THE NEW REPUBLIC

The World is Bumpy

Deglobalization and its dangers.

Joshua Kurlantzick, The New Republic Published: Wednesday, July 15, 2009

On innumerable trips to Singapore over the past decade, I always made sure to stop by the Old Tanglin Officers' Mess, the city-state's version of the State Department. There, amid a street of gleaming colonial-style buildings and perfectly trimmed tropical foliage, the best diplomats in Asia--fluent English- speakers with a staggering command of regional politics and sharply tailored suits--would entertain me at the after-work bar. Sipping cold drinks, they would laughingly spin tales of how their tiny country, with some four-and-a-half million people, had outmaneuvered giant neighbors like Indonesia, winning this trade concession and that security deal with the United States or other big powers. By the end of the night, often quite late, I'd climb into my taxi, zoom off toward the glittering skyline, and marvel at how Singapore had built a modern nation out of a swamp in only 40 years.

There was much to marvel at. By embracing free trade and the global hunt for talent, Singapore had become an export powerhouse, building, among other things, one of the world's largest ports. It had accumulated foreign-currency reserves worth more than $170 billion, in a country that was essentially a swampy backwater at independence from Great Britain in 1963. It had fostered some of the most powerful companies in Asia, like aviation giant Singapore Airlines, probably one of the most efficient carriers in the world. It boasted a GDP per capita of more than $50,000, greater than all but four Western nations.

But now, Singapore has become a different type of example. As the financial crisis sweeps the globe, the city-state is facing the direst crisis in its history. In the first quarter of 2009, Singapore's economy plunged a staggering 20 percent--Great Depression-level numbers. At Singapore's port, the largest in the world by volume of goods shipped, freighters sit docked for weeks with no orders to move. The government's sovereign wealth fund this year admitted it has lost nearly 25 percent of its assets. Overall, the economy is expected to contract by more than 6.5 percent for the entire year, a downturn that would make the U.S. economy look like a party by comparison, and would make Singapore the worst-performing economy in Asia this year. And, though Singapore has been known for political stability, the downturn is starting to fluster even its normally secure rulers. On the Internet, the main forum for criticism of the government, Singaporean writers are lashing out, once a rare phenomenon.

Singapore is hardly unique. In the 1990s and early 2000s, nations around the world witnessed the sweep of globalization--the growing integration of economies, societies, and political systems--and the democratization of trade, migration, technology, and information. In many developing nations, governments threw their countries' agriculture, resources, and services open to global competition and slashed subsidies for their domestic producers to force them to compete in global markets. Many countries provided incentives for the poor to migrate from farms to cities, where they began to manufacture goods for export to the West.

Many economists believed this global integration had become so deeply rooted it could never be undone. They were wrong. As the global financial crisis deepens, the world is undergoing exactly the reverse of the 1990s--a wrenching period of deglobalization in which governments throw up new walls and the ties binding nations together rapidly unravel. Nations like the United States, Japan, and Germany may suffer, but they will survive, as will powerful developing nations like China or Brazil that have large cash reserves, diversified economies, and enough political clout to protect their industries. On the other hand, poor and trade-dependent countries that remade their whole economies to take advantage of globalization will be devastated. Having opened up, these nations are now highly vulnerable to global financial currents, without the cash on hand to weather the storm. Perhaps even worse, these financial shifts are likely to spark massive social unrest and could take down one government after the next. If you thought globalization was destabilizing, just wait to see what deglobalization will do.

After the end of the cold war, globalization transformed economic and political systems in many developing countries. International trade boomed with the opening up of the former Eastern Bloc, the

liberalization of China's economy, and the signing of numerous new trade deals like the North American Free Trade Agreement (NAFTA). The new round of global trade talks, launched in Doha in 2001, was named the "Doha Development Round," the word "development" highlighting the idea that trade benefited the poorest countries. As World Trade Organization (WTO) Director General Pascal Lamy said, through reforming the rules governing free trade, the richer nations would address the concerns of the poor, and "gains would accrue to developing countries, ... especially the least-developed countries amongst them."

Many poorer nations, which even through the 1980s had relied on high tariffs and subsidy programs to protect domestic farmers and manufacturers, threw open their economies. Across East Asia, developing countries like Cambodia and Bangladesh oriented their entire economies around exports, in particular creating garment sectors that sent cheap textiles to the West. According to the World Bank, by 2006, the garment sector accounted for the largest part of Cambodia's economy, making up some 80 percent of exports worth nearly $2.5 billion. Developing nations like India reduced the bureaucratic impediments to exporting and also made it easier for foreign investors to come in. African nations that once had subsidized agriculture began, on the advice of the World Bank, to privatize farming, forcing growers to compete on the global market and produce more crops for export. And many of these countries, from Pakistan to the Philippines, liberalized labor laws in the 1990s, making it easier for their citizens to leave and find jobs in the Persian Gulf, Hong Kong, and other rich regions.

Poorer developing nations benefited enormously from this integration. After suffering through genocide, Rwanda enthusiastically embraced globalization, positioning itself as a services and information technology hub for East Africa; during some years in the 1990s, Rwanda posted staggering growth rates, one year growing by 13 percent. In Thailand, GDP expanded by more than 8 percent per year throughout the early '90s, and, even after the late '90s Asian financial crisis dented the country's economic boom, younger urban Thais still enjoyed lives dramatically different from older generations. Overall, according to *The Economist*, "The gap between real GDP growth in emerging markets and in rich countries widened from nothing in 1991 to about five points in 2007."

Yet, for all their celebrating, the champions of globalization in the rich world failed in their most important task: ensuring that global integration became permanent. One missed opportunity was the Doha Round negotiations, which have made no progress over the last decade in lowering trade barriers to benefit poor countries. Each trade round, usually named for the city where the talks take place, involves a series of negotiations during which WTO members are supposed to agree on certain permanent reductions of trade barriers; after reaching a set goal, the countries end the round and start a new one. Previous rounds have been largely responsible for the growth in global trade, but the Doha Round, launched in 2001 in the capital of Qatar, was largely stalled by the protectionist demands of the richer and more powerful countries. "The Doha Round was supposed to help the world's poor, by lowering subsidies that keep Mali's cotton out of textile mills, tariffs that limit the flow of Cambodian t- shirts and other clothes to shelves," Edward Gresser of the Progressive Policy Institute noted in *YaleGlobal Online*. "The big countries had a chance to help the poor and flopped."

Compounding these problems, in most rich nations, pro-integration leaders failed to convince their publics of the benefits of globalization. In the 1990s, for example, the Clinton administration pushed a range of free-trade deals--most notably NAFTA--but failed to develop an effective program for assisting American workers made redundant by free trade. The Clinton team also failed to reassure isolationists on the leftor right--progressives, unions, members of Congress representing blue-collar districts, isolationist Republicans--that globalization and immigration would benefit average voters. And public opinion mattered: Anti-trade sentiment made it harder for White House officials to embrace the Doha Round and prompted Barack Obama, on the campaign trail, to argue that the United States should revisit several bilateral free-trade deals, including ones with South Korea and Colombia. In Europe in 2005, French and Dutch voters overwhelmingly rejected a proposed EU constitution, damaging the idea of greater political and economic integration, which is key to globalization. It was a p.r. problem that would stall permanent progress significantly.

The global financial crisis has only underscored these failures. With no new trade rules in place, wealthy governments are free to impose all sorts of restrictions. And so they have: As the Carnegie Endowment's Uri Dadush notes, 70 percent of trade measures enacted since November 2008 have restricted trade, threatening a tit-for-tat trade war that he believes could prove more destructive than the Great Depression. Here at home, both the Bush and Obama administrations eagerly jumped into deglobalization. As part of the massive stimulus package, Obama and Congress have instituted a "Buy American" clause designed to favor American-made goods in projects that receive stimulus money. On the continent, the EU has imposed new subsidies to protect their already-coddled farmers, while larger, wealthier developing

nations like China have instituted their own protections. The United States, European nations, and other developed economies have poured money into domestic industries, potentially violating trade rules in the process, and have used this support to pressure companies to relocate factories back from abroad.

It is hard to disentangle how much of the hit these poor countries are taking is due to the global recession and how much of it is due to a process of deglobalization, but it is clear that, in these economic times, the new ties that have bound poorer nations with the developed world will cause those nations to fall harder than they might have otherwise. In Cambodia, as many as 70,000 workers in the garment industry have lost their jobs, and exports fell by 35 percent in the first quarter of 2009. In Bangladesh, which is also heavily dependent on garment exports and remittances, deglobalization and the global recession are taking a similar toll. Poor nations that mainly export commodities will fare the worst. In Congo, a major producer of copper and diamonds, projected growth in the economy will fall by more than half in 2009, and at least 300,000 miners in Congo have lost their jobs in the past year. Overall, the United Nations now predicts that Africa, largely dependent on commodity exports, will grow by roughly 2 percent this year, a measly figure on a continent that needs high growth to stave off poverty.

The new protectionism by richer nations goes well beyond trade restrictions. Worried about jobs, wealthy governments that once welcomed migrants are shipping them back home, even when they are highly skilled workers filling a specific niche. Washington recently passed legislation incentivizing companies that get bank-bailout money to hire Americans. Saudi Arabia, Malaysia, and other wealthy nations have instructed domestic companies to fire foreign workers before firing natives. To be sure, this policy will hurt rich countries: Throwing out migrants will all but ensure a decline in innovation and entrepreneurship. (Foreign-born entrepreneurs started roughly half of all new companies in Silicon Valley between the mid-1990s and the mid-2000s.) Still, most Western nations, and larger developing countries like China, will be able to compensate with domestic workers and entrepreneurs. In poor and trade-dependent countries, however, the global rejection of migrant workers will prove far more destructive. Migrant workers returning home will deprive poor countries of remittance income. In countries like Bangladesh or the Philippines, both known for sending skilled workers abroad, remittances account for one of the largest sources of foreign exchange. Across Latin America, remittances have fallen 13 percent during the first few months of 2009. Overall, according to a study by the World Bank, the fall in remittances this year will cost poor nations some $15 billion in income.

Poorer nations, too, will be the first to suffer as investors panicked by the crisis avoid riskier emerging markets, many of which already have required IMF and World Bank bailouts. The World Bank projects that net private capital inflows into developing nations will have dropped by two-thirds between 2007 and 2009. The Bank found that the Democratic Republic of the Congo estimates it will lose $1.8 billion in investment because of the crisis, a huge figure in one of the poorer nations in the world. Unable to find investors, many poor nations might have to cut critical social welfare programs; the World Bank estimates that, because of the crisis, as many as 700,000 more African infants could die before reaching their first birthdays.

Poor countries also may not be able to rely on foreign aid. Many major donors, like France and Italy, already have declared that they will cut back their aid programs, citing the global financial crisis. In an analysis of the crisis, the U.N. Conference on Trade and Development recently predicted a sharp drop in global aid flows. According to the *Financial Times*, the World Food Program has quietly begun cutting food-aid disbursements to poor nations because of cuts in funding from donor countries, and the newspaper found "reduced emergency food aid rations in Rwanda, for example, from 420 grams of cereals to 320 grams of cereals per person"--enough to possibly spark new waves of hunger.

As aid flows from the rich world fall, food prices will skyrocket because of new agricultural barriers imposed by richer nations, and economic growth will falter. Indeed, the U.N. Food and Agriculture Organization recently warned that local food prices are increasing rapidly in poor nations, putting staple foods beyond the reach of average people. In February, when I visited Malawi, one of the poorest nations on earth, I found average people terrified that their government has no recourse in the global economic downturn. As deglobalization has gathered pace, Malawi has found it harder and harder to export tea, tobacco, and coffee, its major commodities and earners of hard currency. Yet, at the same time, the price of Malawi's major imports has shot up, due to trade barriers and food scarcity. Over the past year, the price of rice in Malawi has doubled. "Everyone is scared, looking forward to a hungry season," one aid official who works with farmers told me.

This was not how globalization was supposed to work. During the heady days of integration, developed nations accompanied globalization with promises of increased aid, capped by pledges, at the 2005 summit of the G-8 industrialized nations, of some $50 billion in aid to Africa designed to help integrate the continent into the world economy. "It is the vision of the World Bank Group to contribute to an inclusive

and sustainable globalization," World Bank president Robert Zoellick said in a speech in 2007. Alas, no. Instead of integration lifting all boats, deglobalization is falling hardest on the poor, which had adapted most radically to the promises of globalization to begin with.

Even if they survive the economic shock, many poor countries' governments will not survive the political fallout of deglobalization. In places like Africa, or poorer parts of Latin America and Asia, economic slowdowns spark rioting and other types of unrest more quickly than they would in wealthier societies. In Haiti, for example, economic contraction in 2008, combined with a rise in food prices, led to violent riots across the country that toppled the prime minister. Overall, food price increases last year sparked violent unrest in 30 countries. On the sidelines of the recent meeting of G-8 ministers of agriculture, Agriculture Secretary Tom Vilsack told the *Financial Times* that, unless wealthy nations quickly address food output and new barriers to food exports, the world will face even greater turmoil. Laid-off migrants, meanwhile, could come home jobless and angry. In Haiti, Anne Hastings, head of a large microcredit institution in the country, told *The Washington Post* that the economic crisis and its effects could spark more violence in the country. "Everyone thinks we're going to explode any day now," she said. In poor, frontline terrorist battlegrounds like Pakistan and Yemen, both of which depend on remittances from migrant laborers working in the Persian Gulf, deglobalization could send home thousands of newly unemployed young men, offering a ready stream of recruits to Islamist organizations, which are well- known in those countries for providing food, health care, and other social welfare. Worried, the World Bank recently proposed a $500 million loan to Pakistan to help keep it relatively stable.

Unfortunately, the rich world may not be able or willing to expend the resources to stabilize some of the poor countries hardest hit by deglobalization, leaving the changes to become permanent. Many trade experts believe the Doha Round of negotiations can never be revived, striking a major blow to the promise that rich nations would slash barriers to benefit the poor. In addition, because the Doha Round was supposed to finally liberalize trade in agriculture, its failure will fall hardest on poor farmers in places like Africa that had hoped to be exporting to the West. As WTO head Pascal Lamy admitted back in 2006, in a report to the organization's leadership, "It is now obvious that the cost of failure [of the Doha Round], and the missed opportunity to rebalance the trading system, would hurt developing countries more than others."

Worse, even after the global financial crisis eases, rich countries are unlikely to throw their borders open to migration again, since doing so has become so unpopular in many wealthy nations. In the most recent elections for the European Parliament, far-right, anti-immigrant parties delivered surprisingly strong showings in nations from Britain to Hungary; an attempt by a British company to hire workers from Portugal and other European nations sparked protests in the United Kingdom. As Senator Charles Grassley summed up the sentiment, "There is no need for companies to hire foreign workers ... when there are plenty of qualified Americans looking for jobs."

Yet the poor cannot turn on a dime. Once they've liberalized their agricultural sectors, handing the market over to private traders, it proves very difficult for the government to go back to subsidies. Malawi has enjoyed some success with the strategy, but few of its neighbors have been able to copy it. And, once they have created an export pipeline of migrant workers, the domestic job market adapts, leaving no work for those migrants when they come home. When I visited the Philippines, prominent academic Federico Macaranas, who runs a think tank at one of the leading business schools, told me that, without emigration sopping up pools of workers, the country's unemployment rate would skyrocket.

Developing nations also can't just wait out this era of deglobalization, which will be with us for a long time. As history shows, barriers erected don't come down quickly. It took more than ten years to produce NAFTA, and the project of integrating Europe lasted decades before the EU's currency union was created. And, while they wait, countries like Singapore have only one direction to go--back to the swamp, or worse.

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CLOSE WINDOW

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