

The third wave

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Bill Clinton once called globalisation “the economic equivalent of a force of nature, like wind or water”. It pushes countries to specialise and swap, making them richer, and the world smaller. In “The Great Convergence”, Richard Baldwin, a Geneva-based economist, adds an important detail: like wind and water, globalisation is powerful, but can be inconstant or even destructive. Unless beloved notions catch up with reality, politicians will be pushed to make grave mistakes.

In an economist’s dream world, things, ideas and people would flow freely across borders. Reality is stickier, and stuff less mobile—so much so that it trapped humankind’s ancestors into village-level economies. Constraints on trade once bundled consumption and production together, limiting their growth.

Mr Baldwin’s grand theory of globalisation is of a series of unbundlings, driven by sequential collapses in the cost of moving things and ideas across space. From the domestication of the camel around 1,000BC to the first commercial steam engine in 1712, the first great wave of globalisation unbundled production and consumption. From 1820, British prices were set by international demand, and café-goers could sip Chinese tea sweetened with Jamaican sugar.

Though moving goods became cheap, until the very end of the 20th century moving ideas was expensive. Mr Baldwin invites readers over 50 to remember international calls costing \$5 a minute, or the \$50 price of sending a single document by an overnight courier. This encouraged industries to cluster. The hubs of economic activity emerged in the countries we now know as the G7. In this form of globalisation, national teams of ideas and workers battled for market share, and became richer in the process. Mr Baldwin uses the

analogy of two sports teams swapping players to improve their performance.

But since the 1990s globalisation has changed radically, as the internet has lifted the cost of moving ideas, and fuelled a second unbundling. Now that co-ordinating international production is cheaper, faster and safer, supply chains ignore borders to go sprawling across the world. A Canadian aeroplane-maker can direct a team of Mexican engineers. Apple can combine American design with Chinese assembly lines. With many products made everywhere, trade has been, in effect, denationalised.

The pace of change and the new ease with which rich-world companies can outsource work have eliminated the old boundaries around knowledge and created a new, more unsettling trade landscape. Once, textile-mill workers in South Carolina had exclusive access to American technology. Although it might seem that they have lost out to competition from Mexican workers, more accurately they face an altogether more formidable competitor: Mexican workers made more productive by American know-how.

Continuing the sports analogy, Mr Baldwin says that today’s trade is like the coach of a top team being allowed to offer his services to underdogs. The coach gets rich from the doubled market for his services, while the better team gets a sudden surprise from the newly skilled competition. Mr Baldwin says that discontent with globalisation stems in part from an “ill-defined sense that it is no longer a sport for national teams”.

To placate voters by raising tariffs is to tackle 21st-century globalisation with tools better suited to the 20th (or even 19th) century. Given the new world of global supply chains, a tariff

is like erecting a wall in the middle of a factory. Mr Baldwin's 21st-century policies involve setting common rules and standards to make companies feel secure that their supply chains will work. These are the goals of trade deals like the Trans-Pacific Partnership, or Britain's membership of the European Union's customs union—both under threat. And he says little on how to win over disgruntled voters, save a few lines on support for workers rather than jobs, and a vague plea to share gains between winners and losers.

Mr Baldwin is too sanguine about the politics of globalisation. His rosy vision of the future imagines globalisation unshackled from its third constraint, as labour is made mobile by robots allowing people to offer their services remotely. In a different world, perhaps. A quip from his conclusion, written before America's presidential election, has unintended weight. "Not even the future is what it used to be."