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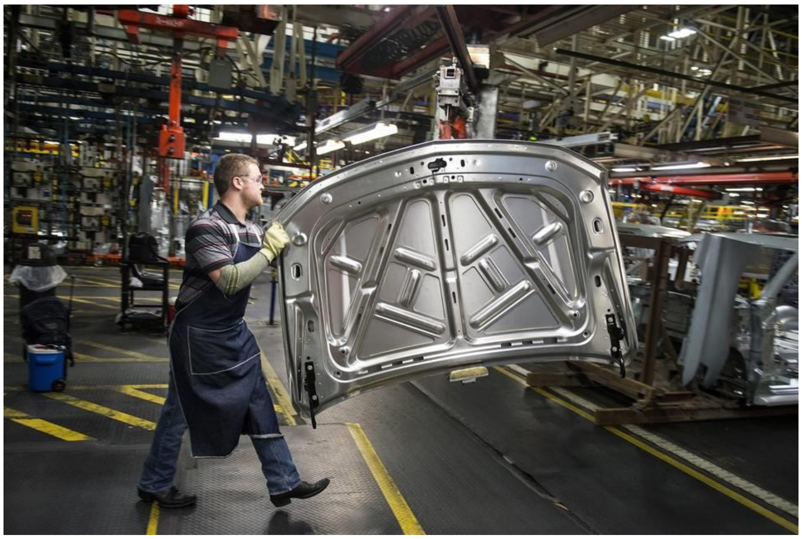
Campaign Talk Misses Signs

That Forces of Globalization Are Sputtering

Contrary to political rhetoric, economic internationalization, once thought unstoppable, appears to be slowing



Josh Zumbrun

On the campaign trail, presidential candidates in both parties depict an America under siege from cheap imports, job-stealing globalization or waves of illegal immigration.

The reality since the global recession is far more complicated. Across a range of measures, the forces that once pointed to an inexorable internationalization of the world's economy have slowed, stuttered or swung into reverse.

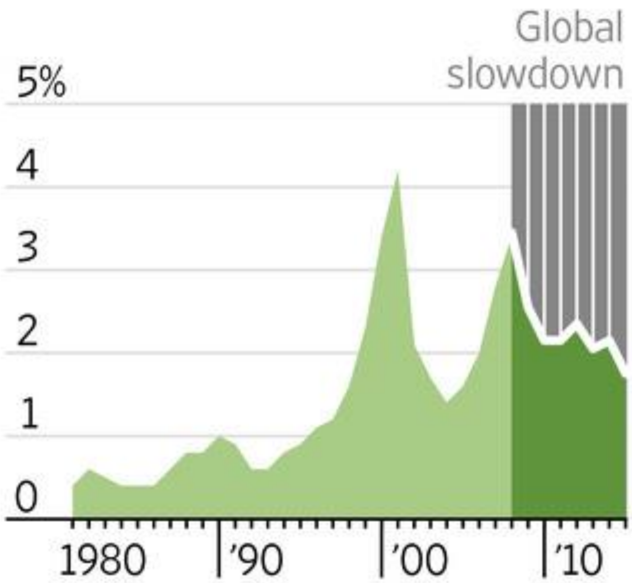
The slowdown points to deeper economic challenges far different from the political alarms. Much of the world is struggling with a sluggishness that is clouding the U.S. outlook, driven by aging demographics, slumping labor productivity and policy makers lacking the tools or the will to pump more life into the global economy.

Whatever the causes, signs abound that the forces of globalization have slowed.

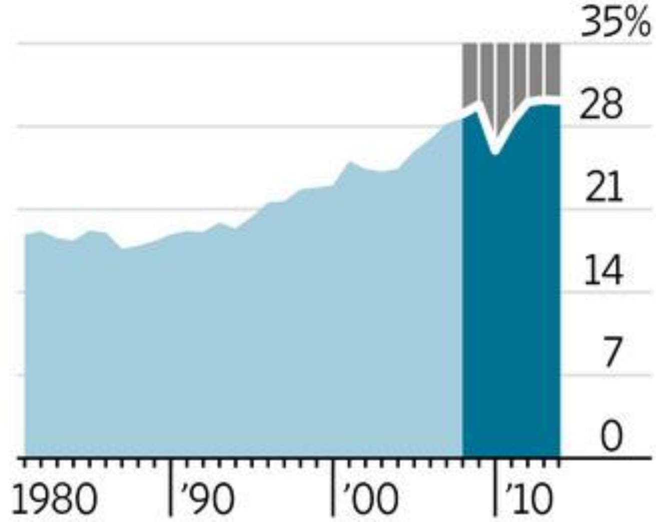
Globalization Gets the Blues

In the wake of the global financial crisis and recession, cross-border investment dried up and the once-inexorable growth of global trade ground to a halt—and hasn't bounced back.

Global foreign direct investment inflows, as a share of world GDP

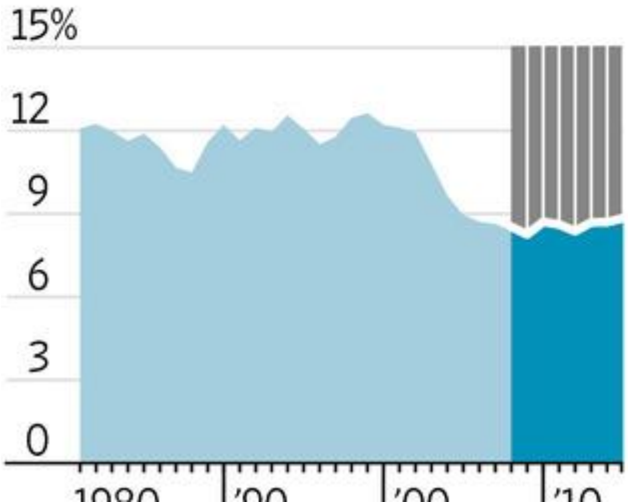


Global exports, as a share of world GDP

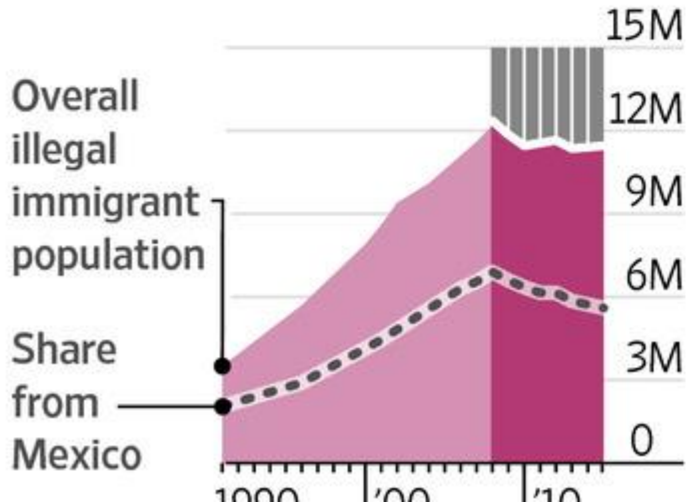


As globalization hit the skids and the U.S. share of trade shrank, the country became a less attractive destination for illegal immigrants.

U.S. exports, as a share of world GDP



Illegal immigrants in the U.S., in millions



Manufacturing jobs in the U.S. declined every year from 1998 to 2009, regardless of whether the overall economy was expanding or in recession. But over the past six years, manufacturing employment has edged up. It's hardly a renaissance—the U.S. has regained about 1 million manufacturing jobs after losing 8 million since the late 1970s—but it's a halt to the decline. The U.S. share of global exports fell sharply, especially from 1998 to 2004, but has held steady over the past 12 years at roughly 8.5%.

There's even evidence the trend of illegal immigration in the 1990s and 2000s, when millions of Mexicans crossed the border for the U.S., has stalled or gone into reverse, despite frequent alarms raised by Republican front-runner Donald Trump. The Pew Research Center estimates that since 2007, the flow of illegal immigrants returning to Mexico has been larger than the number entering the U.S.

"The globalization process, which was firing on all cylinders during the 2000s, has stalled over the past six or seven years," said Benjamin Mandel, global strategist at J.P. Morgan Asset Management and a former New York Fed economist.

The trend isn't specific to the U.S. Globalization has sputtered around the world. From 1992 to 2008, trade climbed to about 30% of total world economic output, from 20%. That climb has halted, and remains at about 30% of GDP in the latest World Bank estimates.

If the historical trend between trade growth and GDP growth had continued, global trade would be $1.8 trillion larger, according to estimates from Eric Lascelles, chief U.S. economist of RBC Asset Management. That's equivalent to an economy the size of Canada or Russia disappearing from global output.

Some economists argue the global trade slowdown stems at least in part from a decline in new trade deals, not from an abundance of them. Others point to a raft of restrictions put in place since the global recession that have crimped exports.

Since 2008, more than 3,500 protectionist measures have been introduced around the world, according to new research by Gary Hufbauer and Euijin Jung at the Peterson Institute for International Economics, a Washington-based think tank that generally supports freer trade.

Many of the measures aren't tariffs but laws requiring governments buy products locally or that impose idiosyncratic requirements that make trade difficult or cumbersome, a phenomenon Mr. Hufbauer calls "microprotections" that are "individually small but collectively deadly."

Another possibility is that trade has slowed only temporarily, due to cyclical factors. Just as the world was poised to rebound from the financial crisis, a giant collapse in commodity demand again stunted trade flows. It's possible, if this view is correct, that once the recession and commodity glut are resolved, the old globalization trends will resume apace.

Even for those who support more globalization, there may be little left that's easy to accomplish. Tariffs for manufacturing, in particular, have fallen so far that many have little ability to fall further. In 1990, the average tariff rate in developing and industrial countries was 24%. By 2010, it had fallen to 8%, according to World Bank data.

One example of how little is left to be gained from lowering manufacturing tariffs comes from the biggest trade deal currently under consideration: the Trans-Pacific Partnership, which includes 12 nations on the Pacific Ocean, including Australia, Japan, Canada, Mexico and the U.S.

Contrary to political rhetoric, the deal may be neither disaster nor boon for the U.S. economy. Researchers at the New York Fed estimated that more than 90% of U.S. exports to members of the TPP already face no tariffs whatsoever. (Remaining tariffs are almost entirely agricultural, not manufacturing.) An analysis earlier this year from the Peterson Institute estimated the deal would be a positive for the U.S., but by 2030 would boost U.S. incomes by only 0.5%.

In the short run, economists do believe trade can be highly disruptive. "It's surprising it took this long" for the political reaction, said Gordon Hanson, an economist at the University of California, San Diego, and co-author of a landmark piece of economic research estimating the U.S. lost 2 million to 2.4 million jobs due to Chinese import competition in the 2000s, after China's entry to the WTO.

He agrees with many trade critics that "we failed to make sure we had the right set of policies" to offset the impacts of China's entry into the global economy. But China, too, is now in the midst of a long-running slowdown. Its global debut may be a story of the past, he said.