GLOBALIZATION'S PEAK

Trade plateaus and restrictions rise, marking a new era for globalization

THE FREE FLOW OF GOODS, services, capital, people, and ideas across national borders leads to greater economic integration. But globalization, the trend toward these things moving ever more freely between countries, has seen ebbs and flows over the decades and most recently has hit what appears to be a momentary peak.

The trade openness metric—the sum of exports and imports of all economies relative to global GDP—is used as a proxy for globalization. Looking back over a century and a half of data, the main phases of globalization are clearly visible.

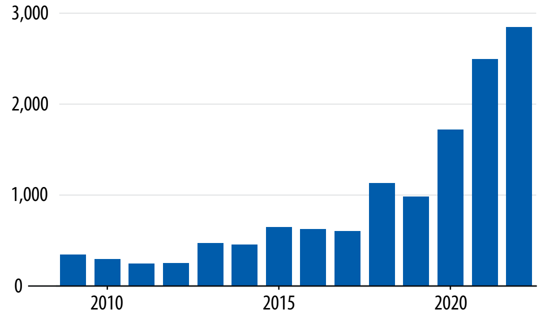
As the charts show, the index has plateaued on a global level since 2008, and the metric has receded for some of the world's largest economies. At the same time, there has been a significant surge in trade restrictions globally over the past few years.

These trends do not bode well for the future of globalization, and they have come into sharper focus this year as policymakers work to understand and address the prospect of growing geoeconomic fragmentation.

This follows a rise in trade tensions between the world's two largest economies, the United States and China, and more recently following Russia's invasion of Ukraine, which has caused massive disruptions of financial, food, and energy flows across the globe. In addition, COVID-19 has increased the focus on economic security and on making supply chains more resilient after the pandemic exposed their vulnerability in many countries. FD

Rising restrictions

(number of trade restrictions imposed annually worldwide)

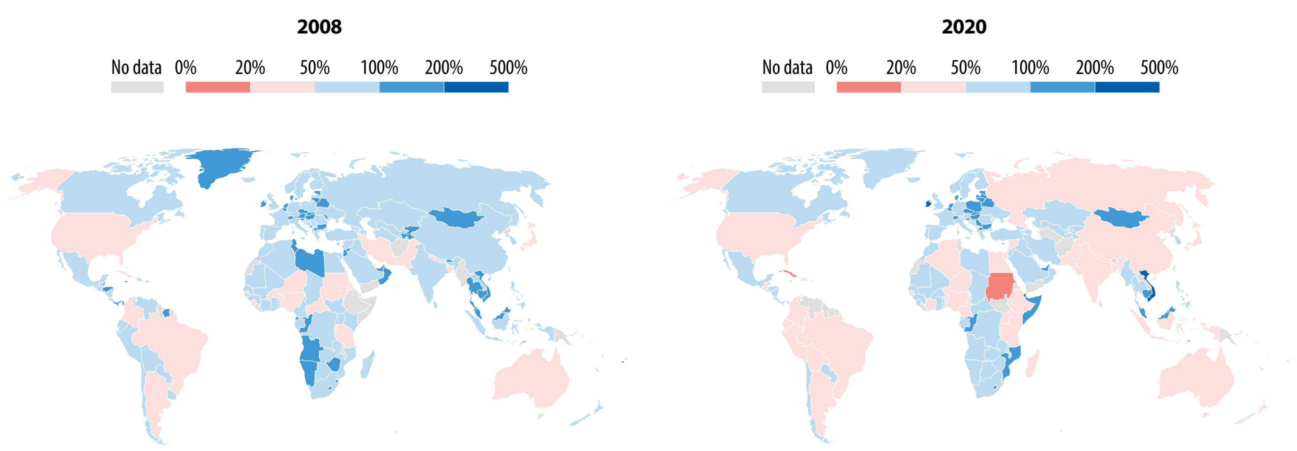


Source: Global Trade Alert.
Note: Includes restrictions on goods, investment, and services.

ANDREW STANLEY is on the staff of *Finance & Development*

Trade retreat

Trade openness has receded for many countries since the global financial crisis of 2008, including for some of the world's largest economies.
(sum of exports and imports as a share of GDP)



Sources: Organisation for Economic Co-operation and Development; Our World in Data; and World Bank.
Note: Includes both goods and services. The boundaries, colors, and any other information shown on the map do not imply, on the part of the IMF, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

Eras of globalization

The history of globalization is characterized by five main periods of different configurations of economic and financial power and different rules and mechanisms for economic and financial ties between countries.

1870–1914: Industrialization

The industrialization era was a period when global trade—dominated by Argentina, Australia, Canada, Europe, and the United States—was facilitated by the gold standard. It was driven largely by transportation advances that lowered trade costs and boosted trade volumes.

1945–1980: Fixed Exchange Rates

During the Bretton Woods era the United States emerged as the dominant economic power, with the dollar, then pegged to gold, underpinning a system with other exchange rates pegged to the greenback. The postwar recovery and trade liberalization spurred rapid expansion in Europe, Japan, and developing economies, and many countries relaxed capital controls. But expansionary US fiscal and monetary policy driven by social and military spending ultimately made the system unsustainable. The United States ended dollar-gold convertibility in the early 1970s, and many countries switched to floating exchange rates.

1914–1945: Wars, Protectionism

The interwar period saw a dramatic reversal of globalization due to international conflicts and the rise of protectionism. Despite the League of Nations push for multilateralism, trade became regionalized amid trade barriers and the breakdown of the gold standard into currency blocs.

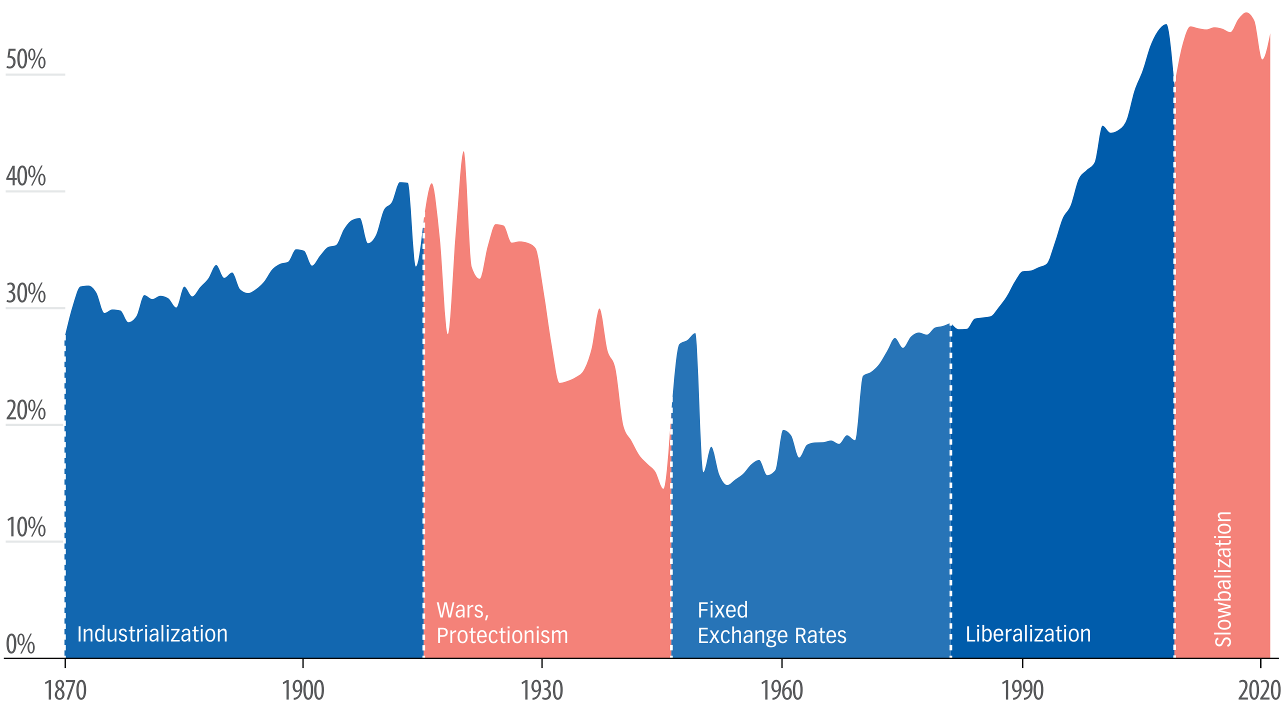
1980–2008: Liberalization

Liberalization saw the gradual removal of trade barriers in China and other large emerging market economies and unprecedented international economic cooperation, including the integration of the former Soviet bloc. The World Trade Organization, established in 1995, became a new multilateral overseer of trade agreements, negotiations, and dispute settlement. Cross-border capital flows surged, increasing the complexity and interconnectedness of the global financial system.

2008–2021: "Slowbalization"

The slowbalization that followed the global financial crisis has been characterized by a prolonged slowdown in the pace of trade reform and weakening political support for open trade amid rising geopolitical tensions.

Sum of exports and imports as a share of GDP



Sources: Jordà-Schularick-Taylor Macrohistory Database; Penn World Data version 10.0; Peterson Institute for International Economics; World Bank; and IMF staff calculations.
Note: Sample's composition changes over time. The concept of eras of globalization is based on the work of Douglas Irwin at the Peterson Institute for International Economics.