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Future Global Trade: Moving Away from Flawed Multilateralism?

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Summary

The damage caused by World War II has given rise to the notion of globalization and free trade up until today. Data shows that free flows of capital and goods among countries have led to global convergence marked by rapid economic growth and a declining poverty rate. Nevertheless, free trade also has its shortcomings. It creates inequality and increases countries' risk of the crisis. Global Financial Crisis 2007- 2008 marks the beginning of the globalization scepticism era. Many countries, including the United States and Europe, the biggest proponent of free trade principles, turned their back to protectionism. The situation is aggravated by the US-China trade war, the COVID-19 pandemic, and the Russia-Ukraine War. The future of global free trade looks ill-fated. It seems like the damage is beyond repair. Reverting to protectionism is not the solution. We argue that free trade has brought prosperity to the world, and it will always be. However, revaluation and adaptation of the current global trade regime is imperative to create a desirable future economy. This writing will focus on explaining the possible future scenario of free trade and how we can prepare for the next globalization's wave.

Keywords: *Globalization, Free Trade, Protectionism, Multilateralism*

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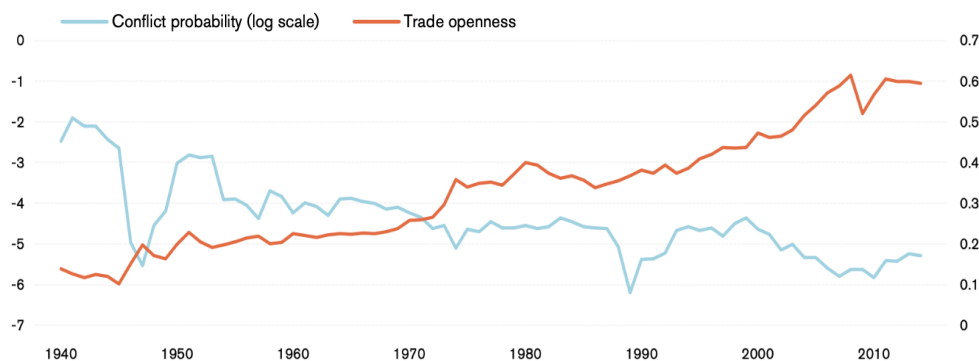
"When goods don't cross borders, soldiers will." — **Frédéric Bastiat**

Open Trade, Prosper World

On October 24, 1929, the United States of America (US) stock market crashed, leading to plummeting stock prices and panic selling. Five days later, the crash peaked, and the Dow Jones Industrial Average fell drastically, marking the beginning of the Great Depression. Facing high unemployment and inflation, the US Congress passed the Hawley-Smoot tariff to increase domestic industries' profitability and job creation by imposing a high tariff on imported goods. Alas, this law exacerbated and prolonged the economic downturn, followed by tit-for-tat tariff increases in one state after another (Kruger, 2020).

By the early 1930s, the US economic crisis began to have global repercussions, especially in Europe, which was in the post-war reconstruction process. The great depression intensified social resentment and grief among Europeans, which set the stage for the ascend of Nazi and other totalitarian governments in Europe.

Figure. 1 Negative Correlation Between Trade Openness and Conflict Probability



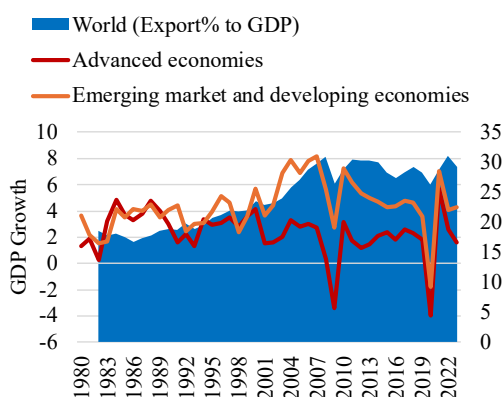
Source: WTO, 2023

World War II taught the US and European leaders that protectionist policy is not only bad for the economy, but also for peace and stability. Therefore, they designed a post-war reconstruction plan that linked countries in a dense web of economic ties (Foreign Affairs Jul-Aug, 2023). The plans involved the establishment of the United Nations and three major multilateral economic institutions: the International Monetary Fund (IMF), the International Bank for Reconstruction and Development, and an international trade organization (ITO) later known as the World Trade Organization (WTO) (Kruger, 2020). The establishment of these three organizations marks the beginning of the Bretton Wood system and liberal trade regime.

Global trade increased substantially under the Bretton Woods system (1945-1972). Even after the Nixon Shock in 1971, the momentum of trade rise continued. By the 1990s, the world entered an era called “hyper-globalization.” During this period, more emerging market economies gradually emulated advanced economies' steps to remove trade barriers. International trade cooperation also advanced significantly, marked by the WTO establishment and integration of the former Soviet Bloc into the global trade system.

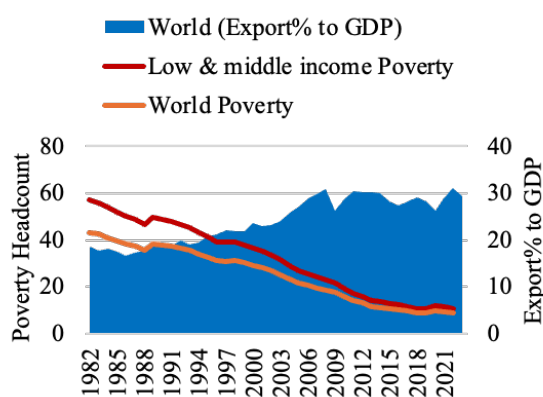
Trade integration has proven to be a powerful tool for improving living standards. Globalization through free trade has successfully created global convergence³ and lifted hundreds of millions out of poverty (Irwin, 2019; WTO, 2023). In 1982, the poverty headcount in middle and low-income countries was around 57,2%, but within two decades, it had been reduced to 33,6%. Moreover, innovation spread worldwide due to global trade, which connected high, middle, and low-income countries into global value chains (GVCs).

Figure. 2 The Great Convergence



Source: IMF, 2023; World Bank, 2023

Figure. 3 Poverty Headcount and Export% to GDP¹



Source: World Bank, 2023

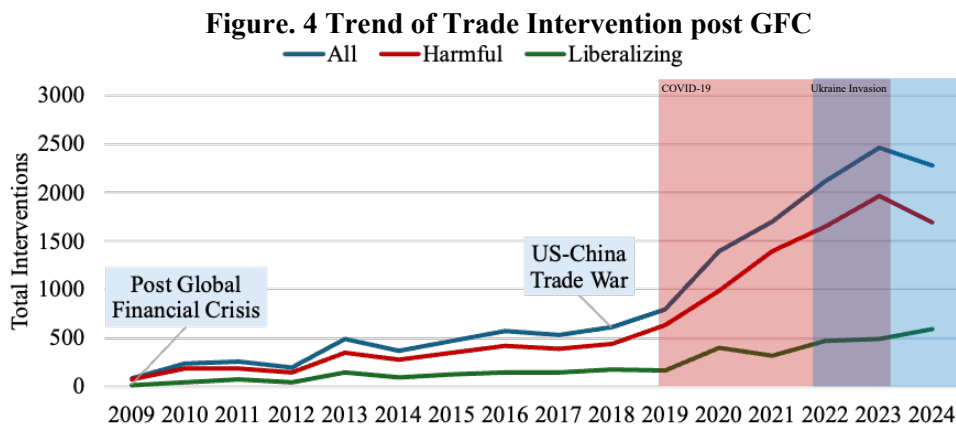
Open trade thrived because the global trade regime under multilateralism was working effectively. It not only set the rules but also provided a high level of predictability. The creation of the WTO in 1995 bolstered the rule-based multilateral trade regime, offering a more predictable trading environment that fostered trade and growth (WTO, 2023).

The Cracks

In the last fifteen years, the liberal trade system has been tested by multiple economic and geopolitical shocks. The first crack began in 2007-2008, caused by the global financial crisis (GFC). Pessimism

³ The great convergence began in the mid-80s. It was shown that developing countries' economic growth was higher than that of developed countries. One contributor to developing countries' high growth is the rising global trade supported by the implementation of the Global Value Chain.

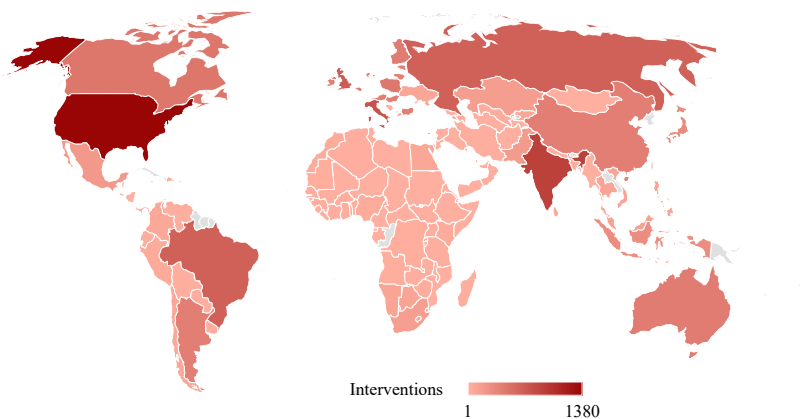
towards globalization and liberal trade system heightened post the crisis. The downward trend in tariffs was replaced by a move to raise tariffs and other trade barriers (Kruger, 2020).



Source: Global Trade Alert, 2024

The liberal trade system received another blow from the wave of populism, particularly from the US and Western countries. When Donald Trump was elected president of the US in 2017, it signified the revival of protectionism and economic statecraft. Using the narratives of “American First” and “Make America Great Again,” Trump tried to pull the US out of multilateralism and start using more unilateral action, including imposing trade sanctions on its enemies, particularly China. On 6 July 2018, the US-China trade war began.

Figure. 5 Countries with Most Harmful Trade Intervention since 2009



Source: Global Trade Alert, 2024

Table. 1 Top 10 Countries with Harmful Trade Intervention since 2009

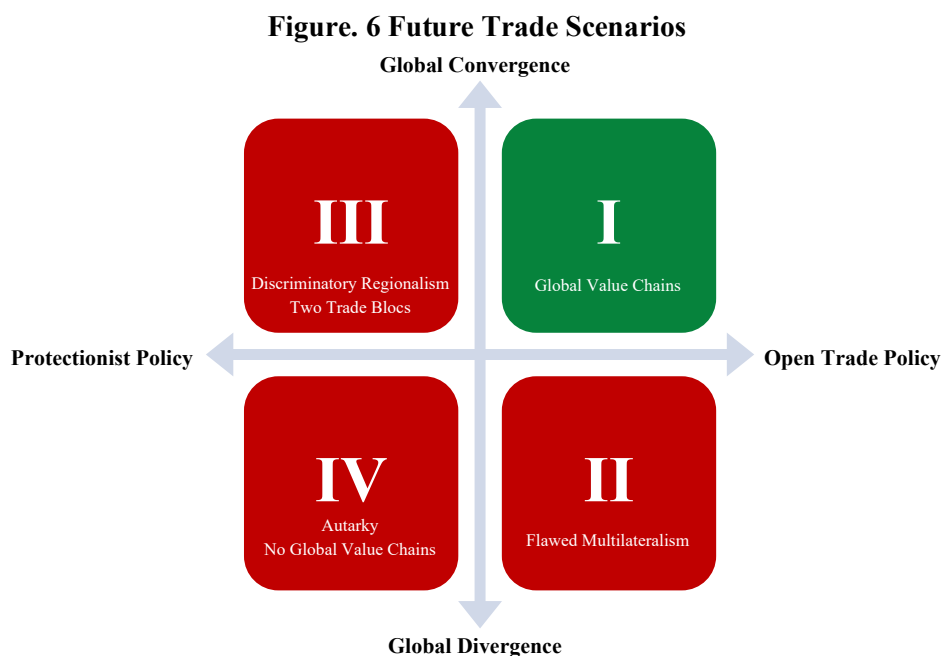
Country	Total Interventions
United States of America	1380
India	892
Germany	748
Italy	745
United Kingdom	672
France	637
Brazil	633
Russia	630
Spain	561
Canada	456

The Global Trade Alert reports mentioned that since 2009, there have been 21,709 harmful trade interventions. The US has become a country with the most harmful trade interventions accompanied by its European counterparts like the United Kingdom, Germany, and France. What will the future of

global trade look like amidst the ascendancy of protectionist policies? In the next section, we will explain possible global trade scenarios.

Future Scenarios

The consequences of global fragmentation vary among countries depending on their market size and openness to trade, including their reliance on foreign investment and labor. While fragmentation will come with winners and losers, globally, economic growth will decline, poverty will rise, and inequality between economies will widen. Thus, every country is losing. Based on the current status of global trade, we envisioned four future trade scenarios depending on the direction of trade policy and its impact on the global economy.



Source: Developed by authors

The worst scenario of global fragmentation is when there is no GVC. Each country tries to pursue a self-sufficiency policy and become autarky. Eppinger et al. (2021) explained that the welfare loss would range from -3% to -65% in this scenario. The highest welfare loss will be experienced by the small and highly trade-dependent country. Furthermore, when there is no exchange of goods and services between countries, innovation will slow down, and living standards will drop significantly (Métivier et al., 2023).

The Ebb and Rising Tide of Globalization Waves

Reflecting on today’s “slowbalization” phenomenon, characterized by prolonged plateaued trade reform pace in more than a decade and a half since the global financial crisis, and weakening political support for open trade — it is easy to get caught in the discourse that the future course of trade will be ill-fated for global economic fragmentation. Not only does economic interdependence is no longer seen as a virtue, but as undesirable. Quadrant I of the scenario above is simply deemed as a utopic vision (see fig. 6) and zero sum game approach to trade is a growing reality, hence necessitates protectionist policies. However, looking to two centuries back, the world has witnessed the ebb and rising tide of globalisation and despite the events that led to globalisation's reversal, it bounds back.

Table 2. Drivers & Characteristics of Globalization’s Era

	1 st Wave (1870-1914)	Retreat to Nationalism (1914-1945)	2 nd Wave (1945-1980)	3 rd Wave (1980-2008)	‘Slowbalization’ (2008-?)	
Drivers	1 st industrial revolution Sail to steamship switch, reduction in tariff barriers	World War I - World War II 1945, Spanish flu pandemic in 1918, monetary instability early 1920s, immigration restrictions, Great Depression in 1929 and protectionism outbreak in 1930s	2 nd industrial revolution Impetus in multilateralism (UN established), reduced trade barriers, sea freight charges fell by a third	Change of economic policies in developing countries, containerization & airfreight, new information & communications technologies		
Several Main Characteristics						
(+)	<ul style="list-style-type: none"> Exports as share of world income doubled to ± 8% Labour flows nearly 10% of world’s population By 1914, foreign capital stock of developing countries risen to 32% of income (only ±9% in 1870) Per capita income rose by an annual average of 1.3% globally (only 0.5% per year previous 50 years) Rate of poverty decline to 0.8% 	Despite the rise in poverty viewed from income dimension, it is still a period of advances in life expectancy due to global spread of public health improvements.	<ul style="list-style-type: none"> New Intra-North system and economies of agglomeration: powerfully equalizing, pattern of convergence among developed countries New growth of policies for redistribution and social protection within developed societies Reduction in between-country and within-country inequality in developed country Reducing poverty within OECD countries 	<ul style="list-style-type: none"> New globalizers: large group of developing countries broke into global markets Grew from 2.9% in 1970s to 5% through the 1990s By 1998, exports of manufactured goods from developing countries rose to 80% Substantial international migration & capital movements 	Great Recession (2008) (drivers: subprime mortgages bubble burst in US, mismanaged interdependence)	US-China Trade War Green Trade Barrier
(-)	<ul style="list-style-type: none"> Convergence only between globalising countries Still insufficient to offset increase in population growth (absolute number of poor people increased), despite increasing rate of poverty decline 	<ul style="list-style-type: none"> Exports as share of world income decreased to ± 5% Between 1913-1950, the world grew much slower than in 1870-1913, with degree of inequality between regions increased, and world’s rate of growth fell by about a third. Absolute number of poor people increased by ±25% 	<ul style="list-style-type: none"> Lopsided liberalization: greater inequality between developed and developing countries as most developing countries did not participate global manufacturing and services trade. Restored the North-South pattern of trade: by 1980, barriers facing developing countries had been removed only for primary commodities. Only 25% of the merchandise exports of developing countries were manufactured goods 	<ul style="list-style-type: none"> Other developing countries were increasingly marginalized in the world economy and suffered declining incomes and rising poverty The remaining two-thirds of developing countries had a decline in trade to GDP 		
					Competing Regional Order	

Source: Developed and summarized by authors (World Bank, World Economic Forum, IMF, PIIE)

Post nationalism’s retreat in 1914-1945 where the world had experienced two world wars, globalization regained its momentum with two distinct waves — driven by developed countries in the first four decades then followed by the new globalizers in developing countries for the next two decades (see table 2). After the devastating effects of Covid-19 Pandemic, global trade in goods has recovered though has not reversed its downward trend since the Global Financial Crisis of 2008. Global trade trends continued to show a positive upswing in the first quarter of 2024, with trade in goods rising by approximately 1%, while trade in services grew by round 1,5% (UNCTAD, 2024).

International trade has also demonstrated resilience in the face of recent global challenges. During the COVID-19 pandemic, trade and supply chains proved instrumental in accelerating the production and distribution of medical countermeasures, including vaccines. The war in Ukraine has further

underscored the critical role of international trade as a stabilizer. Diversified global grain markets enabled economies reliant on Ukrainian and Russian exports to mitigate supply shortfalls. For instance, Ethiopia, previously without any wheat imports from Argentina, now sources twenty percent of its wheat shipments from this South American nation (Georgieva and Okonjo-Iwaela, 2023). During the crisis, the natural response is to rewire trade. As cited by Douglas Irwin in his article to the IMF:

“Globalization is not dead but changing. Developing economies would be ill-advised to turn their backs on the global economy and give up the idea of supporting exports and acquiring technology from beyond their borders. They still have much to gain from the rest of the world and a lot to lose by returning to the closed-door policies of the past” (Irwin, 2023).

Should We Prepare for the Fourth Wave?

Globalization does not come without its own shortcomings. As seen during each wave, lopsided liberalization tends to leave several countries' groups behind (see table 2). Yet as the world grew at a slower rate in 1914-1950 when the world reverted to nationalism, world trade grew much less than world income, inequality between regions increased and absolute number of poor people increased by approximately 25%. As cited by the world bank, the world's experiment with reversing globalization was entirely possible, yet not relatively attractive. Despite its discontent, globalization and international trade is still a positive force towards elevated living standards and expanded economic opportunities over the ensuing decades. The question should not be whether we should move away from globalization, but how to create an open trade world where equality and shock-resilience is possible should we encounter the fourth wave of globalization.

First, we must admit that there are issues with the current free trade regime as it is still engrained with inequalities between countries. Nevertheless, reverting the world from free trade could be contrafactual. Confronting a more unpredictable world ahead, characterized by the *polycrises* that knows no geographical boundaries, multilateralism is not a choice but a necessity. Global cooperation is not only a matter of solidarity and the betterment of the world, but it is also part of a country's self-interest. Second, the risk of trade interdependence roots from supply overconcentration. In this case, the solution is to create a global supply chain that is deeper, deconcentrated, and more diversified than ever. Lastly, to ensure an equal and inclusive trade regime, we must re-evaluate our international economic architecture. Future world trade rules should be adapted to enable flexible development policies and find middle ground between developed and developing countries, ultimately allowing countries that were previously unable to be part of the production network to benefit from it.

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