

The year that bid au revoir to hyperglobalisation

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IN 1910, British journalist Norman Angell published a book titled *The Great Illusion*, which argued that war in the modern era was an “economic impossibility”. The sheer extent of financial and commercial interdependence between countries made conflict as futile for the conqueror as the conquered. By 1913, *The Great Illusion* had sold over a million copies and been translated into 22 languages.

Angell was proved wrong. On July 28, 1914, World War I broke out, ending only on November 11, 1918. It also ended the first “golden age” of globalisation between 1870 and 1914, when world trade in goods surged from 9% to 16% of GDP. This was a period of internationalisation of economic and social life when, as the Cambridge economist John Maynard Keynes put it, “the inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep”.

By the time World War II began in September 1939, the share of merchandise trade in global GDP had collapsed to 5.5%. It recovered gradually thereafter to reach the pre-World War-I levels only towards the late-1970s.

In December 1996, yet another journalist, Thomas L. Friedman, wrote in *The New York Times* that “no two countries that both have a McDonald’s have ever fought a war against each other”. He propounded this “thesis” just when the world had entered a new era of

what Arvind Subramanian — who became Chief Economic Adviser in India — termed “hyperglobalisation”. Between 1990 and 2008, global trade in goods soared from 15.3% to 25.2% of world GDP. Inclusive of trade in services, the increase was from 18.8% to 31.7%.

That era formally ended in 2022, which has seen not one, but two wars. Both have upended the assumption of “doux commerce” — encapsulated in the sayings of the French philosopher Montesquieu that “commerce is a cure for the most destructive prejudices” and “peace is the natural effect of trade”.

The first war was Russia’s invasion of Ukraine. The second is an economic war — a geopolitical confrontation between two superpowers.

In early-October, the US restricted exports of high-end semiconductor chips, and the equipment to make them, to China. Further, it pressured the Netherlands, Japan and other countries to bar their chip gear manufacturers from supplying to China. By erecting a “silicon fence” around China, the US is seeking to cut off Beijing’s access to advanced semiconductors and the technology to produce these chips, which pack transistors at widths of 3-14 nanometer (nm or one-billionth of a meter; the smaller the distance between transistors, the more such devices can fit in a given space and the higher the processing speeds).

Till recently, not many had imagined that Russia would forcibly occupy Ukraine. Both had McDonald’s, after all. Under former President Donald Trump, the US imposed tariffs on Chinese imports and blocked telecom equipment giant Huawei from obtain-



This was the year the world moved away from the theories of Adam Smith (left), David Ricardo (centre), and John Maynard Keynes. Wikimedia Commons

ing American components and technology. But those pale in comparison to the current sweeping semiconductor export curbs.

In a hyperglobalised world, not only were wars passé, but economies broadly followed the principles laid down by the late-18th/early-19th century economists Adam Smith and David Ricardo. Smith put it

straight in his *Wealth of Nations*: “If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage”.

Ricardo went one step ahead. Countries, he said, could produce even things in which they had no “absolute advantage”. What mattered was “comparative advantage”.

He illustrated this with an example of two

countries producing two goods. Suppose it took 100 hours to make one unit of cloth and 120 hours for one unit of wine in England, whereas Portugal required 90 hours for the former and 80 hours for the latter. Clearly, Portugal enjoyed absolute advantage producing both goods. Ricardo argued it still made sense for England to simply manufacture cloth and for Portugal to specialise in wine. It would result in 2.2 units of cloth and 2.125 units of wine being produced over 220 hours and 170 hours in England and Portugal respectively. The two were better off, then, producing one good and importing the other.

Belief in comparative advantage is what propelled the second golden age — of “hyperglobalisation” — after 1990. It confirmed to Ricardo’s principle of each country devoting its resources “to such employments as are most beneficial to each”.

Hyperglobalisation’s chief protagonist, however, was China, emerging as the “world’s factory” and a “mega-trader”: Subramanian, in a 2013 paper coauthored with Martin Kessler (“The Hyperglobalisation of Trade and its Future”), estimated China’s share in world merchandise trade to have risen from 1.8% in 1990 to 11.1% in 2012. This, even as that of others fell: Germany (12% to 7.6%), the US (11.3% to 8.4%) and Japan (8.2% to 4.3%).

The entire system of free trade was founded upon trust and comparative advantage trumping geopolitics. *Doux commerce* — the idea that trade makes people less prone to violence or irrational behaviour — led to Russia supplying close to 40% of the European Union’s total natural gas consump-

tion in 2021, Apple having its biggest iPhone factory in China’s Zhengzhou (operated by a Taiwanese contract manufacturer Foxconn), Taiwanese companies producing 65% of the world’s semiconductors, India grabbing a 30% share of the global IT services market, and Bangladesh exporting readymade garments valued at almost \$43 billion last year.

That world — “happy age”, as Keynes would have called it — came to an end in 2022.

The signs were there. Global trade peaked in 2008, just before the financial crisis. By 2020, world merchandise trade had dipped to 20.8% of GDP, and to 26.9% for both goods and services. But it had never come to a situation where Russia would actually wage war and prompt countermeasures by the West.

While such curbs are meant to penalise and deter aggressors, whom they are hurting more is an open question. How much more is Europe paying for liquefied natural gas imported from the US and Qatar vis-à-vis Russia?

The greatest collateral damage is to the global trading order. From production based on comparative advantage and grains, it’s each nation for itself now.

India is granting incentives amounting to 30-50% of project cost for semiconductor units manufacturing less-sophisticated 28-65 nm range chips. Five years ago, it may not have considered this worth taxpayer money.

If history is any guide, restoration of world trade from the ravages of militarism does not happen overnight. And it’s unlikely to in 2023.

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