



OPINION PIECE

The Future of Global Trade

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The future of trade has been debated since trade growth slowed in the aftermath of the financial crisis of 2008-09. To this day, data on trade and capital flows do not support a “de-globalization” thesis. Yet profound changes in the policy environment during the past three years suggest the beginning of a new era.

To dismiss these changes as inconsequential is tantamount to saying that policy does not matter. But policy does matter – if not immediately, then certainly in the long run. The explosive growth of trade in the 1990s and 2000s would not have been possible without the trade liberalization wave that swept the world in those decades, and the bolstering of multilateralism. And as some of the world’s largest economies are turning inward, distancing themselves from the principles of multilateralism, the future of trade is becoming uncertain.

Of course, this is not the first time in history that protectionism has taken hold. Typically, protectionism is the result of domestic lobbying efforts, an attempt to protect the interests of some groups (be they low-skill workers threatened by import competition from low-wage countries or specific firms/industries) at the expense of the average consumer. This time however, it was not the private sector that demanded protection. Instead, the change happened top-down, as governments decided to prioritize national security over economic welfare.

Economic historians will likely debate the true causes of the recent shift in the political landscape for years to come. In some advanced economies, government policy and public sentiment towards globalization began to change around 2015, with increasing concerns about the labour market impacts of imports and immigration from low-wage countries. But these developments were not enough to reverse decades-old globalization trends. The COVID-19 pandemic raised questions about the fragility of global supply chains and generated demands to “reshore” production domestically.

Nevertheless, despite claims to the contrary, trade enhanced economies’ resilience to the pandemic. After

a temporary decline in 2020, trade increased sharply. Neither the so-called “China shock” nor the COVID-19 pandemic put a halt to the growth of global trade. It was not until the outbreak of war in Ukraine in February 2022, which exposed Europe’s dependence on Russia for energy, that demands for reshoring and “friend-shoring” in the name of national security led to drastic policy changes, most prominently the United States’ sweeping restrictions on semiconductor exports to China introduced in October 2022.

Is the demand for “resilience” to geopolitical risk the true cause of the recent developments? Or was the outbreak of war in Ukraine a trigger for a policy change that was inevitable, given the challenges that China, and perhaps certain emerging economies in the future, present to currently prosperous economies?

No matter what the answer is, the world has entered a new phase and what this means for the world economy, we will learn gradually in the coming years.

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