

Globalization on the decline: the G20 must take a new stance against protectionism

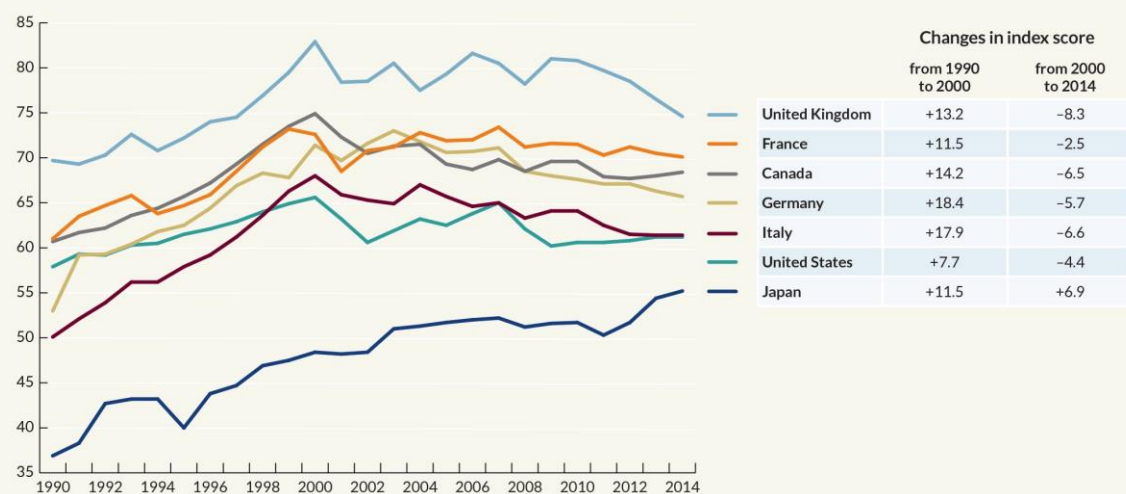
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Germany is taking over the G20 presidency at a time of increasing economic and political isolation. All in all, though, international integration has a positive influence on the prosperity of all countries involved. The rising levels of isolation at present mean that important growth and employment potential is being squandered. Germany should make use of its role at the head of the international forum next year and take a clear stance against further protectionist developments.

Globalization faltering

The globalization engine has faltered in recent years. The bursting of the dotcom bubble in March 2000 caused globalization, which is understood to mean economic, political and social interconnection between countries, to stagnate in the most important industrialized nations. In the majority of industrialized countries, the bankruptcy of Lehman Brothers in September 2008 even led to a decrease in global interconnectedness. New figures from this year's [Globalization Report](#) by the Bertelsmann Stiftung, which compiles a globalization index for a selection of countries between 1990 and 2014, show this (see Fig. 1).

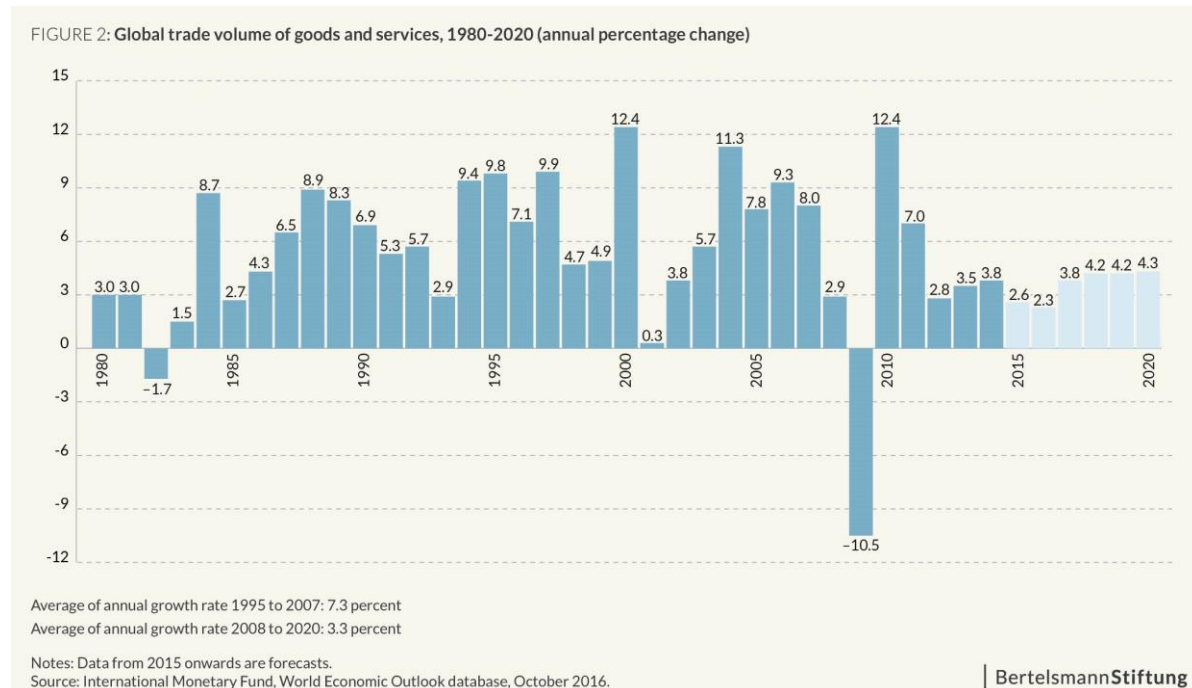
FIGURE 1: Globalization index for selected industrialized countries, 1990-2014



Notes: The globalization index is closely linked to the KOF globalization index of the Eidgenössische Technische Hochschule ETH Zurich (LINK: <http://www.kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-index-of-globalization.html>). The latter includes indicators on economic globalization, but also elements of social globalization (tourism, migration) and political globalization (e.g. institutionalized interdependence, external relations).
Source: Bertelsmann Stiftung, Globalization Report 2016 – Who benefits most from Globalization, Gütersloh 2016.

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There are a number of reasons behind the decline in globalization. One of those is the sluggish growth in China, which has a dampening effect on cross-border trade. Since the financial and economic crisis, global trade has grown less dynamically than it did before. Between 1995 and 2007 (13 years), it grew on average by 7.3 percent each year. For the period between 2008 and 2020 (also 13 years), the International Monetary Fund expects the annual growth rate of global trade to amount to 3.3 percent – less than half the previous rate (see Fig. 2).



Political decisions also play an important role in causing the globalization engine to stutter. In recent times, protectionist measures have noticeably increased. A [report](#) published in June this year by the World Trade Organisation (WTO) finds that the G20 states applied 145 new trade-restrictive measures between October 2015 and May 2016, equating to an average of almost 21 measures per month. This is the highest monthly average registered since the beginning of the monitoring exercise.

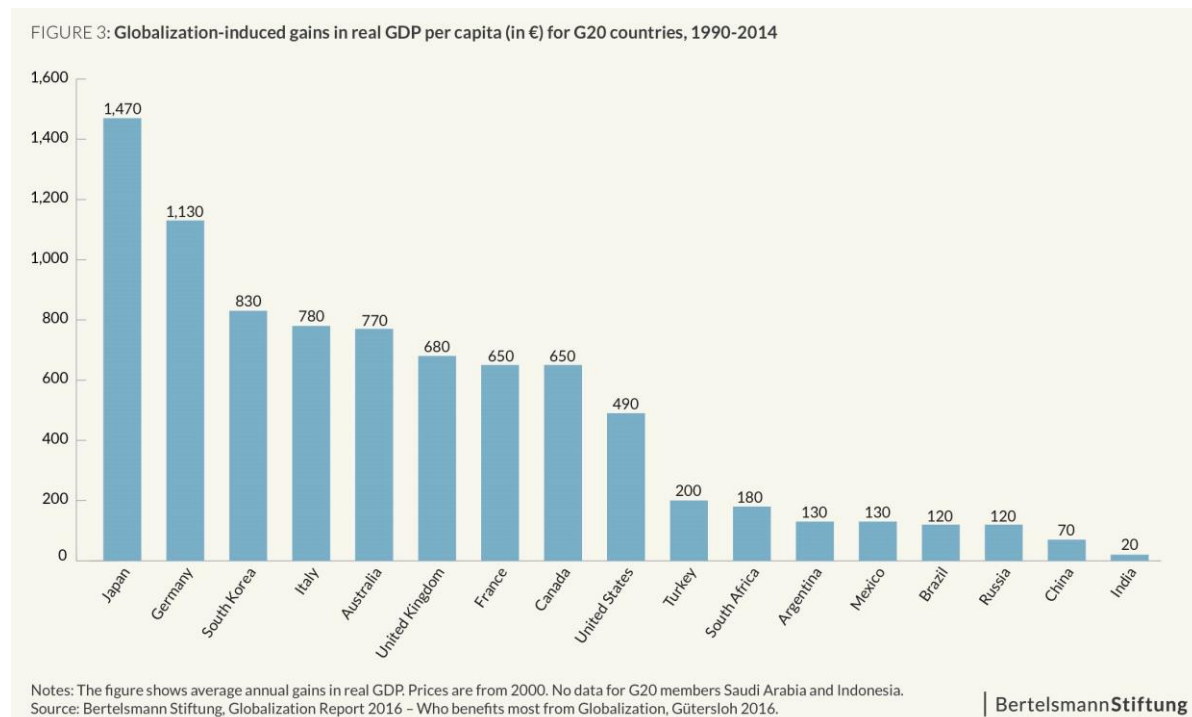
Isolationist politics on the rise

And there is further evidence of a sharp isolationist turn in industrialized countries. The decision taken in June 2016 by the United Kingdom to leave the European Union will most likely take the country out of the European Single Market. Europe's struggle to obtain approval for the CETA trade agreement with Canada in October suggests negotiations on further free trade agreements could prove to be arduous on the European side. And on the other side of the Atlantic, the new President-elect Donald Trump has vowed to open a new chapter for US economic relations. His staunch anti-trade stance bodes ill for the future of international trade agreements, both old and new.

Globalization creates growth

Almost all economists agree on the fact that economic, political and social interconnectedness between countries boosts economic growth. Cross-border trade enables countries to concentrate on the production of those goods and services that provide them with the greatest productivity benefits. The international mobility of labour and capital means that these production factors can be deployed wherever they will make the greatest contribution to economic value added. Last but not least, the intensification of trade between countries increases competitive pressure, and enhances productivity – and therefore also gross domestic product (GDP) – by means of technological advances. The Bertelsmann Stiftung recently showed the growth effects brought about by globalization. All 42 countries under investigation in the “Globalization Report 2016” increased their real GDP per capita

between 1990 and 2014. In absolute terms, the developed industrialized countries recorded the largest of those increases (see Fig. 3).



Distributing globalization gains more fairly

Even though increasing globalization boosts the growth of the national economies involved, not all citizens benefit from this in equal measure. In fact, globalization even produces losers within each country. The [OECD](#) has observed this development since the mid-1980s. The international division of labour plays an important role here: if labour-intensive countries specialise in the production of goods that require a large amount of labour, the demand for labour will decrease in developed national economies. This will cause employment and wages in those countries to decrease. This effect is [well documented](#) or the relationship between the USA and China, for example. Developed countries therefore have good reason to fear that the international division of labour is disadvantageous for them.

However, protectionism is not the right answer. Rather, it is important to distribute globalization gains more fairly within national economies. The tools used to achieve this end include the tax and transfer system and an active labour market policy. These are mainly in the hands of individual countries, but international fora like the G20 can also play an important role.

The G20 under German leadership: taking a stance against protectionism

In view of declining economic interconnectedness and clear signs of political isolation in many developed industrialized countries, the G20 needs to take greater action than before to ensure that its members refrain from employing protectionist measures and dismantle existing trade barriers. These tasks are primarily the responsibility of the WTO. However, the G20 can take an important political stance against protectionism, given that its members collectively account for 85 percent of global economic output, 80 percent of international trade and two thirds of the worldwide population.

Germany, which benefits more than average from globalization as long-time export world champion, will play an important agenda-setting role in its upcoming G20 presidency.

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