Globalization's great disintegration
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The global economy is currently undergoing a quiet transformation. While most of the world's attention remains justifiably focused on the European Union's minute-by-minute struggle to formulate a permanent solution to its unending debt crisis, other far-reaching economic forces are shifting beneath the surface. Increasingly, it seems as if the golden era of globalization that defined the last quarter of the 20th century is in danger, with the years prior to the 2008 economic crisis perhaps marking its high-water mark.

Ours has become the era of perpetual global financial crisis, of sagging economic growth, of stubborn unemployment. As the world economy stumbles on, international trade is slowing, and international finance is retrenching. To a certain extent, what we are witnessing can be explained away as familiar problems with "the market." As long as uncertainty about the future of Europe remains high, this argument goes, these flagging indicators are to be expected, and so we should not be that concerned.

But there is more to the story than that.

While the market's invisible hand deserves partial credit for the current predicament, it is not entirely responsible. Globalization became the defining economic reality of the past three decades because of decisions made by states. And what states created they can also tear down. Continued economic integration is not a given -- disintegration is possible if governments choose that path. And, increasingly, governments appear to be doing just that.

The current process of global economic disintegration is taking place along two main tracks: trade and finance.

A steady stream of disappointing growth and employment data is fueling protectionist fever among populations around the world. Despite repeated verbal commitments to maintain open trade positions, more and more governments are responding to this pressure from below by implementing policies that favor domestic producers and hurt international trade.

To compound matters further, international lending by banks and other commercial financial institutions remains low relative to precrisis levels. This is in part a natural response by banks to the increased risk in financial markets due to the European debt crisis. However, new international financial regulations now being implemented by governments around the world are contributing to the credit slowdown. The most troubling aspect of global financial disintegration is the substantial drop in trade finance, which, when coupled with the rise in protectionism, poses a real threat to a sustained global recovery.

Despite all its faults, globalization has lifted half a billion people out of poverty in the past 30 years -- an unprecedented rate of economic progress for humanity that has been complemented by globalization's cultural and social benefits. Yet today, globalization as we have come to know it is in danger.

The leaders of the world's major economies must make a firm commitment to prevent further disintegration -- and ideally reverse the damage they have already inflicted. If they don't, the prospects for economic cooperation in the years ahead may be grim. Even worse, if the economic doomsayers are correct and 2013 makes 2008 look like a cakewalk, it is not hard to imagine the global economy devolving into a conflictual, zero-sum arena similar to what the world endured early in the 20th century.

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But before jumping to such apocalyptic conclusions, let us first examine how we arrived at this point.

Prelude

In the immediate aftermath of the 2008 global financial crisis, it seemed as if the world had dodged a bullet. Except for a very brief period of panic, global leaders reacted calmly and orderly to a sucker punch the likes of which the global economy had not seen in 80 years: Rather than responding in ways that would cause international economic tensions to rise, they instead chose to "summit."

Over the course of the following year, at a series of G-20 meetings in Washington, London and Pittsburgh leaders of the world's largest economies recommitted themselves to economic cooperation and openness, determined not to allow a financial crisis to undo decades of progress on this front. The world's two largest economies -- the U.S. and China -- pushed through stimulus packages, while key emerging powers agreed to boost the International Monetary Fund's financial crisis "war chest" through emergency contributions. Finally, the G-20 commissioned the development of new banking regulations designed to prevent the next systemic crisis from happening in the first place.

However, as these public displays of solidarity were filling newswires, international trade was suffering a collapse not seen since the Great Depression. In 2009, the total volume of trade shrunk by roughly 25 percent compared to the previous year. Declining global demand was the primary reason for the decline. A secondary cause was the sudden drought in international trade finance due to banks clinging tightly to their cash.

But it was the third factor that was the most troubling: Behind the scenes, protectionism was on the rise among the very countries pledging their commitment to open economic policies. In fact, between the fall of 2008 and the spring of 2009, the World Bank reported (.pdf) that 17 members of the vaunted G-20 had already put in place a total of 47 measures designed to "restrict trade at the expense of other countries."

By 2010, things seemed to be turning around a bit, and there was even talk of a global recovery. Indeed, international trade already appeared well on its way to precrisis levels, growing by 17 percent year-on-year.

Then came Greece, where a debt downgrade was soon followed by calls for austerity and then a bailout financed by the EU and the IMF. Soon there were others in line for a rescue: first Ireland, then Portugal. All the while, concerns over the solvency of Italy and Spain -- whose economies are "too big to fail, but too big to bail" -- lent an existential urgency to the EU's inability to halt the contagion. Any hopes for a substantial global recovery were summarily dashed by the eruption of the European debt crisis.

This fall, the global economy enters the fifth year of what has seemed to be one long financial nightmare. Patience is understandably wearing out, and citizens around the world are looking to their leaders to create jobs by all means necessary. As the protectionist impulses that emerged in 2009 grow stronger, voter angst is coalescing into policy.

Protectionism's Ignoble Return

Just weeks before the opening ceremony of the 2012 London Olympics, it came to light that the uniforms that U.S. Olympic athletes would be wearing had been made in China. Immediately, politicians on both sides of the aisle jumped at the chance to express their disgust. Republican House Speaker John Boehner suggested the U.S. Olympic Committee should have "known better." Democratic Senate Majority Leader Harry Reid went a step further, calling for the clothes to be piled up and burned.

Meanwhile, in the U.S. presidential election, President Barack Obama and Republican nominee Mitt Romney have both used anti-globalization sentiment to land political punches. The Obama

campaign hammered Romney for his work at Bain Capital, charging that while he was at the helm of the venture capital firm, he gladly shipped American jobs overseas. The Romney camp quickly responded with the accusation that Obama was the "outsourcer-in-chief."

Charges like this are relatively common during election season in the U.S. But this time around, there may be some bite behind all the barking. A recent poll on Americans' views toward trade reveals that voters now overwhelmingly favor so-called "Buy American" provisions for public works projects -- even when they were informed that this would likely lead to higher costs and higher taxes. Similarly, there was nearly universal support for "getting tough" with China, even if this resulted in a trade war between the world's two biggest economies.

If the seeds of protectionism are now being sewn in the U.S., they have already sprouted in Europe. In July, the Overseas Development Institute (ODI), a London-based think tank, released a report (.pdf) warning that there is "major concern that the EU is moving toward protectionism."

One reason for the pessimism is the EU's plan to reform its generalized system of preferences (GSP) for the first time in 30 years. Historically, the GSP provided exemptions from certain World Trade Organization (WTO) guidelines to enable the EU to give preferential treatment to developing countries by lowering tariffs on their goods. The proposed new reforms will roll back benefits for a group of wealthier developing economies, such as India and Brazil, a move that will hurt exporters in these countries.

Another illustration of Europe's protectionist reflex came just last month, when new French President François Hollande requested that the European Commission reintroduce "surveillance measures" on automobile imports from South Korea. (The EU-South Korea free trade agreement, though not yet ratified, took provisional effect in July 2011.) If the commission approves the request, European importers of South Korean automobiles would be forced to acquire "detailed market information from [South Korean] authorities" before the cars could enter the European market. This is a perfect example of the type of "murky protectionism" governments are resorting to today instead of traditional tariff barriers.

The international embrace of such nontariff trade barriers had China complaining publicly that its exporters were facing a "very grim" situation due to rising protectionism. Of course, China is not just a victim of the rising protectionist tide -- it is also a participant. After two years of allowing its currency, the yuan, to appreciate against the U.S. dollar, the People's Bank of China abruptly changed course earlier this summer as it became clear that China's economy was slowing. By depreciating the yuan, China makes its exports more competitive in foreign markets. But while the move may help stimulate Chinese exports in the near term, it is likely to further fan protectionist fervor in the U.S. and beyond.

Other emerging markets have not been averse to enacting similar measures either. In fact, Brazil and Argentina are currently embroiled in an intensifying trade dispute of their own, despite both being members of the Mercosur trade bloc.

Globally, the numbers are almost staggering. According to an EU report released in June, the total number of restrictive trade measures around the world grew by 25 percent in a period of eight months. Meanwhile, the WTO's dispute-settlement mechanism has already seen more than twice the number of complaints registered in 2012 as it had all last year. The head of that institution has expressed concern about this "worrying trend" and warns that the overall effect will likely be slower global growth and a delayed recovery.

The raw trade numbers do not look promising, either. After the bottom fell out in 2009, the volume of international trade rebounded sharply in 2010 to the tune of 17 percent. However, trade growth slowed to a meager 5 percent in 2011 and then dropped by almost 4.5 percent from the third quarter of 2011 until the first quarter of 2012. At this early stage, it is difficult to determine the effect that the new protectionism is having on these numbers, but the trend is obviously concerning.

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The disintegration of trade, however, is only part of the reason globalization is facing its toughest challenge in decades. The other half of the story is found in global financial markets, where credit is becoming harder and harder to come by.

The Great Financial Roll Back

The years 2000 to 2008 were unlike anything the world has ever seen in international banking. According to the best estimates, the volume of banks' foreign assets grew from $10 trillion to nearly $37 trillion during that short period. The largest portion of this growth came from European banks that invested heavily in U.S. mortgage-backed securities -- one reason why the American subprime crisis ultimately turned global.

The heyday of global banking officially came to an end in September 2008, resulting in a collapse of international credit. In fact, by the first quarter of 2009, financial institutions around the world had cut their foreign assets by more than $7 trillion.

While this is a jaw-dropping sum, it occurred during a moment of nearly unparalleled financial panic. What may be a bit more surprising, however, is the fact that international lending has yet to really recover. In the fourth quarter of 2011, global bank lending dropped by $800 billion, with much of the money returning home to the developed world from emerging market economies. According to data from the Bank for International Settlements (BIS), the level of outstanding foreign assets of reporting banks is currently a mere 5 percent above the worst post-Lehman levels. In other words, there has been virtually no growth in international bank lending in the past four years.

Given the level of distaste for big banks in an era of financial crises, this may not be an entirely bad thing. Without question, prior to the 2008 crisis, banks around the world, and especially in Europe, were overleveraged. It is only natural that after a period of such excess, there will be some cutting back, especially when it comes to riskier assets.

Yet, the rollback of international lending is not just a function of the decline in global investment banking. In fact, an area currently suffering from banks' new stingy ways happens to be one of the least-risky asset classes around: trade finance.

On balance, trade financing is short-term, and the goods in transit act as a form of collateral, making it a very low-risk asset for banks. The standard process of financing transactions, a simple "letter of credit," is a fundamental component of the global trading system involved in an estimated 80 percent of international trade.

Yet, in the first quarter of this year, the volume of global trade finance dropped by almost 40 percent, according to reports. Some of the decline can be blamed on the ongoing debt crisis in Europe, as banks grow reluctant to finance trade with firms in "peripheral" eurozone economies deemed to be credit risks.

This is troubling in its own right, since these are the countries that can least afford for their goods to be shut out of global markets. However, the debt crisis is not the only reason for retrenching trade finance.

Another factor is the new liquidity requirements that banks are expected to meet as part of the Basel III agreement reached in September 2010, poised to be phased in by national governments from 2013 through 2019. In short, Basel III requires that banks retain capital equal to 7 percent of their "risk-bearing assets" -- a level three times higher than current standards. Moreover, a group of 28 banks deemed "systemic" in size could be made to hold an additional 2.5 percent.

Requiring banks to keep more cash in their coffers should decrease the likelihood that governments will have to bail them out in the event of a future crisis. At the same time, though, it limits the availability of credit. Already, Basel III is having an impact on firms' access to vital trade finance.

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The biggest shoe dropped this summer when Germany's second-largest bank, Commerzbank, shocked the financial world by announcing it was shutting down its shipping finance unit in order to meet Basel III standards. A number of French banks have now followed suit, pulling back from trade finance in Asia even as demand for their services remains high. A top World Bank official recently lamented that we are once again facing a global credit crunch, and Basel III is making it worse by "disproportionately increasing the capital ratios for trade finance."

The increasing scarcity of trade financing will not just hurt firms in "risky" economies, either. As credit becomes harder to come by, costs will rise, making it universally more expensive and raising the transaction costs to trade. Companies in Asia are already experiencing -- and privately complaining about -- such increased costs. When coupled with the rising popularity of protectionist measures, there are very real reasons for concern.

Stopping the Bleeding

The point of no return has not been yet reached. The future of globalization is in the hands of the same countries that built it in the first place. What remains to be seen is if policymakers around the world can resist the urge to give in to kneejerk populist pressures and, perhaps more importantly, explain to voters the benefits of integrated global markets. Their own economies, and the broader global recovery, depend on it.

Internationally, the countries that make up the G-20 -- representing almost 90 percent of global GDP -- need to live up to the words in their latest communiqué: "We are firmly committed to open trade and investment, expanding markets and resisting protectionism in all its forms, which are necessary conditions for sustained global economic recovery, jobs and development."

They key word in this statement is "resisting." G-20 members must prevent the introduction of further protectionist measures, because once the protectionist impulse is unleashed, it can be difficult to rein in and even more difficult to roll back.

Protectionism can quickly become a vicious cycle. As more countries implement policies that close their economies to foreign goods, the benefits to trade and the incentives to remain open for the rest of the world fall. History has shown that, once in place, protectionist policies are very difficult to dismantle. As one new book on trade policy during the Great Depression puts it, "Once imposed, trade barriers took root and proved difficult to remove, stifling world trade and hindering economic recovery for years to come." Protectionism only took a few years to grow strong, but it took decades to defeat.

On the finance front, Basel III should not be scrapped, but it should be reformed. The decision to move forward with new global banking regulations two years ago was the result of a compromise: Yes, the agreement would stunt global growth, but it would also reduce the recurrence of financial crises. Still traumatized by the events of 2008, global leaders were willing to choose stable growth over speedy growth.

This was the right decision at the time. However, regulations often have unintended consequences. The effect of Basel III on trade finance is just that. The G-20 countries that commissioned the BIS to craft new regulations should just as forcefully push for a substantial softening of regulations on trade finance. With protectionism on the rise, the global economy can ill afford to let the financial lifeblood of trade be slowed by overregulation.

The BIS has already taken small steps in this direction, but the changes do not go far enough. The International Chamber of Commerce has already called the reforms too limited to have any "meaningful impact," and the recent withdrawal of major European banks from shipping finance supports this point.

The future of globalization is more uncertain than it has been in decades. The trend toward disintegration is worrying and should dispel any teleological illusions that the world is inevitably moving toward openness. Economic cooperation between countries is not easy. Even

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if the world collectively benefits from globalization, the process necessarily creates winners and losers within economies. The trouble is that, in times of economic hardship, nearly everyone feels like they are losing. Blame tends to flow outward, even though the problems one country faces are very much the problems the whole world is facing.

Hold on tight, because the storm has not yet passed. Indeed, many believe that next year is shaping up to be even worse than the one we have just endured. Globalization has already absorbed some serious blows. But it seems its ultimate fight lies just over the horizon.

Fonte: World Politics Review, 10 Sept. 2012. [Base de dados]. Disponível em: <http://web.ebscohost.com/ehost/detail?sid=c054fb16-628c-48c1-9798-31b13cd5f001%40sessionmgr115&vid=3&hid=113&bdata=Jmxhbmc9cHQtYnImc2l0ZT1laG9zdC1saXZl#db=wpr&AN=79791161 >. Acesso em: 03 Oct. 2012.

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