A Introduction

The ideas that shaped today's globalized world were a response to the disastrous deglobalized world of the first half of the 20th century. Having seen how a closed and divided world economy contributed to economic depression, conflict and ultimately the Second World War, the post-war architects resolved to build an open and integrated world economy instead. Freer trade would deliver shared growth and development. Economic interdependence would give countries a stake in each other's success. International rules and institutions would promote stability, trust and collaboration. The antidote to zero-sum economic nationalism was positive-sum global economic cooperation.

"Globalization" – and the unprecedented era of global prosperity and progress it has delivered – is the realization of that post-war vision. But the very success of globalization has given rise to new challenges – environmental strains, increased inequality, seismic shifts in global power – that are fuelling counter-pressures to reverse globalization, unwind interdependence and return to a more divided world of regional blocs.

This year's World Trade Report asks whether fragmentation would make the world more secure, equal or sustainable. It argues that the opposite is true – that fragmentation would leave economies less prosperous, less innovative, less resilient, and less willing and well-equipped to cooperate on the social, environmental, and security challenges they face. The Report concludes that solving today's challenges actually requires more global openness, integration and cooperation, not less – which in turn depends on reforming the international trade and economic system. Instead of fragmentation, with all the costs and dangers this would entail, the goal should be re-globalization.

Globalization under strain

Globalization dominates the modern era, but it is a fragile dominance. Global integration has helped to drive extraordinary economic progress – unprecedented growth, widening circles of development, dizzying technological advances, the lifting of hundreds of millions of people out of extreme poverty. But it has also generated new challenges – environmental spillovers, economic disruption and dislocation, and the diffusion, shift and realignment and rebalancing of global power. Even as economic and technological forces are pushing the world together, policy differences and geopolitical tensions risk pulling it apart.

An integrated global economy fundamentally requires global cooperation, mutual trust and shared purpose to sustain it. And for over 70 years, ever wider and deeper global economic convergence was the driving logic of world affairs. But as economies struggle to tackle the new challenges thrown up by globalization, there are growing pressures to slow or reverse integration, to unwind interdependence and to retreat into a more divided and fragmented world.

This is not the first time that globalization has faced a crisis. Two centuries ago, the world embarked on the first age of globalization. Like today, new technologies – such as steamships, railways and telegraphs – linked far-flung economies together. Also like today, goods, capital and people spread rapidly around the globe, spurred by bilateral tariff-cutting agreements, a worldwide shift to the gold standard, more openness to migration, and Britain's role, as the dominant economic power, in upholding free trade and financial stability. The result was a world increasingly linked together by trade, investment and communications – and the rise of the first truly open world economy.

It was a time of great economic advance – the so-called "Age of Progress" – but also of rising policy and geopolitical tensions. Emerging economies flooded the industrialized world with cheaper products, especially agricultural goods, which helped to drive down the cost of living, especially for the poor, but which also threatening livelihoods and created pressure to raise tariffs in order to protect vulnerable sectors. The rise of new economic powers – benefiting from the globalization of technologies, production and markets – began to alter the geopolitical landscape, making the old powers uneasy, prompting an arms race, and leading to new defensive alliances.

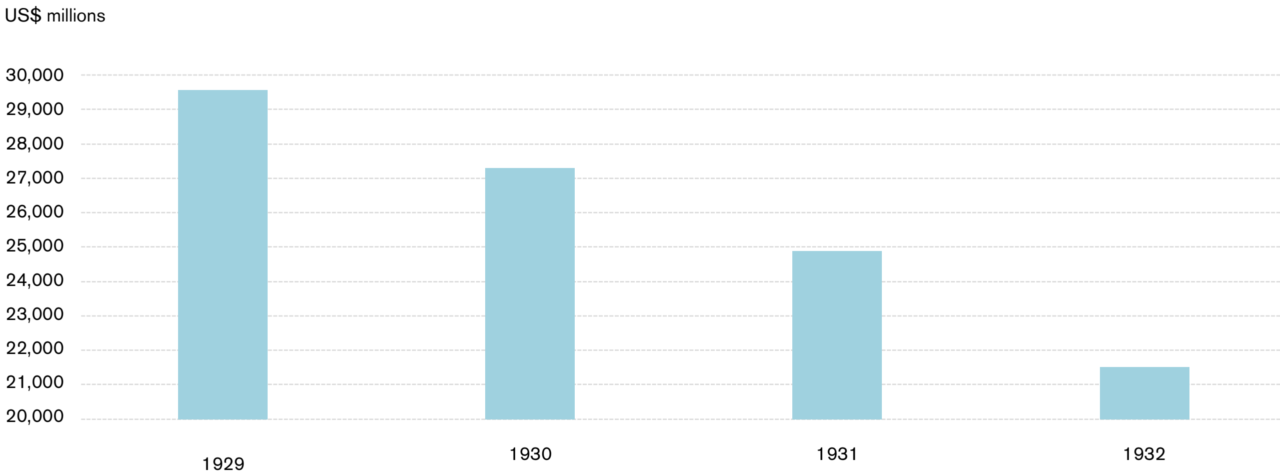
Yet despite rising geopolitical tensions, many still assumed that this first age of globalization was unstoppable and irreversible. In his 1910 best-selling book, *The Great Illusion*, Norman Angell argued that deepening economic interdependence among the great powers would make war so destructive as to be impossible (Angell, 2016). The outbreak of the First World War – just four years later – proved him right about war's destructive power but wrong about its impossibility.

What went wrong? While many factors triggered the First World War, an overarching cause was the failure of the international system to adopt to rapid technological, industrial and geoeconomic change, leading to the disintegration of trust among the great powers, growing geopolitical rivalry and the break-down of international cooperation.

Disastrous deglobalization

The outbreak of the First World War in 1914 marked the end of the first age of globalization and the start of three decades of deglobalization. Open trade rapidly gave way to

Figure 1: The great collapse of world trade, 1929-32



Source: Federico and Tena Junguito (2018a).
Note: Based on the time series "Full sample, Constant prices, current borders (millions of 1913 US$), Imports, World".

border restrictions, quotas and controls; the gold standard collapsed; and Europe, the former centre of the world economy, was left devastated and exhausted. After the war, the major economies made episodic, half-hearted efforts to rebuild an open world economy until the arrival of the Great Depression in 1929 swept away whatever willingness they had to work together. Economies turned inward, trade and currency wars escalated, and the world economy fractured into rival and inward-looking regional blocs. Between 1929 and 1932 the volume of world trade plummeted by almost one third – with results that were collectively, and individually, disastrous (see Figure 1).

In his seminal work, *The World in Depression*, Charles Kindleberger argued that the root problem lay in the inability of economies to achieve cooperative action, their growing pessimism that collective solutions were even possible, and their resulting decision to defend their own national industries, jobs and markets, regardless of the adverse impact on others – thus triggering a downward spiral of protectionism, beggar-thy-neighbour currency devaluations and zero-sum economic nationalism. As Kindleberger put it: "When every country turned to protect its national private interest, the world public interest went down the drain, and with it the private interests of all" (Kindleberger, 1986). This failure to cooperate across a range of issues – and the economic insecurity, conflict, and depression that resulted – helped pave the way for the outbreak of the Second World War, the last and most devastating chapter in the world's deglobalization phase.

Rebuilding globalization

After the devastation of the Second World War, countries embarked on a second age of globalization. But this time, globalization was to be built on new ideas, values and institutions. Central to this effort was the leadership of the United States, the dominant economic power. If American isolationism had been a major cause of the international system's weakness and instability between the wars, the United States now resolved to play the opposite role, having learned the hard way that its national economic interest was bound up with the global economic interest. Not only did the United States have the resources and leverage to underwrite a new global economic system, but, together with its allies, it had developed clear ideas about the kind of system that was needed, based on the "lessons" from the recent past.

First, the system would be open, inclusive, and multilateral – and discourage the re-emergence of protectionist and inward-looking regional blocs that had done so much to fuel instability and resentment between the world wars. Second, it would be based on rules, not power, to avoid the economic anarchy, insecurity and beggar-thy-neighbour rivalries of the interwar period. Third, it would balance the need for global economic integration with the need for domestic employment policies and social safety nets – on the assumption, again learned from past mistakes, that open trade and integration would be supported domestically only if its benefits and costs were more evenly shared. Fourth, it would be backed by new international economic organizations – the International Monetary Fund (IMF), the World Bank and the General Agreement on Tariffs and Trade (GATT) (after plans for an International Trade Organization were aborted) – explicitly mandated to support open world trade and to foster the confidence-building and cooperative outcomes that had been lacking in the 1920s and 1930s. And finally, this new international economic order would be anchored in a new international security order, the United Nations, ensuring that global prosperity and peace went hand in hand.

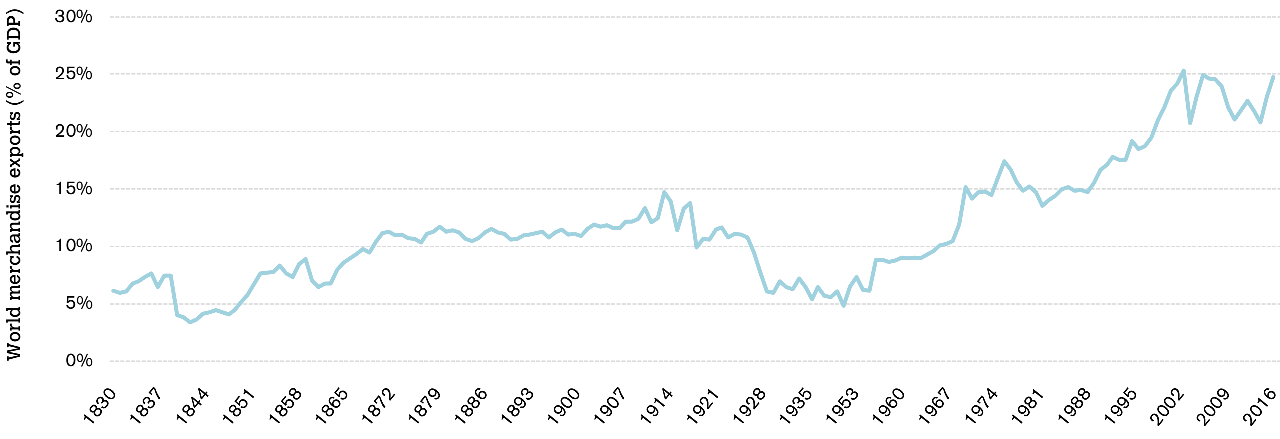
Indeed the most striking feature of this post-war system was the core assumption that advancing global growth, development and progress – creating a future where the whole world could share in prosperity – was the essential precondition of lasting peace. As former US President Roosevelt said near the end of the war, "We cannot succeed in building a peaceful world unless we build an economically healthy world".[1] Although the word "globalization" did not exist in 1945, it accurately captures the kind of open, interdependent, "one-world" economy the post-war architects were trying to build.

This global economic vision has proven extraordinarily successful. Over the last 70 years, the world economy has grown a remarkable 14-fold and world trade has expanded an even more astonishing 45-fold (see Figure 2), underscoring how global integration and global growth have gone hand-in-hand. The rapid rise of the developing world is a large part of this story, especially after large emerging economies increasingly opened up and embraced global integration in the 1980s: since then, developing economies' share of world merchandise trade has grown from under a third to almost half, while their share of world output has risen from 24 per cent to over 43 per cent.

China is the most striking example. It is now the world's largest exporter; 40 years ago, it ranked 32nd. Representing a fifth of humanity, China has grown at an average of 9.1 per cent a year for the past four decades, translating into unprecedented 38-fold expansion of its economy, although progress has recently slowed. India, with an even bigger share of the global population, has grown at an average of 6.1 per cent a year – and is currently the fastest growing major economy in the world. While these and other rapidly emerging economies may have captured the most attention in recent years, advanced economies have been expanding and progressing as well. Between 1980 and today, the G7 economies (i.e., Canada, the European Union, France, Germany, Italy, Japan, the United Kingdom and the United States) collectively have grown two and a half times.

Widening and deepening global economic growth is not the only condition for development, but it is a necessary condition – which explains why the modern globalization era has also been marked by unprecedented advances in

Figure 2: The rise and fall and rise again of global economic integration, 1830-2020



Source: Federico and Tena Junguito (2018b) and World Bank World Development Indicators.
Notes: Data until 1959 based on the time series "Full sample, Current prices, Exports/GDP, World" in Federico and Tena Junguito (2018b); Data since 1960 based on time series "Merchandise exports (% of GDP)" in the World Bank's World Development Indicators; data missing for 1939-49.

health, education, gender equality and poverty reduction. Since 1950, average life expectancy has risen by more than a third, from 45 years to over 73 today – and life expectancy has increased across every economy in the world. Today 88 per cent of the world's population is literate, compared to only 42 per cent in 1960. The share of the global population living in extreme poverty has decreased from 80 per cent in 1960 to less than 10 per cent today (World Bank, 2021) – and in the last three decades alone, 1.5 billion people have been lifted out of extreme poverty. This sharp downward trend in world poverty is even more remarkable considering that the global population has increased three-fold over the same period.

None of this would have been possible without globalization – and the unprecedented expansion of economic growth and technological progress it has helped drive forward.

Solutions can create new challenges

But the success of globalization has also given rise to new challenges.

A central challenge is the environment. Rapid economic growth, underpinned by deepening global integration, has resulted in more production, more consumption, and rising living standards for a fast-expanding global population. But economic growth and material progress are also placing unsustainable strains on the global environment, resulting in rising levels of greenhouse gas emissions, rapid biodiversity loss, the over-exploitation of natural resources and the spread of air, land and water pollution. The fact that these environmental challenges are largely the by-product of extraordinary economic progress and development over the past seven decades does not alter the fact that they require immediate solutions, not least to ensure that continued global economic progress, development and poverty reduction are not derailed or worse.

Another major challenge is inequality. Although globalization has helped to reduce inequality between economies – as many fast-growing emerging economies catch up and converge with advanced economies – it has also contributed to increasing inequality within economies. The same forces that drive global economic progress – specialization, competition, innovation, producing more and better with less – also create winners and losers, as new industries requiring new skills in new parts of the world flourish, even as older industries employing outdated skills struggle, shrink or disappear (Autor, Dorn and Hansen, 2013; 2016; Rodrick, 2018).

The fact that the global economy overall has benefited enormously from trade and technology-driven change, that this process has produced more winners than losers, and that many economies have successfully used domestic policy to cushion or mitigate the negative distributional impacts of economic change, does not alter the reality that some individuals, groups and even whole regions risk feeling left behind or "rejected" by globalization.

Complicating efforts to address these global challenges is the diffusion and realignment of geopolitical power. Globalization has helped to turbo-charge development and fuel the emergence of powerful new economic actors. But the "rise of the rest", as Fareed Zakaria describes this process, is also disrupting the old international order and shifting the global balance of power, unleashing enormous geopolitical and geo-economic shockwaves (Zakaria, 2009). Advanced economies remain key players, but they are no longer dominant. Fast-emerging economies in Asia, Africa and South America play a role in the system that was unimaginable just 20 years ago – while even smaller economies want a greater say in a system in which they have a greater interest.

For older powers, accustomed to playing the leading role, having to share the global stage with new actors can be unfamiliar, even unsettling. Their "inside order", as John Ikenberry puts it, has suddenly become the "outside order" (Ikenberry, 2018). Conversely, for many newer powers – previously on side-lines of global high politics – having to assume shared leadership of a system in which they now have a major stake can be just as unfamiliar and challenging.

This is occurring at the same time that globalization is reducing barriers, shrinking distances and pushing different economies, cultures and political regimes more closely together – which can, in turn, increase systemic tensions and make reaching policy consensus more difficult. Subjects that were once domestic – such as banking regulations, taxation or health policies – now have global spillovers. Transborder issues that were never considered when the system was first designed – such as climate change, data flows or artificial intelligence – now demand coordinated global solutions. This new multipolar world is more inclusive and equitable than the old bipolar or unipolar one; but it is also more complex and harder to coordinate.

Meanwhile, a series of shocks over the last decade and a half – the 2008-09 global financial crisis, the COVID-19 pandemic, and now the war in Ukraine – has raised concerns about how dependent countries have become on each other for critical supplies, resources, energy and technologies; how distant disruptions can now reverberate and amplify along complex and integrated supply chains; and how interconnectivity and interdependence seem to make countries less self-sufficient, more vulnerable to external shocks, and too exposed to a turbulent world economy. Growing geopolitical conflicts – highlighted by the war in Ukraine and rising United States-China tensions – are only amplifying these concerns about over-dependency on foreign suppliers and waning national self-sufficiency. (Irwin, 2020; Evenett, 2022).

These tensions are in turn straining what is arguably the most critical link holding today's globalized world together: trust. If global prosperity rests on interdependence, then interdependence rests on mutual trust and shared purpose – the willingness of countries to lower barriers to each other, to rely on one another for critical supplies and technologies, and to work with rather than against each other to deliver win-win economic outcomes.

If global cooperation is proving more difficult in recent years, it is in no small part because the foundation of mutual trust is being eroded by mistrust and suspicion – between East and West as well as North and South.

Back to the future?

In the face of these challenges, alternative narratives about globalization have emerged (Roberts and Lamp, 2021). Instead of making economies stronger and more dynamic, some now claim that globalization makes economies weaker and more vulnerable by prioritizing efficiency over resilience – "just in time" over "just in case" – and by exposing them to excessive risks and unreliable foreign suppliers (Posen, 2020). Instead of generating the resources, investments and technologies needed to address key global challenges, such as poverty, inequality and climate change, some blame globalization for eroding countries' economic strength, hollowing out their industries, and allowing others to copy or steal their technologies (Bijimakers, 2013; Hinshir, 2021; Shih, 2022). Rather than being a way of helping to build global peace through growing prosperity and mutual interdependence, some claim that globalization makes the world less secure by empowering strategic rivals and strengthening authoritarian regimes.

According to this line of thinking, globalization is no longer part of the solution but part of the problem – and the aim should be to slow or reverse global integration, to unwind interdependence, and to return to a more divided, deglobalized world. Ideas that had been discredited after the "mistakes" of the 1930s are now coming back into vogue (WTO, 2020a). There are growing calls to near-shore or friend-shore supply chains – or even to divide the world economy into self-sufficient regional trade blocs and economic spheres of influence, with cooperation limited to smaller groups of "friendly" and "like-minded" countries. There is also growing support for state-directed industrial strategies, subsidies, import-substituting tariffs, and export and investment restrictions – all aimed at increasing economic resilience, building national self-sufficiency, bringing manufacturing jobs back home and "de-risking" geo-economic relations (Wise and Loeys, 2023).

But a process of deglobalization will not solve the major challenges facing economies today – in fact, it will make them worse and more intractable. Deglobalization would leave the world economy poorer, less efficient, less innovative and more resource-constrained, thus reducing economies' ability to advance their social, environmental or security priorities – from strengthening social safety nets, to transitioning to clean technologies, to investing in the education, research and development and infrastructure that are now the key building blocks of economic competitiveness, technological leadership and national security and strength. Because many of the gains from globalization are the result of economies specializing in what they do best, these gains would be reversed if economies focus instead on increasing self-sufficiency and reducing dependency on more efficient producers. Unwinding global openness and integration would also limit competition, technological diffusion and the exchange of ideas that are critical drivers of innovation. The WTO estimates that the cost of splitting the world trade system into separate trade blocs would be about 5 per cent of real income at the global level, with some developing economies facing double-digit losses.

Moreover, these numbers do not capture how fragmentation would limit access to key resources and technologies on which all economies now depend, leaving them less, not more, resilient and secure. This is especially true in advanced sectors, where not even the largest economies have all the essential components, sophisticated materials and technological know-how needed to be self-sufficient. For example, the Democratic Republic of Congo accounts for 73 per cent of the world's cobalt production; South Africa produces 70 per cent of the world's platinum; and China produces over 80 per cent of the world's solar panels and 60 per cent of wind turbines and electric car batteries – resources and technologies that all economies will need in order to shift to clean energy and achieve their greenhouse gases emissions targets (White, 2023). The answer to national economic resilience and strength in today's highly complex, deeply interdependent global economy lies in expanding and diversifying trade, not restricting or reshoring it.

A bigger danger is that attempts to reverse globalization and rebuild economic walls could descend into a vicious circle of tit-for-tat retaliation, beggar-thy-neighbour protectionism, escalating economic conflict and the unravelling of a rules-based trading system – making it harder for the world to cooperate, not just on economic matters, but on the urgent environmental, social and security issues it confronts. As was the case in the 1930s, declining global trust and rising insecurity could force economies to assert their own national interests, even at the expense of their collective interests, with the result that everyone is worse off. If globalization rested fundamentally on "positive sum" economic cooperation, deglobalization reflects – and reinforces – "zero-sum" economic nationalism and rivalry.

Paradoxically, the answer to the challenges posed by globalization is more globalization, not less – a more open, integrated and diversified global economy, deeper cooperation among governments, improved coordination across policies and issues, a stronger, more inclusive, more effective and modern international trade and economic system. Instead of deglobalization, there is a pressing need for re-globalization.

Re-globalization

This year's *World Trade Report* looks at the current debate surrounding globalization and the world trading system underpinning it. It focuses on three major challenges facing today's global economic order – security and resilience, poverty and inclusiveness, and environmental sustainability – and asks whether global integration or fragmentation offers a better way forward. It also considers whether the solution to today's challenges is a process of re-globalization that reforms, improves and updates the current international trade and economic system.

Chapter B explores how growing scepticism about the benefits of open trade, economic interdependence and globalization are shaping the trade policy landscape. It underlines that trade and the multilateral trading system have so far proven resilient despite an increasingly challenging policy environment. For example, world merchandise trade has continued to grow, though not at the pace seen before 2008, while services and especially digital trade are expanding at a much faster pace than goods trade. However, this chapter also observes that global trade cooperation faces growing headwinds and that the long-term trend towards increasing trade liberalization and deepening integration appears to have slowed or stalled, especially compared to the major trade opening initiatives of the 1990s. The chapter also examines the evidence of the first signs of fractures in the global trading system, highlighting the increasing risk of trade friction, conflict and protectionism.

Chapter C examines the relationship between globalization and economic resilience and security. It argues that an integrated global economy can strengthen national economic resilience and security because it opens up alternative sources of supply, encourages adaptability and reduces dependence on single markets. Conversely, reshoring or friend-shoring supply chains could have the opposite effect, making supply chains more fragile by cutting off global options. More broadly, this chapter also argues that the multilateral trading system is itself a source of global security because it promotes dialogue, improves understanding, and encourages economies to rely on rules, rather than power, to resolve conflicts. While this chapter acknowledges that global trade cannot end conflict, it suggests that the world would be even more fractious without it. Indeed, this chapter argues that strengthening resilience and security hinges on diversifying global trade relations, rather than limiting them, and on increasing global economic cooperation, rather than reducing it.

Chapter D examines the impact of globalization on poverty and inequality. It notes that more open trade and deeper integration, underpinned by the rules-based multilateral trading system, have helped to reduce poverty and drive an historic convergence of income levels across economies, resulting in a more inclusive global economy. While trade can contribute to widening inequality within economies, as people and firms may benefit more or less from economic specialization and change, trade is also critical to driving increasing growth overall, without which governments cannot provide training, adjustment assistance or income redistribution. It follows from this that complementary domestic policies have a critical role to play in ensuring that the benefits of trade are shared broadly within economies, and that no one is left behind. Conversely, economic fragmentation would weaken the trade engine that is driving higher living standards, reduced poverty and economic convergence globally, and it would further disadvantage poorer citizens in all economies.

Chapter E looks at the relationship between globalization and efforts to address environmental sustainability. It argues that expanding trade and integration can help drive the needed shift towards environmentally sustainable economic activities and away from polluting ones by increasing global access to critical green goods, services and technologies. Through the logic of comparative advantage, expanding trade and integration can also lead to a greener distribution of global production and trade, provided that the right environmental policies are put in place. Green growth and development opportunities could also be boosted by means of expanded trade in clean energy, raw materials and green goods. Conversely, economic fragmentation would impede the transition towards environmentally sustainable economic activities, undermine the operation of green comparative advantages, and hold back growth opportunities favourable to environmental sustainability, especially for developing economies. This chapter argues that re-globalization, by increasing cooperation, trade openness and trade diversification, is a key part of the answer to the current environmental crisis.

Throughout this report, repeated reference is made to two key terms: re-globalization and fragmentation. These terms describe two alternative scenarios for the future of globalization.

Fragmentation describes the turning away from the cooperative approach embedded in the current multilateral trading system towards more local and bloc-based trade and unilateral policies. It is characterized by increased trade restrictions and deviations from commitments to international agreements. Examples include broad trade restrictions on subsets of economies or unilateral policies that do not account for spillovers and externalities on other economies.

Re-globalization, in contrast, describes an approach that extends trade integration to more people, more economies and more issues. It is an approach that places international cooperation at its centre and recognizes that global problems require global solutions. However, re-globalization is not simply more globalization. Rather, it calls for a reform of the multilateral trading system to ensure that the principles of secure, inclusive and sustainable trade are respected. Re-globalization encompasses the reduction of trade barriers for those that have remained at the margins of the trading system, from least-developed economies to workers in the industrial heartlands of advanced economies. Thereby, re-globalization advances resilience through diversification, inclusiveness through development, and sustainability through knowledge diffusion. This includes strengthening cooperation and coherence with other multilateral fora and across issues. And through all these advances, re-globalization unlocks trade's potential to drive solutions to key challenges of today.

Endnote

1. Message to Congress on the Trade Agreements Act of 26 March 1945, retrieved from https://www.presidency.ucsb.edu/documents/message-congress-the-trade-agreements-act.