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The Hidden Threat to Globalization

Why the Developing World Is Turning Against Free Trade

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Globalization has lost its shine in wealthy countries, particularly among low-skilled workers. From 2002 to 2018, for instance, support for free trade fell significantly in Japan, the United States, and many European countries, driven largely by rising hostility toward free trade among the poor and working classes. Among low-skilled workers in Italy, opposition to free trade grew from nine percent to 28 percent during that period, and it more than tripled among the same group in France. Disapproval among this demographic more than doubled in Japan and in the United States, causing overall support for free trade to fall by more than ten percentage points in those countries. The rising opposition to free trade has fueled successful, inward-looking populist movements, most strikingly in the United Kingdom and the United States.

The reasons for the growing hostility vary, but the most politically potent charge is that globalization has hurt workers in rich countries in order to help those in poorer ones. Donald Trump, for example, won the U.S. presidency in 2016 in part by arguing that Americans were losing their jobs to workers in China, India, and Mexico—what he termed the "greatest job theft in the history of the world." Marine Le Pen, currently polling second in France's coming national election, declared during her 2017 campaign that trade with developing economies "has been devastating to the French and European industries" and has "led to the destruction of millions of European jobs."

It is true that trade agreements have generated economic opportunities in poor countries and have sometimes created pockets of economic loss within wealthy states in the process. But there is something ironic about Western populists' complaints that globalization has hurt their countries and helped poorer ones. If these leaders seriously examined how people in developing states felt about globalization, they would encounter a familiar situation. As we have illustrated in a new study, differences between support for globalization among high-skilled and low-skilled workers—and gaps in the optimism the two groups feel about their prospects for upward mobility—have grown in poor countries as well as rich ones. As a result, overall backing for economic integration is eroding.

What accounts for the decline in support for globalization and free trade even in countries that seem to have the most to gain from them? The answer is straightforward: even in the developing world, high-skilled employees have benefited disproportionately from globalization, whereas much of the working class has missed out. Although policymakers promised that trade and international investment would provide widespread upward mobility in developing countries, only a fraction of low-skilled workers have actually seen their earnings meaningfully increase, and the disparity between what these workers expected and what actually happened has generated growing disappointment. In some cases, it has bred outright resentment. So far, the anger has been most pronounced in wealthy countries, such as the United States. But if

globalization continues to disproportionately help the rich, the fierce backlash will inevitably spread to poorer states.

This is an outcome that all countries should work to avoid. Irrespective of what Trump, Le Pen, and other populists may claim, workers in rich economies have greatly benefited from globalized markets. By raising manufacturing employment and wages over the last eight decades, trade fueled the United States' rise to global hegemony in the first half of the last century and allowed European states to rebuild their economies after two world wars. And despite their failure to distribute wealth broadly, policies that favor trade and international investment are helping many poorer countries establish middle classes and build robust domestic economies. To keep this system in place, however, countries will have to make it more inclusive of low-skilled workers everywhere—and especially in developing states.

UNKEPT PROMISES

The global economic system was not designed with poor countries in mind. In the aftermath of decolonization, most newly independent states preferred protectionist policies to economic integration with the rest of the world. Following its independence in 1947, for instance, India raised tariffs and instituted capital restrictions to promote local production. Several countries in Latin America adopted import substitution industrialization policies in the 1960s and the 1970s, hoping that high tariffs and protectionism would create homegrown champions that could compete globally. In the 1970s, East Asia's then industrializing countries, such as South Korea, adopted similar measures under an export-oriented industrialization paradigm with more success, creating domestic powerhouses that spearheaded rapid, export-led growth.

The pressure to lower tariffs and open borders for Western capital, goods, and services came from Washington. Mired in debt and currency crises, developing countries had little choice but to ask the U.S.-dominated International Monetary Fund for financial assistance. Help did not come cheap. To get foreign investment, governments in developing countries had to swallow painful conditions, pledging to divest from public-sector enterprises; reduce government spending, especially on employment and social insurance; and allow in more international competition. India is a canonical case in point: a balance-of-payments crisis in 1991 forced the country to adopt harsh austerity measures in exchange for IMF funding.

To advance these difficult reforms, leaders cultivated support from poor and working-class citizens, who had been largely excluded from secure government employment and pensions. Globalization, policymakers promised, would mean more jobs, better wages, and greater consumer power for this silent majority. In 2001, responding to IMF demands, Indian Prime Minister Atal Bihari Vajpayee proposed labor reforms that he argued would make it easier for companies to lay off workers but would ultimately "protect Indian industries and businesses by enabling them to become more competitive, more profitable, grow faster, and, hence, employ more people both directly and indirectly." (The reforms never went through then, but some are being put in place passed now.) Nearly two decades later, Zimbabwean President Emmerson Mnangagwa echoed that claim while selling his own painful agreement. To help secure over $3 billion in foreign investment in early 2018, Mnangagwa enacted a variety of austerity measures, including cuts to fuel and electricity subsidies. Many residents protested, but the president pledged that the tradeoff would be worth it. "We want this country to move forward," he said. "We want jobs for our children."

Initially, globalization delivered on these promises. Fresh foreign funds in developing countries created relatively well-paying jobs for a younger generation. Factories, information technology offices, and call centers began opening across the developing world. And although not everyone gained right away, workers still trapped in poverty could reasonably dream that they would soon find better employment. In the meantime, they could enjoy foreign-branded consumer goods, which had become increasingly affordable and available in local stores.

But as time has passed, optimism has begun to fade. Support for free trade among the developing world's low-skilled workers remains high, but it is clearly decreasing. Among respondents in South Africa, for example, support dropped from 88 percent to 76 percent between 2002 and 2018. In Brazil, it went from 84 percent to 68 percent. And in Mexico, it fell by a sizable 20 percentage points—from 89 percent to 69 percent. Support also dropped in India, Pakistan, and other developing states.

The story behind this disillusionment will be familiar to anyone who has read about left-behind manufacturing towns in the United States. The mechanisms are different: the angst in "middle America" is for the factories that left, whereas in Brazil and Nigeria, it is for the factories that never arrived. But the process is the same. In both places, low-skilled workers have observed globalization without fully experiencing its gains. The longer this bait and switch persists, the more likely it is that protests will erupt, societal trust will drop, and frustrated citizens will elect opportunistic populists who offer protectionism as a panacea.

Indeed, there are already signs that developing countries are willing to restrict access to their markets. Poor states are acting aggressively to protect their digital interests; India, for example, is considering data localization laws that would force companies to store and process all data gained from Indians within the country. Multiple states are passing laws that require multinational companies to invest in domestic brick-and-mortar operations in exchange for access to their consumer markets. The political logic of such policies is obvious, but the economic logic is unsound. Barriers to the flow of capital, goods, and services across these borders ultimately undermine growth.

If developing states do pull back from the global economic order, it could have disastrous consequences. A withdrawal, for example, would make today's supply chain nightmares seem miniscule: without access to low-cost labor and materials, product prices would sharply increase, fueling worsening inflation. Decoupling the world's economies would also slow job growth by making it more difficult for businesses to expand their operations. This would, in turn, decrease productivity, hinder innovation, and lower overall economic growth in both rich and poor nations.

IF YOU CAN KEEP IT

Plenty of U.S. scholars and policymakers, especially those who closely followed Trump's rise, are well aware that an angry working class can threaten globalization's gains. To avoid drifting further into isolationism, many have argued that the United States must find new ways to share the upsides of trade with its low-skilled workers. Some Europeans have issued similar calls for their own countries. But to safeguard globalization, rich countries can't just take action at home. They must also make sure that trade and foreign investment help poor workers across the developing world.

In some instances, that will require developed countries to provide greater access to their markets. Protectionism in agriculture among rich countries, for instance, has long made it challenging for less-skilled workers in poorer states to move up the economic ladder. The same goes for protectionism in digital services and the intellectual property rights regimes in rich countries that lock in the advantages of U.S. and European pharmaceutical giants. Both are areas in which developing countries are becoming increasingly competitive, and rich countries could lift millions of people out of poverty at home and abroad if they did not prevent these sectors from experiencing healthy competition from lower-cost producers.

But policymakers in the "global South" also need to act. Many developing states have economic systems that do far too little to help their low-skilled workers, and their governments must make serious reforms. That means enacting and enforcing policies that bolster employee rights, penalizing companies when they violate environmental and social obligations, and making innovative investments in education and training so that workers can compete for better jobs—and, in so doing, enjoy larger shares of the benefits that come from foreign investment. Developing countries should also avoid protectionism, including by not walling off their economies to outside technology businesses. Digital technology and data will help drive economic growth during the next several decades, and developing countries should not be left out.

None of this will be easy. Global democratic backsliding means that an increasingly large number of politicians cannot be held publicly accountable, and many of the world's leaders are minimally interested in helping the poor. Many countries are controlled by elites who actively redistribute wealth upward to the powerful, including into their own pockets and those of their cronies. And even when policymakers have the right institutional incentives, asking countries to further open their markets is daunting in an era of nationalist backlash. Rich countries will especially struggle to expose their agricultural systems to international competition given the political power of the farm lobbies. Poor countries fear the wrath of small- and medium-sized enterprises threatened by foreign competition.

Yet today's international community has proved that it is capable of taking bold steps to counteract inequality. All 20 of the world's largest economies, for example, have now endorsed a minimum corporate tax—a once unthinkable act of policy coordination that shows how countries can work together to create a fairer society. States should make a similar effort across a range of other policy domains, especially worker protections. Policymakers could begin by requiring that firms receiving government contracts honor collective-bargaining rights throughout their supply chains.

Ultimately, the future of globalization may come down to whether leaders can recognize the stark consequences of failing in this fight and, hence, the necessity of action. Fixing globalization requires international collaboration. It demands that countries commit to difficult economic reforms and public investments even at the cost of vested domestic interests. Otherwise, decades of economic gains could melt away, as billions of the world's poorest citizens watch their patient dreams of prosperity evaporate.

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