation that is essential — and urgently required — to overcome not only our global economic challenges but also the global challenges we must face in combating the acceleration and impacts of climate change, the loss of biodiversity, the inevitability of more deadly viruses that could lead to more pandemics and much more.

Deglobalization would be a disaster for the whole world. What we need instead is more international cooperation in making more and better globalization that will benefit everyone.

James Bacchus is an adjunct scholar at the Cato Institute and a Distinguished University Professor of Global Affairs at the University of Central Florida. He is a former member of Congress and a founder and former chairman of the Appellate Body of the World Trade Organization. His most recent book is "Trade Links: New Rules for a New World," from Cambridge University Press.