

This is no time to revert to trade fundamentalism

By Dani Rodrik

October 20, 2016 – *The Globe and Mail*

“One of the crucial challenges” of our era “is to maintain an open and expanding international trade system.” Unfortunately, “the liberal principles” of the world trade system “are under increasing attack.” “Protectionism has become increasingly prevalent.” “There is great danger that the system will break down ... or that it will collapse in a grim replay of the 1930s.”

You would be excused for thinking that these lines are culled from one of the recent outpourings of concern in the business and financial media about the current backlash against globalization. In fact, they were written 35 years ago, in 1981.

The problem then was stagflation in the advanced countries. And it was Japan, rather than China, that was the trade bogeyman, stalking – and taking over – global markets. The United States and Europe had responded by erecting trade barriers and imposing “voluntary export restrictions” (VERs) on Japanese cars and steel. Talk about the creeping “new protectionism” was rife.

What took place subsequently would belie such pessimism about the trade regime. Instead of heading south, global trade exploded in the 1990s and 2000s, driven by the creation of the World Trade Organization, the proliferation of bilateral and regional trade and investment agreements, and the rise of China. A new age of globalization – in fact something more like hyperglobalization – was launched.

In hindsight, the “new protectionism” of the 1980s was not a radical break with the past. It was more a case of regime maintenance than regime disruption, as the political scientist John Ruggie has written. The import “safeguards” and VERs of the time were ad hoc, but they were necessary responses to the

distributional and adjustment challenges posed by the emergence of new trade relationships.

The economists and trade specialists who cried wolf at the time were wrong. Had governments listened to their advice and not responded to their constituents, they would have possibly made things worse. What looked to contemporaries like damaging protectionism was in fact a way of letting off steam to prevent an excessive buildup of political pressure.

Are observers being similarly alarmist about today’s globalization backlash? The International Monetary Fund, among others, has recently warned that slow growth and populism might lead to an outbreak of protectionism. “It is vitally important to defend the prospects for increasing trade integration,” according to the IMF’s chief economist, Maurice Obstfeld.

So far, however, there are few signs that governments are moving decidedly away from an open economy. The website globaltradealert.org maintains a database of protectionist measures and is a frequent source for claims of creeping protectionism. Click on its interactive map of protectionist measures, and you will see an explosion of fireworks – red circles all over the globe. It looks alarming until you click on liberalizing measures and discover a comparable number of green circles.

The difference this time is that populist political forces seem much more powerful and closer to winning elections – partly a response to the advanced stage of globalization achieved since the 1980s. Not so long ago, it would have been unimaginable to contemplate a British exit from the European Union, or a Republican presidential candidate in the United States promising to renege on trade agreements, build a wall against Mexican immigrants, and punish

companies that move offshore. The nation-state seems intent on reasserting itself.

But the lesson from the 1980s is that some reversal from hyperglobalization need not be a bad thing, as long as it serves to maintain a reasonably open world economy. As I have frequently argued, we need a better balance between national autonomy and globalization. In particular, we need to place the requirements of liberal democracy ahead of those of international trade and investment. Such a rebalancing would leave plenty of room for an open global economy; in fact, it would enable and sustain it.

What makes a populist like Donald Trump dangerous is not his specific proposals on trade. It is that they don't add up to a coherent vision of how the United States and an open world economy can prosper side by side (it is also of course the nativist, illiberal platform on

which he is campaigning and would likely govern).

The key challenge facing mainstream political parties in the advanced economies today is to devise such a vision, along with a narrative that steals the populists' thunder. These centre-right and centre-left parties should not be asked to save hyperglobalization at all costs. Trade advocates should be understanding if these parties adopt unorthodox policies to buy political support.

We should look instead at whether their policies are driven by a desire for equity and social inclusion, or by nativist and racist impulses; whether they want to enhance or weaken the rule of law and democratic deliberation; and whether they are trying to save the open world economy – albeit with different ground rules – rather than undermine it.