The Washington Post
January 27, 2019

Five myths about globalization

No, it isn't the main driver of inequality.

by Steven A. Altman

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While world leaders converged on Davos, Switzerland, this past week to discuss "Globalization 4.0" at the World Economic Forum, President Trump and British Prime Minister Theresa May stayed home to deal with globalization-related crises: a government shutdown over Trump's demand for a border wall and Parliament's rejection of May's Brexit deal. Meanwhile, U.S.-China trade tensions continued to roil financial markets, and trade conflicts contributed to another downgrade of global growth forecasts. The political crossfire over globalization has propagated a raft of myths. Here are five of the most prevalent.

Myth No. 1
Populist nationalism has begun to reverse globalization.

After 2016's electoral surprises (Brexit and Trump), many predicted globalization's imminent demise. A headline in the Guardian proclaimed, "Globalisation as we know it is over — and Brexit is the biggest sign yet," and one in the Boston Globe read, "Trump won. Globalization lost. Now what?" In 2017, former HSBC chief economist Stephen King published a book titled "Grave New World: The End of Globalization, the Return of History."

The actual interactions that take place among countries, however, tell a different story. The new DHL Global Connectedness Index, coming next month, shows that globalization — measured based on flows of trade, capital, information and people — rose to a record high in 2017. For the first time since 2007, all four types of flows crossing national borders increased significantly. Trade in goods grew at its fastest pace since 2011, and international tourism the fastest since 2010. Free calls over the Internet continued to power strong growth in international communications.

In 2018, major public policy threats to globalization did turn from rhetoric to reality. There were tit-for-tat tariff increases, new restrictions on foreign corporate takeovers and crackdowns on immigration. But there was no general collapse of globalization. Trade continued growing last year, though at a slower pace, while foreign direct investment declined.

Myth No. 2

We live in a world of borderless markets.

This idea has been around for a long time, especially in business circles. Strategy consultant Kenichi Ohmae's 1990 book was titled "The Borderless World." In 1997, economics journalist Frances Cairncross published "The Death of Distance." Then, the most popular book about globalization ever, New York Times columnist Thomas Friedman's 2005 volume, "The World Is Flat," proclaimed a "level playing field" for global competition and collaboration.

NYU Stern and IESE Business School professor Pankaj Ghemawat has been debunking this myth for more than a decade: The vast majority of activities that could happen either within or across national borders are still domestic rather than international. For example, only about 20 percent of economic output is exported, 17 to 19 percent of tourism is international, 9 percent of global output comes from the foreign operations of multinational firms, roughly 7 percent of phone call minutes are international (including calls over the Internet), and 3 percent of people live outside the countries where they were born. Furthermore, trade, capital, information and people flows are all still dampened significantly by distance.

This myth has especially pernicious effects on policy debates. Just about everyone overestimates international flows, and people who overestimate them by a wider margin worry more about globalization exacerbating inequality, climate change and other problems. Surveys have shown that simply telling people the actual levels of immigration into their countries reduces the proportion who think there are too many immigrants or that immigration is a problem. Moreover, the fact that distance still matters is the main reason Brexit is such a challenge. Geography alone means that Europe will remain Britain's most important market.

Myth No. 3
The U.S. is one of the world's most globalized countries.

With politicians at both ends of the ideological spectrum railing against free trade, Americans could be forgiven for supposing that the U.S. economy is especially exposed to competition from imports. Most Americans also grew up thinking of the country as "a nation of immigrants," and until last year, that phrase was even part of the mission statement of U.S. Citizenship and Immigration Services.

Surprisingly, the United States is actually the advanced economy that imports the least relative to its size (and only six emerging economies import less intensively). In 2017, it imported goods and services worth 15 percent of its gross domestic product. Japan is the only advanced economy that comes close (18 percent), and even China imports more intensively than the United States does (19 percent). The United States ranks higher on immigration, but there are still more than 30 countries where a larger share of the population was born abroad. America also has fewer immigrants than most Americans think: 15 percent of the population, compared with the average guess of 29 percent in a 2018 survey.

The United States ranked 27th out of 140 countries on the 2016 DHL Global Connectedness Index, but that relatively high position was mainly because of how broadly its international flows span the globe. On the “depth” dimension of the index, which measures international flows relative to domestic activity, the United States ranked 100th.

Myth No. 4
Emerging markets are globalization's new leaders.

This notion gained traction after Chinese President Xi Jinping’s vigorous defense of globalization at Davos three days before Trump’s inauguration. “China’s Xi Jinping Seizes Role as Leader on Globalization,” the Wall Street Journal declared. (Indian Prime Minister Narendra Modi made a similar play at Davos the following year.) A 2017 headline in the Financial Times said that “Emerging markets are set to lead globalisation.” There is more than just rhetoric here: China has pushed bold international infrastructure and institution-building initiatives, and the share of world trade and investment involving emerging economies is up significantly relative to the early 2000s.

Actually, though, advanced economies are much more globalized than emerging economies, which trade about as intensively as advanced economies do but are only one-third as integrated into international capital flows, one-fifth as active in movements of people and one-ninth as linked to information flows. Emerging economies are also less globalized in the sense that they maintain strong connections to a narrower set of countries. They had been closing the gap with advanced economies on the intensity of their international flows, but their progress has stalled, in part because of China’s rebalancing away from export-led growth.

Myth No. 5
Globalization is the main culprit behind rising inequality.

From the right, Trump argued during his campaign that “globalization has made the financial elite who donate to politicians very wealthy. But it has left millions of our workers with nothing but poverty and heartache.” From the left, Bernie Sanders held that “the global economy is not working for the majority of people in our country and the world. This is an economic model developed by the economic elite to benefit the economic elite.”

While economists continue to debate the relationship between globalization and inequality, a substantial body of research suggests that other factors, such as technological change and domestic policies, have contributed more to rising inequality than globalization. Simple measures help reinforce this conclusion. Since the United States is the advanced economy that imports the least relative to its size, it’s hard to see how imports could explain its ranking near the top on inequality among developed nations. In contrast, eight of the 10 most globalized countries are in Europe, and they all maintain more equitable income distributions.