DISCUSSION PAPER

Trade, Globalization and Inequality: An Old Debate with a New Twist

Mustafa Metin Başbay

TRT WORLD research centre

DISCUSSION PAPER

Trade, Globalization and Inequality: An Old Debate with a New Twist

Mustafa Metin Başbay

TRTWORLD research centre

WRITTEN BY

MUSTAFA METIN BAŞBAY

PUBLISHER

TRT WORLD RESEARCH CENTRE

JANUARY 2020

TRT WORLD İSTANBUL

AHMET ADNAN SAYGUN STREET NO:83 34347

ULUS, BEŞİKTAŞ

İSTANBUL / TURKEY

TRT WORLD LONDON

PORTLAND HOUSE

4 GREAT PORTLAND STREET NO:4

LONDON / UNITED KINGDOM

TRT WORLD WASHINGTON D.C.

1819 L STREET NW SUITE 700 20036

WASHINGTON DC

www.trtworld.com

researchcentre.trtworld.com

Introduction

In recent times, the concept of globalisation has come under intense scrutiny. In developed countries, people from different social backgrounds and of diverse ideological profiles are questioning the benefits of neo-liberal globalisation, and challenging the globalist policy framework because of increased inequality, stagnant wage growth, and financial insecurity. This trend has manifested in a number of countries, including in the Brexit referendum in the UK to Donald Trump's election and protectionist rhetoric in the US, the Yellow Vest Movement in France to the rise of far-right movements in various European countries. In developing countries, on the other hand, there is a realization in policy circles that free trade as well as liberalisation of capital movements brought short-term booms rather than sustainable long-run growth, at the expense of social and economic stability. Now, it is in the realm of the possible for trade restrictions and activist public policy to become mainstream again.

Free trade is one of the oldest debates in economics, so much so that the current debate resembles déjà vu for economists. However, the vast expanse of academic literature on the subject is far from reaching a consensus on it. There is an extensive and complex discussion which essentially boils down to the binary question of whether international trade is a zero-sum-game or a win-win relationship between countries. While some argue that restrictions on trade are damaging for all countries in any case, others argue that under certain conditions, protectionism can be used to improve economic performance in developing countries. The focus of this discussion has now shifted towards how free trade affects different classes within societies (especially in developed economies), as many argue that free-trade and globalisation is benefiting international companies at the expense of middle-income/working class people, while others argue that this is just an illusion advanced and abused by populist politicians to mobilize support.

This paper introduces some of the basic arguments in the discussion on trade and explains some new trends, which may have a bearing on the current political debate. It offers an analysis of how free trade or a retreat from it can potentially affect both developing and developed countries. This includes the claims that, first, a protectionist policy wave in developed countries may be symptomatic of a new trend in income distribution, namely rising inequality and stagnating wages since neoliberalism dominated policy-making in 1980s and second, a retreat from globalisation may in fact be an opportunity for developing countries because it enables governments to protect their strategic sectors in their take-off phase, while its effect on both groups of economies is very controversial. Overall, arguments for and against free trade are both relevant depending on the context, especially for countries with different socio-economic characteristics and which are at different stages of economic development.

Historical Patterns of International Trade and Globalisation

International trade has reached unprecedented levels in the modern era, thanks to advancements in transportation and information technologies. However, it is a misconception that international trade has been monotonically increasing throughout history, reached its peak in the most recent times, and will keep increasing forever. In fact, the scale of globalisation and the volume of international trade fluctuates in accordance with the changes in domestic and international politics. Governments make decisions regarding trade policy and the level of integration with the rest of the world. At times, they may want to limit foreign trade for various ends, including protecting domestic producers, advantaging certain classes or groups within the society, or disadvantaging trading partners etc. And, at other times, they may consider it advantageous to lower trade barriers and even force other nations to open their markets to trade and integration.

The modern history of globalisation can be divided into three stages; the first, like many other economic trends at the global scale begins with the industrial revolution and reaches its peak under the dominance of British Empire between 1870s and the First World War. The second stage is characterised by a period of relative stagnation in international trade between the First World War and 1970s. This period also involves the establishment of a new US-dominated world system after the Second World War. And, the third starts in the 1970s under American dominance and reaches its peak prior to 2008 financial crisis. Now, after a period of stagnation in globalisation and international trade, it seems that the world is once again discussing the direction in which global trade is headed. This shows that unlike what most accounts of modern history suggest, changes in the volume of international trade are decided not merely by external factors, such as technology and scientific advancements, but also by political factors.

The history of modern globalisation usually starts with Britain as the first nation to abandon mercantilist protectionist measures and to fully adopt free trade. In this regard, the year 1846 can be considered as a turning point when Britain ended agricultural protectionism by abolishing the (in)famous Corn Laws (taxes on imports of corn) and opened its markets to foreign agricultural products and other raw materials from around the world (Sach & Werner, 1995). Prior to that, for centuries, all nations were motivated to minimize imports of all kinds in order to maximize trade surplus. This mercantilist approach was abandoned in favour of the British industrialists, when it was realized that Britain can actually benefit from cheap imports from less developed countries, which reduces costs in the production of more expensive industrial goods. Other industrialized nations of Europe soon followed.

Free trade is not a domestic policy by nature. Britain promoted lowering trade barriers around the world, which usually involved imposition of trade agreements on less developed countries by power. Britain also guaranteed the macroeconomic stability necessary for stable flow of international trade, by upholding the international 'gold standard' through which all currency values and thus exchange rates were linked to the value of gold. By 1870, Britain was already playing the role of the world hegemon which upheld the liberal trade order at the global scale. The first golden age of free trade liberalism peaked before the First World War but ended abruptly as the war broke out and disrupted the trade flow.

Between two World Wars, international trade could not pick up. Although the gold standard was not suspended by the British until 1931, there was a lack of confidence in the international monetary system. International relations were tense while political alliances were too fragile. As government finances deteriorated, international indebtedness drastically increased. It became apparent in many ways that it was impossible to go back to the pre-war liberal era under such political conditions. The Second World War removed the last remnants of the first liberal trade order. Industrialized countries started to compete in trade and used tariffs and quotas to that end, while developing countries started to protect their markets in order to support their own industrialization processes. So ended the first era of globalisation.

In the post-World War Two era, the US has taken the role played by the Britain before. The Bretton Woods system restored the gold standard in 1944 and established a system which aimed to promote economic stability so international trade and financial relations could be brought back again. Financial institutions, such International Money Fund (IMF) and World Bank (which was the International Bank for Reconstruction and Development (IBRD) at the time), were designed precisely for that purpose. However, the liberal trade order did not really come back. Instead, tariffs stayed high while governments were actively involved with Keynesian interventionism throughout this period. Consequently, the world economy went through a period of stable but limited trade expansion between 1940s and the rise of neoliberalism in 1980s (Sach & Werner, 1995).

The increase in political power of the so-called 'third world' countries was crucial as to why liberal trade could not be entirely established after the World War Two. It should be noted that during the first period of the liberal trade order, most developing countries were either mere colonies or subject to unequal treaties enforced by the British. They did not really have the political power to make national trade policy. In the aftermath of World War Two, newly independent

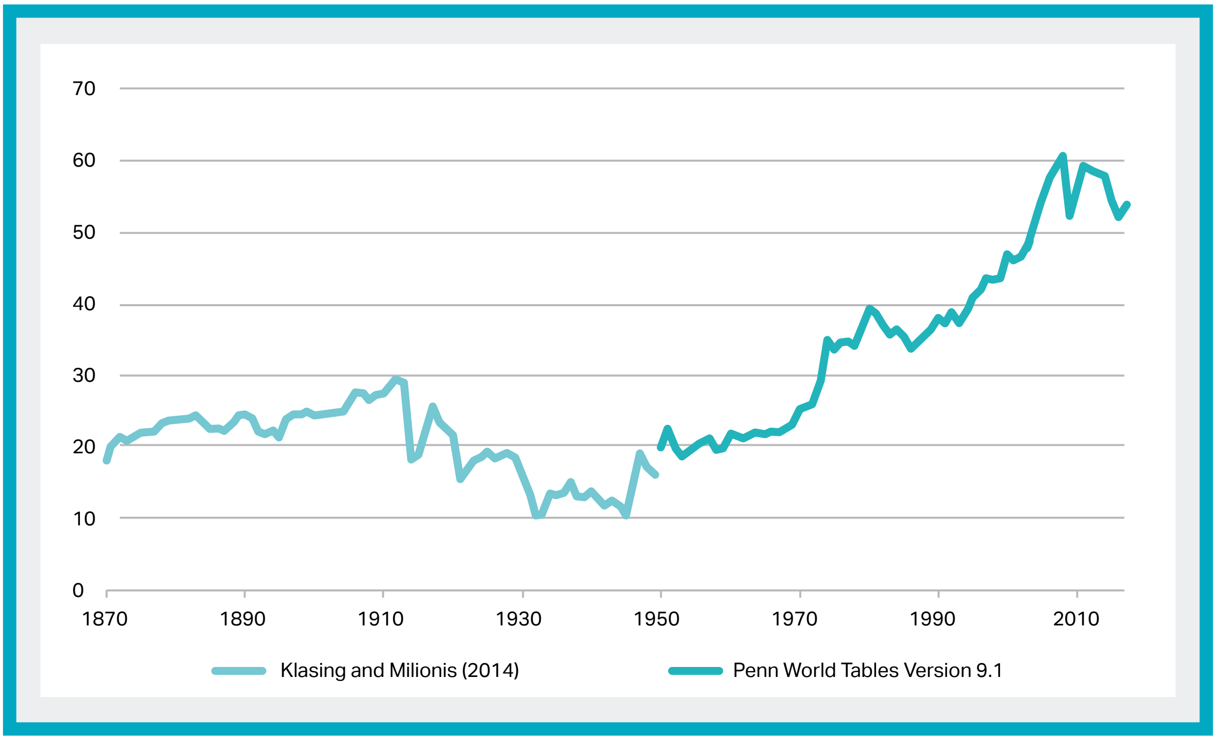

***Figure 1,** The Sum of World Exports and Imports as a Share (%) of World GDP (1870-2013)* nations usually followed developmentalist policies, including trade protectionism, to promote their own industrial growth. Given that the developed countries of the capitalist world were then in competition with the Soviet Union for winning the hearts and minds of the third world, they did not have the leverage to impose free trade on those countries. Protectionist policies have been perceived as a middle way between socialism and free market capitalism, and were tolerated due to the sensitive political conditions of the time.

In 1980s, tremendous changes have taken place in the political atmosphere. After Reagan came to power in the US and Thatcher in the UK, both countries experienced a major paradigm shift in policy-making and switched from Keynesianism to neo-liberal policies. The pro-market approach dominated the policy agenda while government interventions in the economic sphere were gradually delegitimized. As expected, the outcome was a shift in the global trade order as well. With the creation of World Trade Organization in 1995, trade liberalisation has become the dominant policy paradigm around the world. Tariff reductions, restrictions on trade subsidies, liberalised movement of capital, and deregulations relating to employment and environment were imposed on all the participating countries. Consequently, policy-makers in most developing countries were paralyzed as the international community implicitly outlawed interventionist trade policies. A new globalist era ensued and a tremendous surge in international trade has taken place.

All in all, the history of international trade is important because it is reflective of ideological and political paradigm shifts. One important lesson is that globalisation and international trade is very much shaped and governed by the decisions of governments and especially the powerful ones. This goes against the conventional belief that globalisation is a natural and inevitable process and that all countries must find a way to adopt it. The fact that patterns of globalisation changed very much in accordance with the political environment proves that there is nothing inevitable about globalisation and that it is driven by ideology and politics. Now, ten years after the 2008 global financial crisis, the world is once again discussing the prospects of international trade and globalisation.

Arguments for Free Trade

Accounts of the history of economics oftentimes draw from the 19th century Scottish economist Adam Smith, who was one of the first to criticize the protectionist trade policies of his era. According to him, the 'cause of the wealth of nations' is the division of labour among nations as much as among individuals within a society, because division of labour makes specialisation possible, which leads to efficiency gains and improves productivity. It is better, he argued, if each good is produced by the country that is best at producing it. Then, as long as international trade provides a stable means of exchanging these products, the outcome will be an improvement in the lives of all who participate in this division of labour and reciprocal trade (Smith, 1776). So, according to Smith, contrary to the common misconception of the time, self-sufficiency, even when possible, is not really a merit because it reduces overall human welfare. Smith's argument was quite influential in intellectually defeating the Mercantilist protectionism of the time.

However, the most important theoretical argument in favour of free trade came from another British economist. Writing several decades after Smith, in

1821, David Ricardo argued that free trade is beneficial even when a country is superior at producing any product there is. He argued that every country can create more value by allocating its limited resources on the production of what it produces best and exchanging it for other products, instead of distributing these resources over the entire range of products it wants to consume. For instance, Germany may be more efficient at producing both textiles and cars than India, but if its superiority is much bigger in cars, which Ricardo dubbed 'comparative advantage', then Germany can let India produce textiles while specialising in cars instead of say, spreading its limited labour force on both sectors. The idea is that they can then exchange cars and textile products which will go on to bring an improvement for both countries compared to autarky (i.e. both countries are closed to trade). In order words, specialisation allows countries to purchase more of other products than what they would be able to produce by themselves; so, they sacrifice less for acquiring them (Ricardo, 1817). This is what has since become known as the theory of 'comparative advantage'.

Later in the 20th century, the theory of comparative advantages was reformulated by Swedish economists Eli Heckscher and Bertil Ohlin and refined further by the American economist Paul Samuelson. The Heckschert-Ohlin-Samuelson model suggests that even though countries may not be different in terms of productivity in different sector as suggested by Ricardian model, they may still be different in terms of productive resources (i.e. factor endowments) such as labour and capital. Accordingly, they should produce and sell products that use what is abundant and cheap and exchange them for other products (Samuelson, 1949). For instance, if a country is labour abundant as most developing countries are, it is advantageous to produce labour intensive goods such as textile and exchange them for capital intensive goods such as cars produced by capital abundant countries. So, differences of factor endowments provide a further basis for international trade.

For two centuries now, proponents of free trade have used the principle of comparative advantages as a proof of how free trade benefits everyone. Paul Krugman famously said: "if there were an Economist's creed it would surely contain the affirmations 'I understand the principle of comparative advantage' and 'I advocate free trade'" (Krugman, 1987). However, as Krugman himself is an example of, not all economists have defended free trade exclusively on the premise of comparative advantages. Krugman (1979) and other economists including Dixit and Stiglitz (1977) have shown that trade may be advantageous even when there is no difference in technological capacity or resources between nations whatsoever but because increasing returns to scale leads to arbitrary specialisation within monopolistically competitive industries. For instance, if a country has already specialised in an industry which requires huge fixed investments and a long period of time to improve productivity, then it may be very difficult for others to catch up and compete in the same sectors.

In 1980s with the rise of so-called neo-liberalism, free trade theory dominated the trade discussion, especially in the area of policy while alternative approaches were eliminated from the scene. The scope of liberal theory extended beyond trade policy and included a set of principles that are supposed to govern all economic activities. In this way of thinking, unfettered free markets (i.e. the 'invisible hand') would always bring about better results than government interventions, and therefore governments might as well leave other economic activities to the laws of supply and demand. The advocates of 'neo-liberal' principles promoted the privatization of production, deregulation of financial activities, free movement of capital, and reductions in government spending as well as taxation. The spread of liberal principles and minimal government, they believed, will lead to a prosperous and peaceful global economy where the private sector is the main channel of allocation of resources at the global scale (Bhagwati, 2004).

What has Changed?

There may be a case for protectionism in less developed countries, as argued below. Developing countries, sometimes, need to protect their domestic industries in their catch-up phase. However, a long history of orthodox economic theory seems to suggest that free trade is almost always beneficial for economic growth especially in developed countries. Accordingly, advanced industrialized countries should therefore always promote international trade and globalisation because, at the expense of others or not, they are the ones who benefit from international trade the most. But, it is now known that this is not always the case, and some countries sometimes opt out of free trade when they reckon it is not in their best interest, as they did after the 1940s. It was only in 1980s that the free trade paradigm returned back as a consequence of shifts in the political landscape.

The current US government/administration once again seems to believe in the merits of trade protectionism. President Donald Trump's hawkish policy approach has almost led to a full-scale trade war between China and the US. Furthermore, President Trump has repeatedly argued for the benefits of using trade barriers to bring back manufacturing jobs to the US. Trump's election to the office itself is interpreted as a protest against globalisation. The US is not the only country where anti-globalisation movement is on the rise. After the Brexit referendum, the UK is breaking up with the EU, which according to some, may even lead to a total disintegration of the EU (Rosamond, 2016). The election victory of populists in Italy, the Yellow Vests Movement and rising nationalism in France, and the rise of far-right movements across central Europe are other potential symptoms of a retreat from globalisation at the global scale.

The question then is: what really has changed to make protectionist policies popular again? In order to understand that one should simply look at the trends that took place in developed economies since 1980s. As a consequence of rising neo-liberalism, big corporations simply moved their production lines to poor countries in order to benefit from a cheap labour force. The liberalisation of capital movements enabled them to spread their production line to wherever they found advantageous around the world without any restrictions, while the lack of trade barriers, such as import tariffs, enabled them to easily transport their products globally. This massive trend led to major changes in developed countries in terms of employment and inequality. In the case of the US, for instance, globalisation quickly destroyed manufacturing jobs as various sectors such as automobile production, steel, shipbuilding, or home appliances etc. moved out of the country to find cheap labour in East Asia. Between 1980 and 2018, share of manufacturing in total employment in the US has dropped from 20% to 8.5% (U.S. Bureau of Labor Statistics, 2019).

As explained above, free trade is said to make economies more efficient by transferring resources to the most productive sectors (i.e. specialisation). Therefore, in theory, even though trade liberalisation may destroy certain sectors which countries do not have a comparative advantage in, it should thereon lead to the emergence or development of other sectors. Then, the workers who were disadvantaged by the emigration of manufacturing jobs should have been able to benefit from the rise of other sectors. However, the transformation of an economy and its labour market does not take place that smoothly. For example, free trade indeed boosted other sectors such finance or software in most developed countries but this did not change the fact that there were no more jobs for factory workers unless they managed to train themselves in financial services or computer programming overnight.

Even in cases where unemployment rates have not increased significantly, working conditions have changed considerably. Workers who could not adjust to the changes imposed by trade liberalisation were forced to work in low-skilled jobs which do not pay as much. Furthermore, as a result of deregulations in the labour markets, short-term or part-time jobs, that are characteristically insecure, have become widespread. There were also those who have benefitted from globalisation. White collar workers with marketable qualities and expertise in growing sectors benefitted from this transformation. Specifically, highly skilled individuals in engineering (of right kinds), finance, architecture, business administration, law practice, consultancy etc. found themselves in a more advantageous position. But, the major beneficiaries of this trend are of course large businesses who are able to reap the benefits of a global market for both their production and marketing operations.

One obvious implication of above described process is rising inequality. New data on inequality in developed countries indeed suggest that long prevailing patterns of inequality have drastically changed. Since Simon Kuznets's seminal study in 1957, it was believed that inequality rises in the early stages of economic development but decreases in developed countries as they move towards more mature states of their development process (Kuznets, 1957). This was indeed so until 1980s; while inequality was rising in developing countries, it was decreasing in developed countries as they get richer. However, there has been a trend of rising inequality in most developed economies in recent decades. Piketty reports that the top 10% earners in the US economy were earning 45-50% of the national income in 1910s but this dropped to less than 35% in 1950s, as suggested by Kuznets, and remained at those levels until 1970s; but then it rose to 45-50% in 2000s (Piketty, 2014).

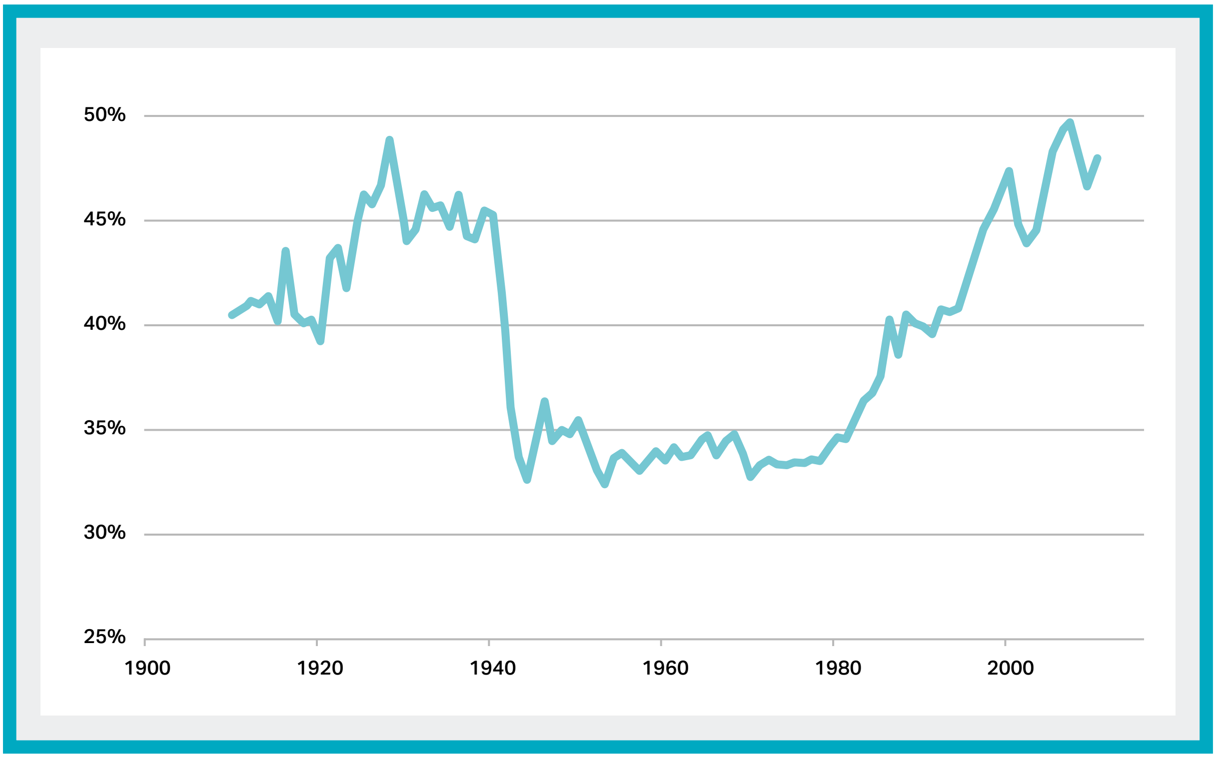

Figure 2, *Income Inequality in the US (1910-2010): Share of top 10% in national income (source: Piketty (2014), piketty.pse.ens.fr/capital21c)*

There is an obvious correlation between the volume of international trade (Figure 1) and inequality in developed countries (Figure 2), which leads many to believe that globalisation is responsible for increasing inequality. Furthermore, even though within-country inequality has increased in most countries, inequality across countries decreased mainly due to raising per capita incomes in China and India, which suggests convergence between living standards of developed and developing countries. This last observation is used as further support for the argument that global trade benefits major developing countries, such as China and India, while it hurts middle-income Americans.

Similar though less pronounced trends now characterise other major countries such as France and the UK. In the UK, only 7% of British labour force was employed in manufacturing in 2017 compared to around 20% in 1980. Between 2007 and 2017, manufacturing lost some 600,000 jobs (Inman, 2018). Note that in the same period, the real wage of an average UK worker dropped 5% (Costa & Machin, 2017). Average growth in real wages has been consistently decreasing since the 1970s in the UK. In France, since the 1980s, the bottom 50% has seen a 31% increase in income, compared to 98% for the top 1% and 162% for the top 0.01%. This indicates a marked deviation from the previous period in terms of wage growth. Between 1950 and 1980, top income earners experienced a much smaller income rise compared to the ones at the bottom (Garbinti, Goupille-Lebret, & Piketty, 2018).

Therefore, increasing inequality and stagnating wages as a consequence of rising globalisation is common to advanced economies. This trend deeply affects policy making in democratic countries. Proponents of free trade argue that globalisation will eventually benefit everyone, as structural transformation will make economies more efficient; it only requires time and patience, they say. However, as large segments of society in many countries believe they are victimized by on-going globalisation trends, there is more pressure than ever on policy makers to deal with the consequences of rising inequality, unemployment, and overall instability, which are believed to be caused by international trade. Democratic mechanisms oblige elected leaders to act on such popular perceptions, which may involve restricting free trade in favour of protectionism. The consequence of such patterns is to be seen in the future.

An Opportunity for Developing Countries?

There is another line of thinking in economics literature which suggests that trade protectionism can actually be growth-inducing under certain conditions. Specifically, so-called 'developmentalist tradition' suggests that governments of less developed countries should take initiative in order to improve the productive capacity of their economies beyond what unfettered free market would generate, and this usually involves activist trade policy as well (Chang, 2014). From this perspective, the dissolution of the neo-liberal paradigm as well as a retreat from globalisation may actually be an opportunity for developing countries as this will free governments from the pressure of rich and powerful nations to open up their markets to trade and investments, and empower them to modify their own trade policy (Basbay, 2018).

A variety of theories developed ideas of how trade restrictions may be useful in promoting a country's growth record. What all these theories emphasize is that if trading countries are asymmetric in the sense that they have considerably different technologies or resources, then comparative advantage may induce developing economies to pull their resources into non-dynamic sectors such as agriculture. For instance, if a developing country has a comparative advantage in some low value-added, unsophisticated sector potentially because of its cheap labour force or unexhausted natural resources, then after opening to free trade this country will be pushed to specialise in that sector and import technologically-advanced, high value-added products from developed countries. Therefore, free trade may actually make countries poorer in the long run by pushing them towards unproductive and less promising sectors (Matsuyama, 1992).

Based on this reasoning, the 'infant industries' argument suggests that developing countries should protect their newly developing sectors at least in their initial phase, from foreign competition so that they can find the opportunity to enhance their competitive muscle and become able to compete at the global scale. The logic here is based on the assumption that in some sectors, productivity may increase with time and scale; as firms expand their production, they become more efficient (i.e. learn how to produce at a lower cost) by training their workers, developing organizational routines, and spreading the fixed cost they invested across more units of output. If lacking some form of protection (state), however, they may be wiped out by competition coming from already-developed superior foreign companies, before they can expand their production. Then, there is a case for insulating such sectors from international competition by erecting trade barriers for foreign companies at least for a while.

The first person who used the term 'infant industries' was US treasury secretary Alexander Hamilton who, at the time, argued that the US should increase tariffs on British imports in order to protect blooming American industries from harsh competition. Hamilton claimed that unless the government protects American industries until they mature, they will not survive competition with British companies that are more efficient and capable. US President Ulysses S. Grant (1869-77) made the same point when he said:

"For centuries England has relied on protection, has carried it to extremes and has obtained satisfactory results from it. There is no doubt that it is to this system that it owes its present strength. After two centuries, England has found it convenient to adopt free trade because it thinks that protection can no longer offer it anything. Very well then, Gentlemen, my knowledge of our country leads me to believe that within 200 years, when America has gotten out of protection all that it can offer, it too will adopt free trade" (cited in A.G. Frank, 1967, p.164).

So, Grant was pointing to the fact that Britain has adopted free trade only after its firms were developed enough through protectionist measures. Britain did not only adopt free trade itself but also forced it on other nations. German economist Friedrich List argued that, by imposing free trade on other countries, Britain was actually 'kicking away the ladder' to industrialization for other countries. According to him, Britain used protectionist measures to develop its industrial capacity in isolation from competition, but it is now forcing less developed countries to open their markets and thereby preventing them from using the same path Britain previously used (List, 1841). Thus, trade liberalisation is not only a decision that is to be made internally when a country has "has gotten out of protection all that it can offer". But there is an international element to it as well. It is interesting how the same arguments have also been used against the US's promotion of free trade rules and agreements in the second half of the 20th century.

According to Ha-Joon Chang, protectionist trade policies have been very crucial in the economic development of historical cases of Britain, France, and the US, as well as more recent cases of South Korea, Japan, and Taiwan. Needless to say, one of the most significant examples of this phenomenon is Chang's home-country, South Korea. In 1960s, when Korean government was initiating its ambitious investment drive in high-tech, high-value-added sectors, S. Korea lacked the basic know-how, physical capital, or human resource that is essential for maintaining competitiveness in these sectors. Under these conditions, for a long while, Korean government protected domestic producers in sophisticated sectors such as shipbuilding, electronics, or auto production from foreign competition until Korean companies, most of which we know as global companies today, can grow their capacity and capability in production so that they can become productive enough to be able to deal with harsh competition at the global scale.

Similar stories can be found in some other notable success stories such as Japan, Taiwan, Singapore, or Hong-Kong. Chang claims that all these countries' early development strategies involve trade restrictions in the forms of high tariffs, quotas, and bans on imports of strategic goods so that domestic producers can have the opportunity to develop their own capabilities. Furthermore, in his very influential 2002 book 'Kicking Away the Ladder' named after List's famous phrase, Chang argued that similar to what Britain did earlier, developed countries of the 20th century are taking away the single most important policy tool from developing countries for promoting industrialization by imposing free trade on other nations through international institutions such as IMF (International Monetary Fund) and World Trade Organization (WTO). According to Chang, developing countries have to navigate their way through this political pressure and protect their infant industries if they ever want to be developed countries themselves (see Chang, 2002).

Therefore, the current trend in international politics may potentially be an opportunity for developing countries. For a very long time, powerful nations pushed developing countries to liberalise their economies because they (or the elite of these countries), were the beneficiaries of this system. Now that developed countries are using trade restrictions themselves, because of rising populist backlash, this will likely create a policy environment where developing countries will have more space and independence to make their own trade policy. When the US government decides not to honour its past trade agreements (which it forced on others for so long) and violates the rules of global institutions such as WTO and the IMF, by imposing arbitrary trade restrictions and tariffs on Chinese imports for instance, these institutions will have less leverage to put pressure on developing countries. Then, developing countries can utilize their own policy agenda to protect and support strategic high-value-added industrial sectors potentially via trade restrictions (Basbay, 2018).

Obviously, trade restrictions do not lead to economic development by themselves. Furthermore, there are serious risks involved in an extreme scenario of a full-fledged trade war between the giant economies of China, the EU, and the US, which will deeply affect developing countries as well. Supply chains will be disrupted, production costs and hence prices will rise, and the global economy may shrink as a whole. Therefore, the lack of hegemony in global governance is simultaneously a risk and an opportunity for developing countries. Those countries which can formulate smart policies to make the best of this environment will benefit from it in the long run. In particular, governments that are able to sustain their export markets and a stable flow of intermediate goods may benefit the most from the loophole in the global hegemony of powerful nations. These countries can use trade restrictions to protect their strategic sectors from competition so they can develop their own capacity in sophisticated industrial sectors which brings about better economic growth in the long run.

Conclusion

Neo-liberalism became the dominant policy paradigm in 1980s and since then, led to an unprecedented rise in international trade. However, what happened was more than an increase in the volume of trade. Trade barriers such as tariffs and quotas were reduced, capital movements were liberalised, the labour market and finance were deregulated, and government interventions in the economy were restricted. Consequently, large corporations spread their supply chains across the world and have turned the global economy into a giant assembly line. Today, not only we are able to consume products that are produced at the other side of the world, which was probably always possible at a smaller scale historically, but we are consuming products, each part of which is produced in a different country. This tremendous economic integration at the global scale is often referred to as globalisation.

Undoubtedly, globalisation has dramatically changed production and consumption patterns around the world. However, whether this was for better or worse, remains a controversial issue. People in advanced economies are increasingly sceptical of the benefits of globalisation, and they are manifesting that in the political sphere. In other words, anti-globalisation sentiments are on the rise, and they have informed the political landscape of developed countries in the contemporary era. After the election victories of anti-establishment parties, mass protests, and the rise of far-right movements, it has now become impossible to overlook the discontent and resentment of working- and middle-class people with globalisation due to rising inequality, real wage stagnation, and precarious labour market conditions. Political movements that have traditionally been considered as 'radical' are gradually moving to the mainstream and becoming more popular day by day.

Many economists also made the point that globalisation favours developed countries 'sometimes' at the expense of developing countries. Apparently, this claim is not exactly accurate, as some segments of the society in developed countries actually feel disadvantaged by globalisation too. However, it may also be fair to say that globalisation disadvantages developing countries by forcing them to open their markets to unrestricted trade, which crushes local producers because they cannot compete with well-established, century-old companies of developed countries. This can eventually lead these countries to specialise in non-productive, low-value-added sectors (so-called primary industries). Developing countries want and need a policy space to protect and support their own producers in strategic sectors so that they can improve their industrial capacity and become developed countries themselves, instead of serving as the low-cost workshop of global companies.

This brings us to the conclusion that a retreat of globalisation (potentially due to the political backlash in developed countries), may be an opportunity for both developing and developed countries as much as it is a risk. Many analysts argued that the recent wave of globalisation since the 1980s has been very problematic because it does not consider countries' structural peculiarities and enforces a poorly designed uniform policy scheme on all countries. According to these analysts, increasing inequality and financial instability as well as decreasing economic growth in most parts of the world are the outcome of this mistake (Stiglitz, 2002). So a retreat from this mistake would partly relieve developing countries of the pressure imposed by dominant countries and international financial institutions to liberalise their markets and follow the 'rules' of globalisation. Developing countries can use this loophole in the hegemony of powerful nations in the global governance to formulate industrial policy. This would also mean that developed countries can revive welfare state policies which can improve working conditions and income distribution in these countries again.

However, it is questionable if it is possible to accomplish this by simply reversing trade policies, like the US administration is trying to do. According to former chief economist of the World Bank and Nobel laureate Joseph Stiglitz Joseph, for instance, the US cannot simply go back in time and restore the previous system all by itself, because it does not enjoy the same level of power it did in the aftermath of the Second World War What Stiglitz proposes as a more stable solution is the creation of more participatory and democratic global governance structures. According to him, international organizations should give equal voice to developing nations instead of imposing developed countries' agenda (Stiglitz, 2006). Obviously, this is a better solution than disrupting the global supply chain all together and driving the world into a wave of trade wars. The international trade structure is a hard-established and a very complicated system, and economic interdependency between countries plays a vital role for the maintenance of global peace.

This leads us to a delicate balance. Unless countries can agree on a certain structure for trading at the global scale, globalisation without any limits becomes impossible. Equally, when a set of rules and principles are uniformly imposed on all nations, this deprives them of independent policy-making. This is why Harvard economist Dani Rodrik claims that globalisation and the idea of sovereign states which respond to democratic demands cannot coexist (Rodrik, 2011). Ideally, global governance structures, such as World Bank, WTO, and IMF, can be restructured to better represent the concerns and preferences of developing nations as well as developed countries. Then, this can lead to a better structured and more flexible international trade system in which all countries can design their own trade policy while complying with the rules. Under such a scenario, an extreme version of globalisation, which would eliminate all barriers between countries and unify the entire world into one market, would not possible. Ultimately, this seems to work for the benefit of no one but a few global companies.

Bibliography

Bhagwati, J. (2004). In Defense of Globalization. Oxford University Press.

Basbay, M. M. (2018). 'Is a potential trade war an opportunity for developing countries?'. TRT World. 24 May 2018. Available at https://www.trtworld.com/opinion/is-a-potential-trade-war-an-opportunity-for-developing-countries--17715.

Basbay, M. M. (2019). Yellow Vests: Western Economies Need a Paradigm Shift. TRT World Research Centre. Available at https://researchcentre.trtworld.com/publications/discussion-papers/yellow-vests-western-economies-need-a-paradigm-shift.

Chang, H. J. (2002). Kicking away the ladder: development strategy in historical perspective. Anthem Press.

Chang, H. J. (2014). Economics: the user's guide (Vol. 1). Bloomsbury Publishing USA.

Costa, R., & Machin, S. (2017). Real wages and living standards in the UK. CEP Election Analysis, 36.

Dixit, A. K., & Stiglitz, J. E. (1977). Monopolistic competition and optimum product diversity. The American Economic Review, 67(3), 297-308.

Feenstra, R. C., Inklaar, R., & Timmer, M. P. (2015). The next generation of the Penn World Table. American Economic Review, 105(10), 3150-82.

Frank, A. G. (1967). Capitalism and underdevelopment in Latin America (Vol. 93). NYU Press.

Friedman, M. (1962). Capitalism and freedom: With the assistance of Rose D. Friedman. University of Chicago Press.

Garbinti, B., Goupille-Lebret, J., & Piketty, T. (2018). Income inequality in France, 1900–2014: Evidence from Distributional National Accounts (DINA). Journal of Public Economics.

Heckscher, E. F., & Ohlin, B. G. (1991). Heckscher-Ohlin trade theory. The MIT Press.

Inman, P. (2018). 'UK manufacturing has lost 600,000 jobs in a decade, says union'. The Guardian. 4 June 2018. Available at https://www.theguardian.com/business/2018/jun/04/uk-manufacturing-has-lost-600000-jobs-in-a-decade-says-union.

Klasing, M. J., & Milionis, P. (2014). Quantifying the evolution of world trade, 1870–1949. Journal of International Economics, 92(1), 185-197.

Krugman, P. R. (1979). Increasing returns, monopolistic competition, and international trade. Journal of international Economics, 9(4), 469-479.

Krugman, P. R. (1987). Is free trade passé? Journal of economic Perspectives, 1(2), 131-144.

List, F. (1841). National system of political economy. JB Lippincott & Company.

Matsuyama, K. (1992). Agricultural productivity, comparative advantage, and economic growth. Journal of economic theory, 58(2), 317-334.

Piketty, T. (2014). Capital in the 21st century. (trans. Arthur Goldhammer) Harvard University Press. Cambridge and London.

Ricardo, D. (1817). On the Principles of Political Economy and Taxation, ed. by RM Hartwell.

Rodrik, D. (2011). The globalization paradox: why global markets, states, and democracy can't coexist. Oxford University Press.

Rosamond, B. (2016). Brexit and the problem of European disintegration. Journal of Contemporary European Research, 12(4).

Sachs, J. D. & Warner, A. (1995). Economic reform and the process of global integration. Brookings papers on economic activity, 1995(1), 1-118.

Samuelson, P. (1949). International Factor-Price Equalisation Once Again. The Economic Journal, 59(234), 181-197. doi:10.2307/2226683

Smith, A., (1776). An Inquiry into the Nature and Causes of the Wealth of Nations. Methuen. 1950.

Stiglitz, J. E. (2002). Globalization and its Discontents (Vol. 500). Norton: New York.

Stiglitz, J. E. (2006). Making Globalization Work. Norton: New York.

U.S. Bureau of Labor Statistics, (2019). Percent of Employment in Manufacturing in the United States, retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/USAPEFANA, [December 24, 2019].

TRT WORLD
research centre

TRT WORLD
re|search
centre