



Is globalization in retreat?

Douglas A. Irwin, John French Professor of Economics Dartmouth College

Richard Snape lecture

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Danielle Wood: For those that I don't know, I'm Danielle Wood, chair of the Productivity Commission. We are, of course, today on beautiful Wurundjeri land. I would like to acknowledge the traditional owners of this country and pay my respects to elders past and present, and to any Indigenous people and Torres Strait Islander people who are here with us today.

Today is the first Richard Snape lecture we've held since 2017, and I'm really delighted that we are bringing back this very important event for the Commission. It a period of change for the Commission and I think it's really important as part of that process to recognise and value the commissions long history in the debates around free trade in this country.

I am particularly pleased that we are welcoming back Richard's family tonight. They have been long time supporters of the lecture and it's wonderful to have them in the room.

I actually attended the inaugural Snape Lecture, which was back in 2003, as a fairly new graduate of the PC. The lecturer that night was the wonderful and of course much missed, Professor Max Corden. I'm not going to run through the list of speakers since then, but they include Nobel Prize winners, luminaries from around the world. All that have brought deep expertise and insights in trade policy and globalisation.

And we are very privileged to add another luminary to that list tonight, Professor Doug Irwin, who is the John French Professor of Economics at Dartmouth College. Before we hear from Douglas, though, I'm going to invite former chair, Gary Banks, the only other we believe graduate turned chair in the Commission's history, but more importantly, tonight, a friend and colleague of Richard Snape. So Gary's going to say a few words about Richard and the genesis of this lecture before we hear from Doug.

Gary Banks: Well, thanks very much, Danielle, for inviting me to say these few words about Richard, who we honour in this lecture tonight. That the Commission's chosen Professor Douglas Irwin, to restart this prestigious lecture series would, I'm sure, have met with Richard's hearty approval. And I believe that even more so, having just had a conversation with him.

As many will know, Richard spent the last phase of his lustrous career as deputy chairman here, coinciding with my own early years as chairman. I was very fortunate to be able to count him as a friend as well as a colleague. But our relationship actually began more tentatively years before as teacher and student at Monash University, where Richard, in his mid-30s, was already well established as Professor of Economics. In an academic career spanning some 35 years, he helped make Monash's economics department one of the best places in the world for economics teaching and scholarship.



His personal contribution as an economist of international standing was prodigious, with a dozen books and over 60 journal articles to his name. Many of these were in the field of international trade and finance, a number bringing significant theoretical advances.

Well, Richard wasn't in theory for its own sake, however, but for its illumination of real-world policy problems. His passion for good policy on sound based on sound theory. It was reflected not only in his writings but also in his work with government itself, and much of that work was undertaken in association with this organisation and its predecessor bodies. It commenced in the mid-60s at the tariff board when Richard, along with Max Corden and other young academics, helped it develop frameworks to inform decisions about industry protection from an economy wide perspective.

It may be hard for a new generation of economists to appreciate just how revolutionary this work was, or for that matter, how strongly it was opposed by those interests threatened by it, including their sponsors within government. Yet with the perseverance of this unique institution in its different forms, it was to culminate not only in the liberalisation of Australia's trading sector, but the transformation of our economy.

Well, Richard went on to assist the Tariff Board successor, the Industries Assistance Commission, as an occasional consultant, typically on complex conceptual issues. Perhaps his standout contribution in this respect was a framework for the analysis of barriers to cross border services trade, which became the basis for the breakthrough international agreement during the Uruguay Round.

In 1995, Richard was appointed to the Industry Commission as an associate commissioner. This was intended to be primarily as a research leader and mentor, but he soon became a valued contributor across all aspects of the Commission's work. It therefore surprised no one when the Productivity Commission was finally established in 1998, that Richard was appointed as a full-time commissioner and deputy chairman.

In his time at this institution, Richard initially worked on public enquiries and research with a trade policy or industry assistance orientation and his deep knowledge in that area, his analytical ability and sound judgement, and his scrupulous regard for clear writing, are all reflected in the quality of those early reports. One of these, applying the WTO's new safeguard rules in a politically charged pre-election inquiry, not only got the government off the hook, but provided the WTO with a best practise template for other member countries.

Over time, the topics addressed by Richard broadened, including reports on international air services, broadcasting, telecommunications, and in his final year, airports. All were highly regarded for evidence and logic, even if, like much of the Commission's work, they were not necessarily politically palatable. The respected economic journalist Alan Mitchell captured this well when he observed in a piece written shortly after Richard's death. And I quote: 'the government has accepted most of the wisdom of his airports report and is still trying to evade the wisdom of the broadcasting report'.

Well, finally it would be remiss in this gathering not to note Richard's further contribution through the guidance and support he gave to others. As at the Productivity Commission, his door was always open to junior and senior staff alike. And his interest in the wellbeing and professional development of young researchers was both genuine and enduring. Needless to say, a number have gone on to make significant professional contributions of their own. For my part, it was a comfort as chairman to know that Richard was there, along with other commissioners, to road test forthcoming speeches and presentations, and to provide sage advice on strategic or tactical matters.



In some, it's clear that this lecture series established by the Commission and Richard's name was richly deserved. I'm delighted that it is resuming in the spirit in which it was conceived. Thank you for this Danielle, as well as for the opportunity to make these brief remarks. Thank you.

Danielle Wood: Thank you, Gary. It's very wonderful to hear those reflections. And now it is my pleasure to welcome Douglas Irwin to the stage. As I mentioned, Doug is the John French Professor of Economics at Dartmouth College. He's also the research associate of the National Bureau of Economic Research, a non-resident senior fellow at the Peterson Institute for International Economics. And most recently, he has been a visiting professor at the ANU.

Doug has also authored a number of books, and you'll get a theme here: *Clashing over commerce: A history of U.S. trade policy, Free trade under fire, Peddling protectionism: Smoot-Hawley and the Great Depression, and The Genesis of the GATT*. With a biography like that, I can think of no better person to deliver the 2024 lecture. Douglas is going to be presenting his lecture titled 'Navigating the new era of globalisation: Lessons from the past'. He'll be speaking for around 40 minutes. We will leave plenty of time for questions from the floor and I know, given the faces I can see in this room, there will be plenty of them. Doug, welcome up and lovely to have you here.

Douglas Irwin: Well, first of all, thank you for that very kind introduction. Thank you to the Productivity Commission for inviting me to give this lecture. And thank you all for attending this afternoon. One thing I've always insisted to many people over many years since I first visited the Productivity Commission in 2005 is that every country ought to have a Productivity Commission. And that's partly because of what Paul Krugman said a long time ago. That productivity isn't everything. But in the long run it is almost everything, and it's important not just for Australia, but particularly for Britain, say, and Italy and other countries that have stagnating productivity for many, many decades that can't persist for a generation or so without big economic problems emerging.

So let me just plug a former student of mine who is for a long time at the Reserve Bank of Australia, who's just moved to the private sector and he just reinforces us talking about Australia's productivity challenge and he very nicely says here that there are just three ways of getting rich as a country. One, having countries pay more for your exports. Australia has been the lucky country in that regard for some time, but you can't count on it forever. Two, work more. There's a limit to how much you want to do there, and three, productivity.

So it really does come down to productivity and the reports that are done at this institution are important not just for Australia, but at least I and I know on many people around the world have looked to them as well. So grateful that Gary Banks is here as well, and I urge you to look at his sort of memoir of Richard's career. I knew Max Corden very well. I knew actually many of the lecturers in this series very well.

I only met Richard Snape once and it was a memorable occasion, it was the late 1980s in Washington, DC I was just starting my career as a very green trade economist with all these luminaries. It was a conference organised by Jagdish Bhagwati. And those were the days when the US was actively using Section 301, which just has recently been resurrected after many years of sort of in the shutters against China by the Trump administration. But back in the late 1980s was used against Japan and was used as a threat to open up foreign markets. Bhagwati called this aggressive. Richard Snape was very much worried about the US using this as a lever to get preferential access in other countries. Markets such as Korea in the beef market and at this conference one of the after dinner speakers was U.S. trade negotiator Mike Smith. Who's a very formidable trade negotiator. Didn't you know, suffer fools gladly. Anyway, I don't know about Richard's personality, but they got into a shouting match. I've never seen a shouting match at a dinner conference, but



Richard was insisting that the US, even if the market openings were in legal terms, multi MFN, that really US pressure was leading to discrimination against other third country suppliers in favour of the US that was hurting Australia. Mike Smith here he is right here was insisting absolutely not that these were non-discriminatory openings. But that issue of discrimination versus non-discrimination that's one of the themes of Richard's work and the cost of economic discrimination.

So I mentioned that I know some of the previous lectures here well 20 years ago. My good friend Anne Krueger gave the lecture, and if you look at that lecture and many of these past ones are worth looking at, there's one paragraph which is sort of the theme that I want to develop as well. Although it's 20 years later, and so the theme may be a little bit different. But notice she says here that she wants to focus on. A question with central to thinking the competing pressures for integration and disintegration within the world economy, that's exactly what I want to do through historical lens.

So my most my work is in economic history applied to trade and trade policy, but I think we need to know something about the past, to appreciate where we are today and how we can grapple with the challenges. That are facing us and of course the big challenge as you know that's been going on since 2007, is worries about the state of the global economy and international arrangements.

So this is just a chart from the Financial Times about how corporate talk about deglobalization that hits a new high. It may have even should have been higher perhaps during the Trump administration, but certainly during COVID and that declines and it comes back with more recent concerns about the US and China relationship, deglobalization friend shoring a lot of new buzzwords that are part of. The international trade. Vocabulary. So what I want to do this afternoon is make just a couple of points. First of all to remind you and ourselves that we are coming off a remarkable period. In human history. In terms of the evolution of the global economy.

Unfortunately, the past drivers of globalisation have stalled for various reasons that we'll get into. There's a return to geopolitics which has very important economic implications, even if it isn't directly impacting economic policy. And to understand where we are, we have to appreciate where we've been. So that's sort of the overall theme.

Now, I don't have so much of A mathematical learning and a sort of analytical framework, but I want to draw a little bit on some ideas that are sort of parallel with mine. This is a recent book by Claudia Golden, most recent Nobel Laureate in Economics, Professor of Economics at Harvard. With her husband, Harvard economist Larry Katz, trying to explain the skill premium in the United States and wage evolution in the United States and what they say is that it's a race between education and technology.

So if technology is moving ahead rapidly and the supply of skilled workers isn't rapidly as rapidly advancing, you get a rise in the skilled premium. And if you get a reversal. We got to fall on the skill premium trying to explain that overtime. So my analogy would be we can think about global integration the same way that's a race between technology and policy. So technology in general is moving, cutting costs to increase market integration and push markets together. Now policy can either accelerate that bringing of markets together or can act as a break. And try to resist that and bring markets apart. And so this interplay between policy and technology, sometimes they're moving in the same direction. Sometimes they're working at cross purposes. And I think we're in an era now where they're working at cross purposes, but that hasn't always been the case.

So the chart that I'm going to use to sort of frame my remarks is this, which is 1 indicator. Global economic integration. So what this is starting back in 1825. With some early data looking at world exports divided by



world GDP. So there are many measures of globalisation when we can look at financial measures, 2 price measures or what have you, but this is just one indicator of how large world trade is relative to world GDP. And as you can see, it's goes up and down. I'll talk about some of the these different areas here. In fact, you can see certain structural breaks. Or changes in the nature of this relationship. And they're when four of these lines which delineate for US 5 eras. And I want to talk about each of these eras now. The theme here too is, of course, on eras, because who was just here? Taylor Swift. And it was the Eras conference. So this is the economic analogue to her talking about her career.

And so we want to talk about these different eras. OK. So this first era, the long 19th century. OK, starting with after the Napoleonic Wars up to World War One. What technology and policies what's going on with terms of technology? Once again, a lot of new innovations, this picture just here sort of puts them all in one, one package in the upper right, you see the steam ship and then you see the railroad and then you see the Telegraph and you see machinery with the industrial revolution. All these things are reducing. Production costs integrating markets, reducing transportation costs and that accounts to some extent for this rise. This gradual rise in the trade to GDP ratio in the long 19th century.

But there's also policy developments, so you all might know what the 1846 unilateral repeal of the corn laws by Great Britain, but that didn't have necessarily systemic effects. That was one countries effects. But what really got things going was that a treaty signed between Britain and France in 1860 called the Cobden Chevalier Treaty, named for Richard Cobden, the British negotiator. And Michel Chevalier, who was the French minister for the economy, and they reached this agreement to reduce trade barriers between Britain and France.

And it's interesting to note and the sort of a sub theme will be, what's the motivation for trade agreements? We economists like to think it must be economic efficiency or growing the pie. But usually with policymakers, it's something else. There's some political objective, often a foreign policy objective, related to peace and cooperation between countries. And that was certainly Richard Cobden, who had been the leader of the anti-corn league, that was his motivation for reaching this pact with France and he has the statement that free trade is the principle of gratification in the universe that will bring people together into bonds of eternal peace.

You might think he was just hopelessly optimistic about the relationship between economic integration, peace, but that's why he saw it. And why did he see? That way. Well, because if you go to Wikipedia and say how many times had Britain and France fought over the previous centuries, basically almost every year from 1109 to 1815, they're just a few years where they're not fighting. So these are two countries that are constantly engaged in conflict, and the list goes on and on and on. And he cobbled and thought. How can we get peace across the English Channel, but by agreeing to have more mutually beneficial trade that will bring our merchants together and bond our economies together.

Well, this had a systemic effect. What's interesting about the British approach to trade policy as opposed to the American approach in the 20th century is that Britain did not believe in multilateralism. This agreement, they did not want an international institution. They truly wanted the unilateral policy and did not want to force free trade down the throats of other countries. They thought it would be counterproductive to reach trade agreements. This was viewed as a big exception. The Anglo French agreement. But because Britain had discriminatory access to Britain's market, France started signing other trade agreements with other countries.

Other countries then wanted to sign with each other and you got this spaghetti bowl of bilateral trade agreements throughout the early 19th century. In the next 10 or 15 years after the cotton. Value Treaty I believe a previous snake, lectured Jagdish Bhagwati, who I mentioned before, coined this term. Spaghetti



bowl to refer to a bilateral trade agreements and preferential trade agreements, and so this has been called the mother of all spaghetti bowls because it happened so quickly. But it did bind Western Europe together in a first step in terms of these trade agreements, and that also counts those trade agreements to bring down tariffs, accounts for some of the rise in the trade to GDP ratio.

Now backdrop to this period, however, is also this. Pax Britannica. That is, there was one major power. Britain, because of the industrial revolution, because of the power of its Navy to keep open the sea lanes that facilitated commerce that provided an international public good. That is in the background here. Once again, they didn't want to have a WTO or a gate at the time, but they provided the framework that allowed this commerce to take place. Without major European wars during this long 19th century, and you can see that gradual rise, although tariffs began to rise towards the end of period. OK.

Then we had our first break. We know what happens. World War 1 a sharp break. And what happens to global commerce? Well, wars are not good for commerce. It's followed by monetary instability in the early 1920s with a hyperinflation in Germany, deflation elsewhere in the United States. Then there's the resumption of the gold standard, which is flawed. And then in the early 1930s, we have the great deflation and the Great Depression and then that's followed by World War 2. So we have about two or three decades of negative shocks to the global economy. Now technology is proceed. We have radio and other technologies that are bringing markets together, but we'll see in a moment that policy is a break. But really the geopolitical backdrop is German militarism. Two world wars with Germany, a lot of wars in Asia as well, not exactly conducive backdrop to the facilitation of global commerce.

But of course, we all know the policy errors as well during this period, and the US takes some blame here, with the Smoot Hawley Tariff of 1930. You might have heard of that. A completely unnecessary piece of legislation that was introduced into the House before the business cycle peak, the unemployment rate was low. There was no need for this tariff act. It was passed as the US was going into the depression. There's papers on the smooth, high tariff war. Interestingly, economists, this is the front page of the New York Times on the left. Over 1000 economists wrote a petition to President Hoover urging him to veto the act. And actually, it's often commented how economists can't predict things very well. If you read that statement, they predicted almost exactly what was going to happen, including foreign retaliation against the US. There seems to be this denial in United States that other countries might retaliate if the US throws up trade barriers.

So if you listen to President Trump's advisors, Peter Navarro and others, they insisted the European Union would never retaliate against the US for the steel tariffs. China would never retaliate against the US for the 301 tariffs. And of course, both things happened the same. Same thing happened back then as well. And the value of World Trade spirals down even in volume terms that fell significantly was the biggest global shock in recorded history in terms of the decline over that three year period. And I have another book called the Trade Policy disaster on the 1930s, which sort of goes over this episode.

OK, but there is some. A glimmer of hope here, which is President Roosevelt, when the Roosevelt administration takes over 1933, appoints Cordell Health, Secretary of State. He was America's longest serving Secretary of State. He won the Nobel Peace Prize in 1945 for the creation of United Nations. But the Nobel Prize citation also refers. To his efforts to reduce commercial tensions across countries, he started pursuing bilateral trade agreements to reduce tariffs, seeing that a unilateral reduction would not work. And he did so because he was motivated by what he saw during World War One, which was commercial conflict bets and makes it more difficult. All the political problems that countries are facing. So he said I will never falter into my belief that enduring peace and welfare of nations is indissolubly connected with the freedom,



friendliness, fairness and equality and the maximum practical degree of freedom in international trade. He was motivated like Cobden for foreign policy reasons for international peace.

This of course, led to the Bretton Woods Conference. I only plugged this as trade was not discussed here directly, but I mentioned it cause it's in my home state of New Hampshire. So if you ever come to New Hampshire about two hours north of Boston, you can visit the Mount Washington Hotel. And yes, we have sheep in America too. Is the way the hotel looks in 1944. And you can go to John Maynard Keynes's room. You could even rent it out if it's available. You can see the room where the articles of agreement of the International Monetary Fund were signed. This is the way it looks today. And you can take a COG railway up the top of Mount Washington, the highest peak in the northeast. It's a spectacular place.

But it was shortly thereafter that they thought, OK, we got the monetary arrangements done. Now we have to turn to the trade side and once again, what was the motivation? President Roosevelt said we cannot succeed in beating building a peaceful world until we build an economically healthy world as well. So once again, peace and freedom of trade are being linked here. And Harry Truman, his successor, also said exactly the same thing, saying the whole world 1947 is. Devoting our thought and energy to peace and freedom, and they said, these are completely bound up with a third objective, the reestablishment of World Trade. In fact, the three are inseparable. Peace, freedom and World Trade.

The grave lessons of the past have proved it once again reflecting on what had just happened over the previous three decades. That's where we get the gap in 1947. That's where we get stamps in the United States saying, why do we need to revitalise World Trade? It's not just economically beneficial. It can abet the cause of World Peace. The whole mindset of this period can be summarised in this cartoon by Washington Post political cartoonist per block. So what he has here is trade freedom at the bottom. Supporting political cooperation and that's supporting World Peace. And who's off stage shooting peas at the idea of trade freedom, the tariff lobbies? But the idea of these three things are linked. They're inherently related and we have to suppress the tariff lobbies as best we can.

So we have the gap, we have a reduction in tariff barriers. We have an increase in the trade to GDP ratio and we often call this the multilateral system. But it wasn't truly a global system. It was multilateral among Western allies. It did not include the Soviet Union, the Eastern bloc. It didn't include other third world in many instances. And, so what we see is sort of a rise, but by the mid, early 1970s the World Trade GDP ratio had not reached where it had been in 1913 because it was. It was a partial globalisation. After World War 2, not a full globalisation.

Now you can see these rise after in the 1970s. That's because of the oil price shocks, not necessarily because there's massive trade liberalisation that's freeing trade. Every country now had to pay more for its oil. But of course, the political backdrop here is the East and West conflict. That's the geopolitics that prevents the globalisation from being truly global and keeps it compromised across different countries and in fact, going up to 1985, the world is still balkanized, if you will, between different regions that are not fully integrated to one another.

So as late as 1985, there are three worlds. There's the first world in blue. Which are members of the GATT and want to our market economies tend to be democracies, want to promote integration. There's the Second World in red. The communist countries which because of central planning is incompatible with markets and are really not part of the gap experience. And then there's the developing countries in the global S which are hidden behind import. Substitution. Trade barriers. Not really full participants in the GATT either, so the world



economy is fragmented. It's not a full globalisation. But remarkably, what happens? You know, the story here, what happens by just 10 years later? Those three worlds mesh into one. The eastern bloc opens up. Import substitution policies are reduced. Everyone's a member of the WTO. We all have the same playbook. And worldwide economic integration goes up and here this is this fourth period. This fourth air will look what? What happens to the global trade share. It soars. It absolutely soars. And so what's driving this? Well, as I said, there are two factors behind this. Technology and policy.

OK, so what's the technology? Declining transport costs? And new innovations that bring markets together, what's the policy side? We'll get to that in a moment, too. Declining trade barriers. But if we look at declining trade cost, this is from a forthcoming survey in the Journal of Economic Literature. Massive declines in transport costs.

Why? Well, new technological innovations. So even into the 1950s or so, we moved goods through barrels and bags. The pallet was a big introduction to move some of these things. It's very cumbersome, very labour intensive and you can't move very much without some incurring some costs. Of course we all know what the world is like today and flying into Melbourne this morning, you can see the port and the containers and the way in which those things are moved. Much like this don't need much labour, incredibly fast. In United States, they move right onto railroads or right onto trucks, and it's just incredibly efficient.

Now, of course, with any new technology, there can be hiccups. And so things like this can happen, and sometimes these containers get shifted overboard. But the most famous case of this, of course is the famous rubber ducky container, which spilled out in 1992 coming from Hong Kong to Long Beach, spilling tens of thousands – I think about 20,000 – rubber ducks onto the sea, which was a loss for global commerce, but a gain for oceanographers around the world because they could track where these things were landing. Very quickly on the shores of Australia, but up to 10 or 15 years later in the shores of Europe, having crossed through the Arctic Circle and travelling around the world. And if you're interested in that episode, there's a whole book on it, Moby Duck, on the consequences of that.

Think about how we moved cars. In 1971. So what you see here is 4 cars and a lot of people. How do we do it today? Well, they're just ships built for the transportation of cars. Kia, Hyundai and what have you from Korea, from Toyota, from Japan. What have you now? Of course they can have mishaps 2. Kia lost 2000 cars. When the ship tipped over.

So, you want to deal things with these carefully, but these reduced trade costs and integrate markets in ways that we haven't seen before. Technology was abetted by policy. If we look at just a number of countries that are undertaking massive large trade liberalizations to go from closed to open, we see as they're clustered between 1985 and 1995. This is a massive era of global trade integration due to policy changes, particularly not just in the West because of the Uruguay Round, which is incremental, but it was really developing countries like India, like China, opening up for the for global commerce really for the first time. So tariff levels come down in the developing countries to a much greater extent. All these things are propelling this large increase in the trade GDP ratio that we've seen until very recently.

I want to pause for a moment, to emphasise to you how special and unique that 20 year period was in global human history. And how it reshaped the world in ways we're still learning about and still coping with. So if we go back to 1800, when I started my charts and we look at worldwide income distribution... it's a uniform distribution. It's a normal distribution, but notice the poverty line written there. Basically everyone is poor.



There's a small tail on the right. Maybe the Netherlands, Britain, some of Britain. Not all of Britain, very few people above the poverty line by modern day standards.

By 1975, what had happened? Well, we have two worlds, a global rich and a global poor. And so, we have the countries in the West which are to the right, but we have many, many more people in Asia and elsewhere that are still desperately poor. The world is still segmented and fragmented. So, what's going on for this 170 year period? An increase in global economic inequality. Countries have industrialization, the industrial revolution, they get higher productivity, incomes go up and other countries are left behind. This is just the Gini coefficient for the world, looking at global income inequality, and it's going one way for more than a century and a half, almost two centuries.

And that is why Lance Pritchett, the development economist, wrote a piece for the Journal of Economic Perspectives called 'Divergence: Big Time'. The world economy is not converging. It's diverging between the haves and have nots, if you will. Countries are getting richer while other countries just can't seem to catch up. There's always a risk with writing a survey in 1997, I think it is. Because we just said the world economy was changing, that developing countries were opening up and what have you. And so as soon as we talked about great divergences, we start writing about a great convergence. If we look at worldwide income distribution, 2015, just a number of decades later, what has happened is that left hand tail has moved to the right, has moved above the poverty line. And now we have a normal distribution of world income, still very unequal but more equal than it had been in the past. If we look at the snapshots over this period, what we can see is we can go from sort of a dual hump or a bimodal distribution to a more uniform distribution and shifting to the right. Global growth. So what has happened to Mrs Branco Milanovic's work in 20 years? After 1990, we undid a century's worth of increased global inequality. In 20 years. That's remarkable, this decline in global inequality.

So what city is this? Thailand? Any other guesses? I'll let you stew on it for a moment. Will I take a drink? No guesses I can understand why an American audience wouldn't realise this, because this is an Asian country, but you're much closer to Asia.

This is Seoul. Korea is a picture taken by a friend of mine, David Cole, who is in Seoul in 1965, assigned by the USAID. To help restore the economy in 1965. What are the people doing here? Washing clothes. How is that relevant for Korea today? What does Korea export? Washing machines? OK, so human activity is the same, but the way it looks is completely different. This is still in 1960. This is Seoul today. Now, and of course, Seoul is this major city now. This is an extreme example, to be sure, but in country after country that has opened up – I could show you pictures from China and what have you – there's massive transformation in the way cities look. And the living standards of the people in those countries.

What we've seen once again over this past 25 or 30 years or so, a massive decline, global poverty. And notice a lot of this is in the East Asian, the Pacific, where you're located, big reductions. Less reductions in South Asia: India, Pakistan, Bangladesh and what have you. It's declining there though as well. And of course Africa, the least globalised continent, if you will: still stubbornly high levels of poverty. The future of globalisation is in Africa. That's where the population growth is. That's where the economic opportunities are.

But here's another way of picture showing you what happened this in 1993 to show you where global poverty is. Let's go forward 20 years. What does this picture look like? Let me show you again: China, India, Indonesia, Pakistan, a lot of African countries, less response in Africa, but once again big changes. These past 20 or 30 years have often been decried as 'the neoliberal era', often with a sneer that term, 'neoliberalism'. That markets were ruling and the state had shrunk. But this is a historically unique period in human history. Impressive global



growth convergence, poverty reduction. Many challenges and many problems in terms of the environment and what have you, but huge progress made in terms of human wellbeing.

There's always a catch. There's always a 'but', and the 'but' is global geopolitics, which was benign and in recession during this period, because China was worried about getting rich and not throwing its weight around. And Russia was just interested in stabilising, let alone interfering in its neighbour's affairs. So we had this period which has been called the unipolar moment. Where a lot of these developments were allowed to happen.

And now we reach our fifth period that we're in now. That we're still trying to grapple with, even though the first indications were with the global financial crisis, that not everything is great. But world trade bounces back, but it's not on the same path that it was. And then it looked like it was going down a bit, and the most recent numbers are a bit more up, but it's a different era. It's not this expansion that we saw during that period from 1990 to 2010 or so.

Now some of this is natural and to have been expected. Some of it was perhaps unexpected. So, the expected part. Another old friend of mine, Herb Stein, once said "if something can't go on forever, it will stop". And that's sort of what's going on here. We had a lot of technological innovations, the containerization. What's the next thing after containers? Not sure yet, but we've sort of absorbed that. OK, you brought your tariff down from 60% to 5%. What's the next thing you do? Well, you sort of hit diminishing returns in terms of policy, in terms of technology. So, there's a lot of things that were expected. Transport innovations have slowed and so we wouldn't expect that trade to GDP ratio to rise forever.

But then of course, we all know a lot of shocks have happened as well. The US-China trade war under the Trump administration has continued to some extent under the Biden administration. The COVID-19 pandemic, Russia's invasion of Ukraine that increased concerns about national security and the vulnerability of supply chains – not as a result of COVID entirely, but also semiconductors and dependence on Taiwan and Korea – and the geopolitical vulnerabilities there. And so, at least in the United States and across, I think, Western Europe, elsewhere, priorities have changed. In the US, you don't talk about the paramount necessity of increasing the economic pie. It's 'how do we make ourselves more secure, more robust, more, less vulnerable to shocks?' We don't hear about efficiency. In fact, an administration official said, 'Efficiency is sort of a bad thing because it means a race to the bottom and cutting labour'. For us, what we are interested in is security. Security of jobs, security of supply and what have you.

So, priorities have shifted. The reform agenda is put on the backburner and as a result trade barriers have been creeping up. This from the International Monetary Fund, just sort of documenting from Global Trade Alert and elsewhere, since 2018 or so, this creep up of global trade barriers. Now the fear with COVID was this is going to create demands for self sufficiency and trade is going to be permanently shrunk.

Is it the end of globalisation? Not the case whatsoever. Trade within one year was back to where it had been. So yes, there's this big negative shock when COVID hit, but the world economy quickly bounced back in terms of world trade levels. The other line there is the global financial crisis in 2008-9, and that took much longer to recover from. COVID was relatively easy, but of course the big change in geopolitics is the US-China conflict. And you know, you're sort of on the front lines and that to some extent, but it's really a concern that since China's priorities have changed, too, under President Xi and perhaps even a little bit before that, the state is coming back in, that there's a fundamental incompatibility of having private firms compete with state-sanctioned firms or subsidised firms. Or provided credit and the excess capacity that can create, that tie non market



economy doesn't mesh well with the market economy and whether these two things work out well. And of course China itself too has moved inward and the state is taking a bigger role in the economy.

But it's not just that bilateral conflict and the spillover effects to other countries. It's that unipolar moment, when politics was sort of in abeyance, is also been dissipating. And now differences in views among countries is coming to the fore. So this is a study done by Cambridge, in the Centre for the Future of Democracy on the world, dividing up once again from US, Russia and different sort of blocs, and one can see that in the UN vote on whether to sanction Russia or condemn Russia's invasion of Ukraine. For the US, of course, and I think presumably for Australian and the European Union, it's a no brainer. Here's a country that's crossed international borders is trying to take territory in a way that we thought was something of the past. But the world doesn't necessarily see it that way. And if you look at the voting pattern, it's there's certain blocs, but there's a lot of the world that is indifferent, doesn't care, wants to maintain relationships across the board and doesn't want to offend others, doesn't want to take a stand. So political views are fragmenting as well.

And so this political fragmentation and the economic fragmentation, caused by the US-China Trade War, what does that portend for the future? Trade will be less of an engine for growth. Because global opportunities will be constrained. Trade will be less of a force for global equality precisely because the opportunities for developing countries to get onto the ladder with growing world trade were reduced and less efficiency because of higher costs. So if we look at convergence – this is just the deviation of GDP across countries – what we can see is from this, in 2020, it declines quite a bit, but it's sort of flat. In the more recent period, in other words, that convergent process is sort of stalling out and what that means potentially is that this decline in global inequality, that's probably going to level off. The convergence process will be limited.

There are a whole bunch of studies out there by economists at international institutions and in academia trying to quantify what's the cost of fragmentation of markets, either in terms of a trade war, in terms of. Other factors, these ones that have been collected by the International Monetary Fund and report they did late last year and what you can see is decoupling trade, fragmentation, various scenarios that are modelled and the numbers range from you know 1% of GDP up to five or six or 7% of GDP.

But there's no debate about the direction and the cost. So you pick your scenario, you can get some numbers. It's they're. Positive. It means that there's going to be a loss in terms of GDP and usually this is a loss taking off the growth rate. So you may not notice it. You may still be richer 5 year, 10 years down the road, but the growth is going to be attenuated by that. Here's some work done by the World Trade Organisation looking at a decoupling scenario by country. And once again, there are no winners from this process, not China, not Russia, not the EU, not the US or others. And the impacts differ across country. But once again, it's not positive, but countries may be willing to pay that price politically because the objective is not growing the pie it is to make a point internationally against one's countries. And of course Australia here too. Is that, you know, could face some costs in terms of an all out trade war, some modelling done by rod tyres.

So where does this leave us in terms of this new environment? I can only speak really from the standpoint of United States and U.S. trade policy, where I say I come from and there's a bipartisan consensus we talked about, you know, the fragmentation politically in United States and the bickering across the parties.

But actually the parties agree on some things. And one is that. China is a threat. It's an economic threat and it's a geopolitical threat and we have to do something about it and they each try to outbid each other in terms. Of how tough they're going to be.



And unfortunately, there's almost no interest in the WTO anymore. A complete and this stunning. When you think about U.S. trade policy 20 years ago or so, no interest, very little interest in sustaining and enhancing refurbishing the WTO and the rules based international system.

I remember the days when you could go into government meetings. And I worked in government just a little bit. And representatives from the US Trade Representative Office would say we can't do that because it would violate our international commitments and that would shut down the debate. That constraint is not there anymore. If we have to do things for security or defence, national security or what have you, we do it. And I know Australia has been a champion of a rules based international system. The rule book is going out the window. As the Financial Times said, 'Hearts don't beat faster for a rules based international order anymore'. As the Wall Street Journal pointed out recently, it's quietly disintegrating. We even have members of Congress in the United States saying the WTO ought to be abolished. Now this shows the ignorance of certain members of Congress, because the US cannot abolish the WTO, US could withdraw from the WTO, but it's not up to the US to actually take down the institution itself. So maybe it's just the headline writers here. But the implication, at least, is clear.

But it's not just the US who's sort of repositioning itself in terms of trade. Here is just a report this past weekend from the Financial Times on China, also undertaking various strategies and various agreements and various measures to ensure that it can survive too and flourish in a world without an international playbook. But that world doesn't necessarily look. Good for worldwide prosperity because the substitute for a rules-based system is a power based system. Where you leverage concessions. Where you can insist on changes in other markets. It's just a completely different trade policy environment, if the rule book goes out the window.

So just about done, but let me just say, is there any good news? There are glimmers. One is that those the numbers that I showed you in terms of the flattening out, they had been going down for some time, they've come back, but even the downturn has been debated among trade economists looking at some of the data and it could be that that reduced international integration as measured by the trade to GDP ratio is misleading. And that world integration continues to go up, albeit at a slower pace. That's a debate that that we can have in terms of looking at data, but it means that maybe things are not quite as bad as we thought, but certainly the pace of globalisation is not the way it was.

Two, it's actually proving really hard to unravel globalisation. So just as the challenge for policymakers in the 1980s was, we have all these entrenched interests that are want the status quo to be perpetuated and are willing to fight liberalisation measures. Today we're in the opposite world, where the world's largely open, not completely, of course, but it's much more open. And now there are people have a stake in that and who benefit from that. And you're going to be taking something away. We saw those losses in GDP. Governments are going to have to rationalise. Why are you reducing GDP to achieve those other objectives? Is it worth it? So the Trump administration's Congressional Budget Office came out with numbers saying that the Trump administration tariffs would reduce US GDP by 0.2%. Well, it's hard to feel that, but once again, you're taking something away. Someone's being hurt from that process, and it's going to be political pushback. One reason why the President Trump did not withdraw from the North American Free Trade Agreement is because some of his advisors said you should renegotiate it, not get rid of it, because actually some of your constituents who voted for you benefit from that agreement. It's not just this entire loss as you suggest.

And lastly, the rest of the world has moved on. We still have the TPP. African countries recently signed a free trade agreement across Africa, so there's still among some countries a stake in keeping markets open.



But I want to get to Q&A. So let me just sum up by saying that that period from 1990 to 2010 roughly was a remarkable period in human history and global history and economic constraints. We'll be looking back at it for many, many decades to come saying what happened during this period. It was amazing. We have passed this inflection point and I wouldn't say globalisation is in retreat. I'd say globalisation has been attenuated by geopolitics and some other fracturing that has been going on, but it's not clear that it's going to be going down and that, but the rules based system does not look in good shape and geopolitics is inherently fragmenting. Even if the tariffs don't go up across countries, when there's political considerations at stake, people are going to ask, who are your friends? Where is the investment coming from and what have you?

And I'd say the future depends a lot on Xi. We sort of got used to a reforming China for many, many decades after Deng Xiaoping that they were on sort of a market oriented path. They're not on that path anymore, and perhaps it was never they would never stay on that path. But there was always hope that a new regime could come in if the economic cost of the Chinese economy are severe enough, saying we need economic liberalism. Liberalisation to propel economic growth once again.

I'll close with just something from Gideon Rockman of the Financial Times, whose sentiments I would echo saying that for all the discontents that hyper-globalisation has created, I suspect in the decades to come this period will be seen as a golden era of peace and prosperity. The world may soon discover that globalisation is the worst possible system apart from all of the alternatives.

Thank you very much for your attention. I look forward to your questions.