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My Say: Widening distrust of globalisation could herald economic fragmentation

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It was the Ricardian theory of comparative advantage that provided the rationale for why nations should trade among themselves and how it can be beneficial to all. Steady growth in trade led to increased economic integration between countries and the resulting globalisation.

The post-war years, from 1945 onwards, saw extensive growth in cross-border movement of goods, services and capital. This peace dividend, which sustained over the next decades, received a major boost in the 1980s with the integration of China and the former Soviet bloc nations into the global trading system.

The subsequent formation of the World Trade Organization also helped further the globalisation process by establishing a framework of rules and norms. Over the years, despite the ebbs and flows, there is no disputing the many benefits that have accrued to the global community.

Globalisation enabled poorer countries to catch up and pull themselves up through export-oriented growth. As a result, at least a billion people have been estimated to have been pulled out of poverty. Nations became closely integrated as production became increasingly specialised in the name of economies of scale and cost efficiencies. As output efficiencies reduced product costs and increased affordability, the poorest segments benefited.

Further, as outsourcing of manufacturing and services from high cost to lower cost nations became necessary for competitiveness, skilled and semi-skilled labour in developing countries benefited. China became the world’s factory and India the provider of its backroom support systems. Despite these obvious benefits of globalisation, a recent International Monetary Fund (IMF) policy paper points at rising discontent and dysfunctional policies initiating a process in reverse thrust. The inflection point according to the paper was the post-global financial crisis period from 2009.

Strains were indeed building up as globalisation levelled the playing field in several sectors and realigned the benefits, often not evenly. But the real threat, though, appears to be from the zero-sum thinking that has crept into policymaking in key countries. Government-led industrial policy and protectionism — long accepted as failures and anathema to free markets — have resurfaced, especially among the main global actors like the US and China.

Hoping to seal its technological superiority over China, the US has announced a massive US$465 billion (RM2 trillion) subsidy programme for green energy, semiconductors and electric vehicles. But these subsidies and benefits will only be available for onshore domestic production that uses American inputs. Such insularity was in addition to the CHIPS Act, an overt attempt to control proprietary technology.

In a tit for tat, as the US blocks China’s access to advanced chips and chipmaking equipment, China reciprocates by blocking access to its battery and solar panel technologies. Variations of this zero-sum theme are also being played out by smaller players. India and South Korea have offered lucrative tax breaks and even outright pledges of government money for investing in chipmaking and ancillary facilities in their countries. Indonesia, with an eye on battery making, has banned nickel exports while Chile, Bolivia, Argentina and other Latin American nations are planning an Opec-style cartel for their lithium output.

This zero-sum thinking may have been aggravated by events surrounding the pandemic. The vaccine-hoarding attempts by rich countries, the supply chain disruptions post-pandemic and the Russian invasion of Ukraine laid bare many global vulnerabilities, particularly those associated with energy and food insecurity. Add to these the liberal recent use of sanctions and the weaponisation of the dollar by the US and there should be little surprise that the trust deficit with globalisation is widening.

The fear, as the IMF points out, is fragmentation of the global economy, possibly into several regional or rival blocks. Going by economic theory, the problem with such fragmentation is that it would be suboptimal. Trade theory postulates that the first-best solution is always an all-inclusive multilateral system that enables production to move to where it would be optimal to produce — that is, based on comparative advantage and the free movement of goods and services. Such optimisation maximises global welfare. Anything short of this will be suboptimal and imposes a loss on all.

As the big players engage in economic brinksmanship, the most vulnerable and biggest likely losers would be the small open economies of the developing world, especially of Asia. Countries like Malaysia, which have long been plugged into the globalisation game, have benefited from the needed specialisation, parts/component manufacturing in industry and investing in massive plantations to grow export commodities.

Years of such specialisation have meant that though successful, such economies have developed serious gaps and imbalances; for example, inattention to agriculture and food production. With globalisation and free trade, simply importing the needed foodstuff may have made sense as it would have been cheaper and possibly of better quality. But now, the threat to globalisation undermines sustainability in large portions of the developing world.

Should nations become inward-looking, it will be their poorest citizens who would be most affected. The addition to costs from having to produce previously imported products could be in the form of higher wages, lower production efficiencies and the need to overcome other impediments like sourcing for inputs. With higher product prices, affordability reduces, squeezing the poorest segments of society. The disinflationary impact of globalisation, which had benefited the world so much, could now be reversed.

Zero-sum thinking in economic policymaking is misguided if not delusional. It is premised on the hope that bureaucratic intervention can successfully deliver what private enterprise and free markets would not. Experience and empirical evidence provide little support for this thinking. Zero-sum policies cannot uplift nations and gains, if any, would be pyrrhic.

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