Angst without frontiers
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In a lecture earlier this month, Raghuram Rajan, the IMF's economic counsellor, highlighted two diverging trends in the world economy. Globalisation, through the interlocking ties of cross-border flows of goods, services and capital, continues to bind national economies closer together, but it is being accompanied by an 'ebbing spirit of internationalism'. Rajan's concern is that a waning interest in international cooperation is undermining the role of the IMF. But does it also herald a more widespread rethink on globalisation? It's certainly the case that recent weeks have brought several claims that globalisation is under threat from a new wave of protectionism.

Pessimists cite several developments over the course of the past year that signal a decline in appetite in parts of the developed world for the consequences of economic globalisation. For a start, the IMF is not the only multilateral institution under pressure. Progress in the current Doha round of trade negotiations has been so painfully difficult that it has raised questions about the future of the World Trade Organization. True, negotiators may yet manage to cobble together a minimalist agreement that keeps the world trade show on the road, or at least out of the wreckers' yard. Meantime, trade ministers are busily demonstrating their revealed preference for negotiating bilateral and regional deals that are the bargain basement alternative to multilateralism.

There are other signs of second thoughts about the economics of globalisation. Last year, for example, both Brussels and Washington turned to quotas in an effort to stem a surge in imports of Chinese textiles. Barriers to foreign investment have also been on the rise. The attempt by China's CNOOC to purchase Unocal was derailed by US political opposition in 2005, and this year Dubai Ports World's move to acquire P&O provoked another political furore. The governments of France and Luxembourg have similarly been extremely vocal in their opposition to Mittal Steel's bid for Arcelor, and European governments more generally have been energetically reaffirming the national interest case for blocking cross-border mergers.

Unfortunately, rich country hypocrisy in international economic policy is nothing new. It also pays to be careful not to read too much into a few high-profile examples: the caution about the plural of anecdote not being data applies. In fact, the numbers suggest that economic globalisation continues apace on most fronts. Despite the publicity about increasing resistance to foreign ownership, for example, companies worldwide announced more than US$1 trillion of international acquisitions over the past year, up from less than US$650 billion the year before.

Moreover, this would not be the first time that the supposedly inexorable march of international economic integration has been called into question. Following the Asian financial crisis and its various aftershocks, it was fashionable to question the future of unfettered global markets. The mass protests against efforts to start a new round of world trade talks in Seattle in November 1999 were seen at the time as harbingers of a popular backlash against globalisation. The terrorist attacks of September 11 2001 also prompted another bout of pessimism. Indeed, it sometimes seems that globalisation has been the subject of premature obituaries virtually since the term entered into common discourse. Meanwhile, however, technological progress, in the form of falling transport and communications costs, a steady, cumulative decline in the policy barriers to cross-border activity, and the growing internationalisation of firms, has maintained the momentum towards greater economic integration through a series of shocks and setbacks.

Still, despite these caveats, there is an interesting dynamic at work. The noteworthy feature of this latest bout of globalisation angst is that much of it is motivated more by globalisation's successes than its failures. After the Asian crisis, for example, the concern was that globalisation in general and international capital flows in particular weren't working properly: they delivered too much volatility for too little reward. In contrast, a big part of the concern about international economic integration today – at least in large parts of the advanced economies – seems to be that it is working all too well.

Policymakers in the developed world spent years preaching to the developing world that the path to economic prosperity lay in closer integration with the global economy and greater participation in world markets. The big story of the past couple of decades is that their counterparts in an increasing number of emerging markets started to pay attention. In particular, they have done so in Beijing and, more recently, in New Delhi. One major consequence is that the world's two most populous economies, between them accounting for over two billion people or more than one in three of the global population, are now increasingly active participants in the international economy.

The good news is that the policy advice turned out to be correct. Since the onset of economic reform in the late 1970s, the Chinese economy has been growing at an annual average rate of more than 9%. India's economic acceleration is more recent, and to date less spectacular, but it is now recording growth rates of 7% and above.

The even better news is that these growth rates have been sufficient to help lift millions of the world's population out of abject poverty. Sure, not all of these gains can be attributed to greater economic openness, but it has certainly played an important role.

Today, it is the success of the prescription that seems to be making parts of the developed world nervous. Stronger Chinese and Indian economies translate into more competition in international markets for existing firms and workers, never a comfortable experience for incumbents. They also imply a greater say in how the world works for Beijing and Delhi, which can be similarly disconcerting in the political arena. The fact that the resulting adjustment challenges are a product of globalisation's success may not make them any easier to swallow for the economies of the developed world, but it does at least place this latest bout of globalisation angst in context.

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