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HIGHLIGHTS

- After decades of surging trade, global export growth has recently lost steam.
- There are a combination of cyclical and structural reasons for this diminished performance.
- Cyclical reasons include the lingering effect of the financial crisis, a subtle trend toward protectionism and geopolitical conflict.
- Structural reasons include sustainably slower emerging-market growth, rising competitive parity, saturated foreign markets and current-account rebalancing.
- The cyclical factors should partially rebound over the next few years but the structural components will not, imposing a slight but enduring constraint on economic growth, and leading to marginally higher inflation.

WITHER GLOBALIZATION?

Globalization – for good or ill – was an unstoppable freight train over the past several decades, running roughshod over whatever got in the way. Lately, however, it has begun to lose some steam (Exhibit 1). Global trade growth is suddenly on a much slower trajectory, raising serious questions about whether this deceleration is a mere blip or a signal of withering globalization (Exhibit 2).

In an effort to answer that question, this report delves into the backstory of globalization, investigates the extent of the trade deceleration, why trade has slowed (Exhibit 3), the outlook going forward and what it all means for the global economy.

In brief, our findings are that around half of the changes to the trade dynamic are structural in nature, meaning a permanent loss. But the other half appears to be cyclical, suggesting at least a partial rebound in export growth in the coming years as global growth lifts off. This mixed assessment is moderately relieving, but nevertheless argues that an important support for global growth is fraying around the edges. This brings particular consequences for emerging-market growth, and may even impact inflation and inequality.

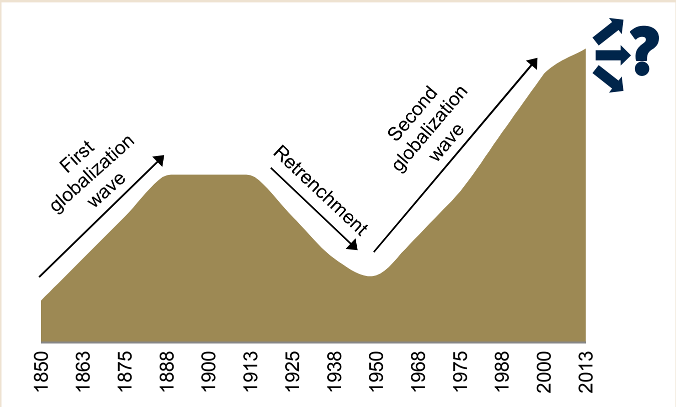
A history of trade

The modern era of globalization began fitfully at the close of the Second World War, strengthened through the 1970s and 1980s, and then shifted into overdrive in the 1990s and 2000s as China and the Soviet Bloc economies began to open themselves to the world (Exhibit 4).

Exhibit 1: Global trade underperforms

Note: Global manufacturing PMI in 4-month lead. Source: IMF, JP Morgan, Markit, Haver Analytics, RBC GAM

Exhibit 2: Globalization ebbs and flows



Source: Obstfeld and Taylor (2004), "Global Capital Markets: Integration, Crisis, and Growth", RBC GAM

Global trade soared over this period, sustaining a growth rate almost twice that of the economy. As a result, trade[1] increased from just 35% of the size of GDP in the mid-1980s to more than 60% today (Exhibit 5).

This globalization unleashed a torrent of demand, productive capacity and competition-driven innovation, all of which boosted the global economy to new heights. Emerging markets basked in outsized economic growth and rising standards of living. The developed world enjoyed low prices, better product selection, expanded investment opportunities and inexpensive borrowing costs.

Of course, globalization has also brought challenges, among them a rapidly shifting economic landscape that has left many workers and businesses behind, and an increasingly interconnected globe that is more vulnerable to the transmission of negative shocks between nations.

[1] The sum of exports and imports.

Trade derailed

It is thus highly notable that globalization – especially globalization narrowly defined through the lens of trade[2] – appears to be slowing.

Since the start of 2011, real export growth has merely matched GDP growth, not doubled it (Exhibit 6). Trade performs better than this a whopping 90% of the time. Had exports continued their usual trajectory, there would be an additional US$1.4 trillion of annual global exports by now (Exhibit 7).

Providing further perspective on the extent of this disappointment, the White House famously avowed in early 2010 to double U.S. exports within five years. With just one year left, they have progressed less than one-third of the way to that target. Disappointment abounds.

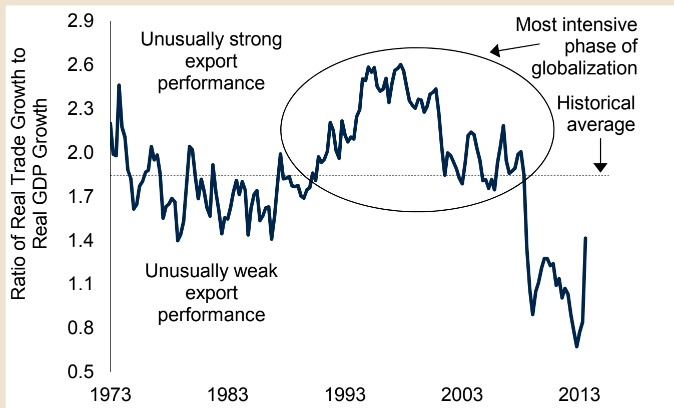
[2] A more expansive definition might include flows of capital and people, and even venture into the realm of culture. The flow of capital has also slowed, but not that of people or culture.

Exhibit 3: Why did trade slow?

CYCLICAL	STRUCTURAL
▪ Geopolitics	▪ Emerging-market slowdown
▪ Lingering financial crisis	▪ Competitive parity
▪ Protectionism	▪ Trade saturation
	▪ Current-account rebalancing

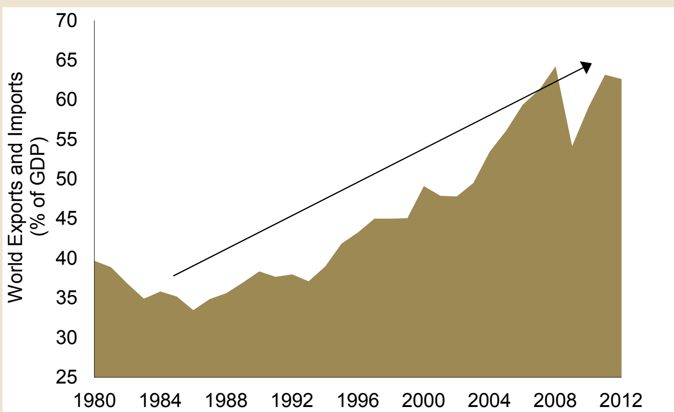
Source: RBC GAM

Exhibit 4: Rate of globalization peaked in 1990s and 2000s



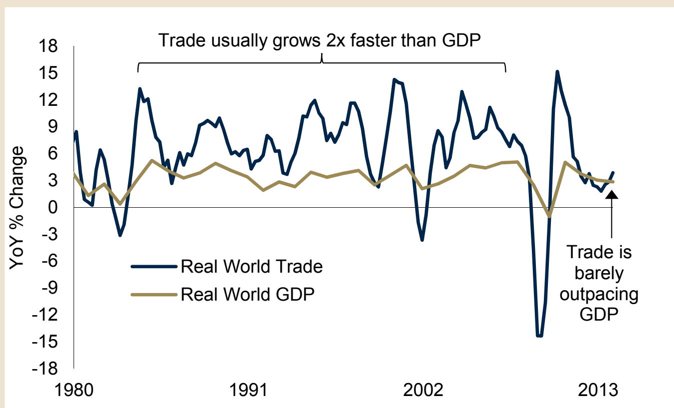
Note: 5-year trend of real trade growth versus 5-year trend of real GDP growth. Historical average since 1973. Source: OECD, Haver Analytics, RBC GAM

Exhibit 5: Globalization boosts trade orientation



Note: World exports and imports of goods and services.
Source: UNCTAD, RBC GAM

Exhibit 6: Trade should be growing faster



Source: OECD, Haver Analytics, RBC GAM

Confirming diagnosis

In assessing this feeble performance, we must be sure not to misdiagnose the problem as something more than it is.

Might trade be weak because economic growth is coming from inward-facing sectors of the economy? For instance, government spending has been a disproportionate driver of economic growth in recent years, and governments rely less on imported products than do other sectors. Perhaps this explains a diminished inclination toward trade. However, when we model trade growth individually against economic components such as consumption, business investment and government spending, we still find that imports are growing much too sluggishly.[3]

Could the trade slowdown be due to severe problems in a single country or region? No. The world's major nations have all experienced surprisingly weak export growth (Exhibit 8).

Are isolated sectors to blame for the trade slowdown? Again, no. It is shared roughly equally between goods and services (Exhibit 9).

Finally, what if the trade slowdown is merely a fevered illusion induced by lower prices or gyrating exchange rates? But this is impossible. The great majority of our calculations rely on the volume of trade, not its value, eliminating the possibility of a pricing explanation. And the value of the U.S. dollar – in which global trade is customarily calculated – is roughly unchanged since the trade slowdown set in.

So what has caused trade to fare so poorly? The answer can be broken into cyclical and structural components.

Cyclical drivers

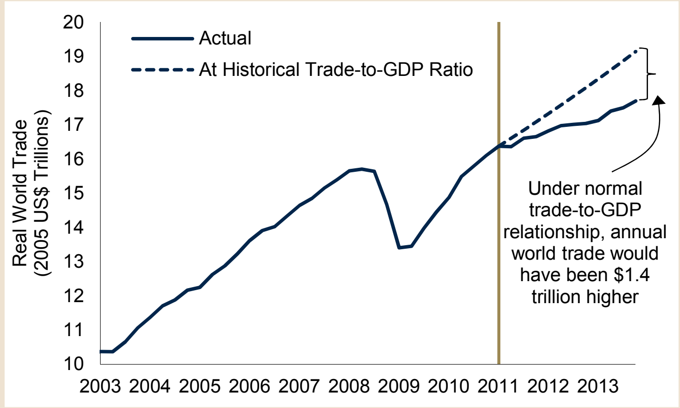
Some candidates are cyclical in nature, meaning that while they exert negative pressures now, they should eventually relinquish their grip. Into this category we place the effects of geopolitical strife, lingering elements of the financial crisis and the scourge of protectionism.

1) Geopolitics

Geopolitical tensions – of which there are many – are a possible reason for slower trade. China and Japan, the world's second- and third-largest economies, are in hot dispute over an obscure island chain in the East China Sea, and anecdotal reports suggest that consumers in the two countries have shunned the other country's wares. The conflict over Ukraine has pitted Russia against Europe, with escalating economic sanctions. Meanwhile, the Middle East and North Africa remain politically and economically unstable.

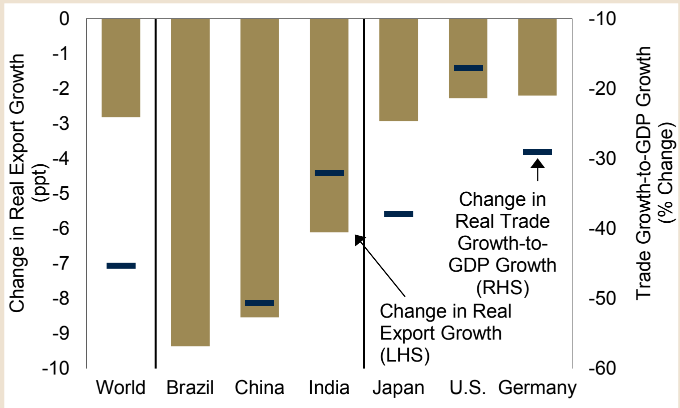
Ultimately, however, we are forced to reject geopolitics as a central reason for the trade weakness. Since the China-

Exhibit 7: World trade should be higher



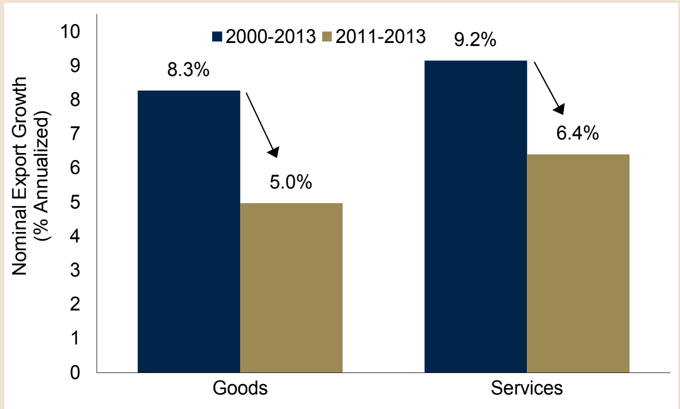
Note: Quarterly real world trade annualized. Source: OECD, Haver Analytics, RBC GAM

Exhibit 8: Decelerating trade by country



Note: Change in real export growth measured as average annual growth from 2011 to 2013 minus that for the period of 1980 (or, if unavailable, the earliest possible date) to 2013. Percentage change in trade growth-to-GDP growth calculated using the same time periods. Brazil dash excluded as declining exports rendered the ratio meaningless. Source: OECD, Haver Analytics, RBC GAM

Exhibit 9: Decelerating exports span both goods and services



Source: OECD, Haver Analytics, RBC GAM

[3] This analysis was performed on the U.S. economy.

Japan dispute intensified in September 2012, trade between them has indeed been impacted (Exhibit 10), but only to a slight degree, with perhaps $20 billion to $30 billion dollars of foregone annual trade. This barely puts a dent in the $1.4 trillion trade gap.

It is too soon to say whether the Ukraine dispute will materially affect global trade, but that is precisely the point: the conflict couldn't have been a central reason for the trade underperformance over the past three and a half years since it did not surface until seven months ago. Moreover, the sanctions that exist as we write this are still limited (though rising quickly).

And although the Arab Spring fits the 2011 timeline for the trade slowdown, the economies of the affected nations are just too small to explain much on the global stage.

2) Lingering financial crisis

Financial crises bring a great deal of undesired baggage, some of which lingers for years. For instance, as depicted in Exhibit 11, standard consequences include slower-than-normal economic growth and protectionism. Might these, in turn, explain the trade slowdown?

Weaker economy

On the subject of economic growth, there is no question that it has been slower than usual since the initial rebound from the 2009 recession. Timing-wise, this presents itself as a plausible candidate to explain diminished trade growth.

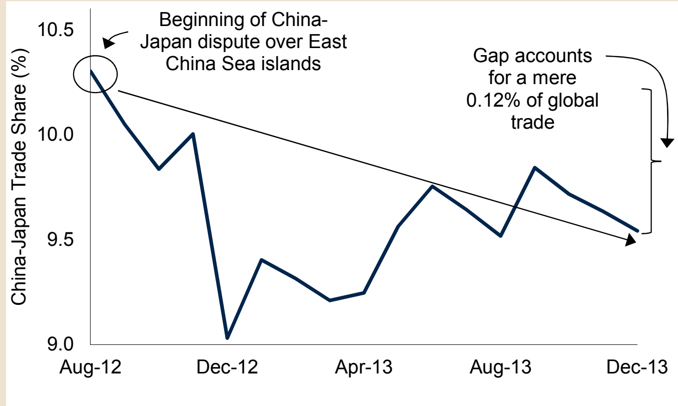
Certainly, slower economic growth has resulted in slower export growth on an absolute basis. This is not subject to serious dispute.

The question that remains is whether slower economic growth might have an outsized effect on trade growth. Perhaps exports don't outpace GDP by a factor of two during periods of subdued growth. There appears to be something to this theory: trade is a jittery specimen, demonstrating a range of movement that is three times more violent than GDP (Exhibit 12).

Does this jitteriness explain part of the trade weakness? The answer is a definite "yes." Our calculations find that in the context of the recent pace of global economic growth, real exports should be expanding at just 5% per year, rather than the norm of 6% (Exhibit 13).

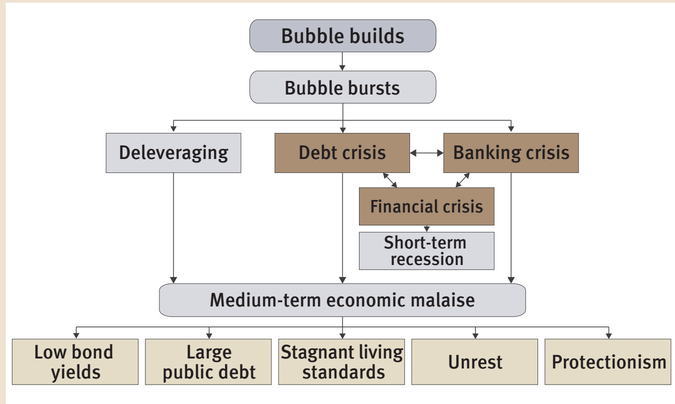
Of course, actual exports haven't even managed this, instead churning in the vicinity of a mere 3% annualized growth. Thus, we can say that the sluggish economic environment is responsible for a significant 30% of the trade underperformance, but nowhere near all of it.

Exhibit 10: Geopolitics crimp China-Japan trade only slightly



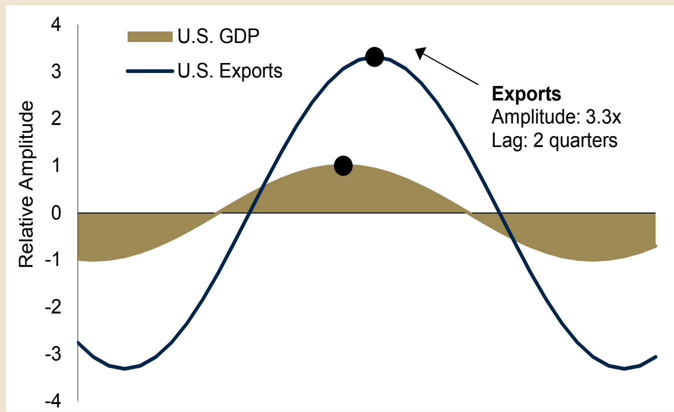
Note: China-Japan trade share defined as the sum of Chinese exports to Japan and Japanese exports to China as % of total Japanese and Chinese exports.
Source: IMF, Haver Analytics, RBC GAM

Exhibit 11: Crisis progression flowchart



Source: RBC GAM

Exhibit 12: Export cycle: jittery and lagged



Note: Relative amplitude measured as ratio of standard deviation of growth of exports to that of overall GDP. Lead/Lag by quarters relative to GDP.
Source: Haver Analytics, RBC GAM

Trade finance hole?

"Trade finance" is a fancy term for letters of credit that guarantee payment when an international order is delivered. They are a central – if under-heralded – enabler of international trade, with 20% of U.S. exports dependent upon these facilities to reduce the trading risk.

The financial crisis naturally put banks on the defensive, prompting them to conserve their capital and de-risk. Initially, this sharply reduced the availability of trade finance, impeding trade. However, government-run export credit agencies soon filled the void left by banks. In fact, emerging-market nations – especially China – have aggressively built their own trade finance agencies over the period, adding even more capacity.

Thus, while one can quibble that government-run trade finance distorts the market by subsidizing certain firms and countries over others (more on protectionism shortly), a lack of available trade finance isn't a plausible reason for recent sluggish trade growth.

3) Protectionism

Global economic conditions are undeniably ripe for a swell of protectionism:

- A sustained period of economic hardship tends to elevate xenophobic attitudes, leading to anti-trade and anti-immigrant policies.
- As governments deploy their resources to address elevated social needs, and with enlarged fiscal deficits, they are especially vigilant in trying to minimize the leakage of that stimulus abroad.
- A rising public focus on inequality creates a temptation to dampen one of the key contributors to this phenomenon – globalization.[4]

Indeed, whereas the world was until recently focused on breaking down trade barriers – the formation of the European Union (EU) is a good example – the tide seems to have turned. This is evident in the rise of Europe's Euroskeptic parties, in the aspirations of various separatist movements scattered around the world and in a general feeling of unrest.

Although international tariffs have declined nicely over the past few decades and a handful of trade agreements have been struck in recent years,[5] careful observation reveals a glint of protectionism. Tariffs are beginning to edge higher, and other insidious forms of protectionism are swelling (Exhibit 14). Granted, none of this is on the scale of the U.S. *Smoot-Hawley Tariff Act of 1930*, which contributed to a multi-decade trade tailspin, but a barrage of smaller actions may nevertheless be having an effect.

Long lags

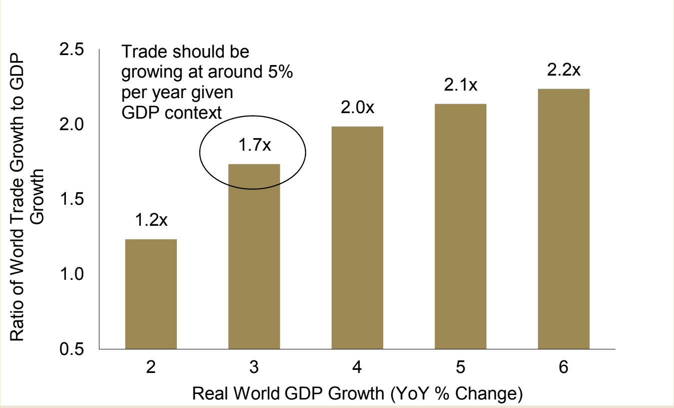
One problem is that pro-trade developments come agonizingly slowly relative to negative actions. Many proposed trade deals – such as the Asia-focused Trans-Pacific Partnership and a U.S.-EU deal – languish for years in the negotiation stage. Then, even when deals are "struck" – as in the case of the recent Canada-EU trade deal – the reality is additional years of ironing out the details, legislating and then phasing in the new laws.

In contrast, a tariff or equivalent trade barrier can be imposed unilaterally over the weekend.

[4] Though arguably automation and declining unionization are at least as important drivers of inequality in the developed world, and the rate of return on capital may also matter.

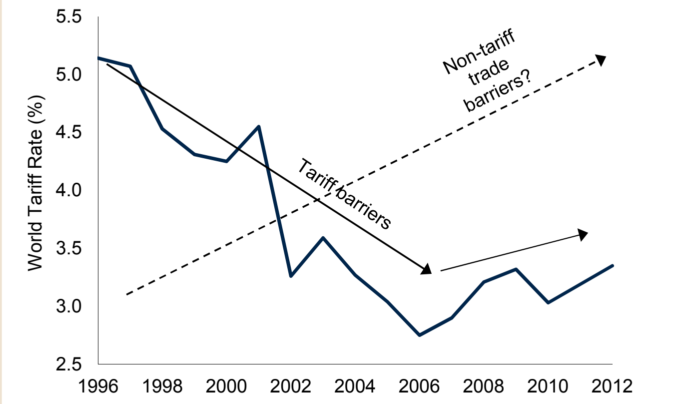
[5] There has been a pitter-patter of free-trade agreements negotiated or struck between nations, and the World Trade Organization (WTO) achieved an important deal in late 2013.

Exhibit 13: Trade has an outsized response to GDP



Note: Ratio derived from model created based on historical relationship of trade growth and GDP growth. Source: OECD, Haver Analytics, RBC GAM

Exhibit 14: Tariffs have declined, but other barriers have grown



Note: Applied weighted mean of world tariff rates for manufactured products. Source: World Bank, Haver Analytics, RBC GAM

Regulatory complexity

In recent years, when trade deals have actually been reached, they have tended toward a patchwork of bilateral and regional trade treaties rather than farther-reaching multilateral deals. This is a pity, as it introduces a mind-boggling degree of regulatory complexity.

From the perspective of exporters, every bilateral trade deal forces them to grapple with literally thousands of pages of rules to determine what they can and cannot export, and how to go about doing so. Environmental, safety and packaging requirements become ever more precise and varied. For small- and medium-sized businesses, this kaleidoscope of regulations means it simply isn't practical to export to a wide range of countries. Quite possibly, they would have preferred to pay the old standardized tariff.

Artificial barriers

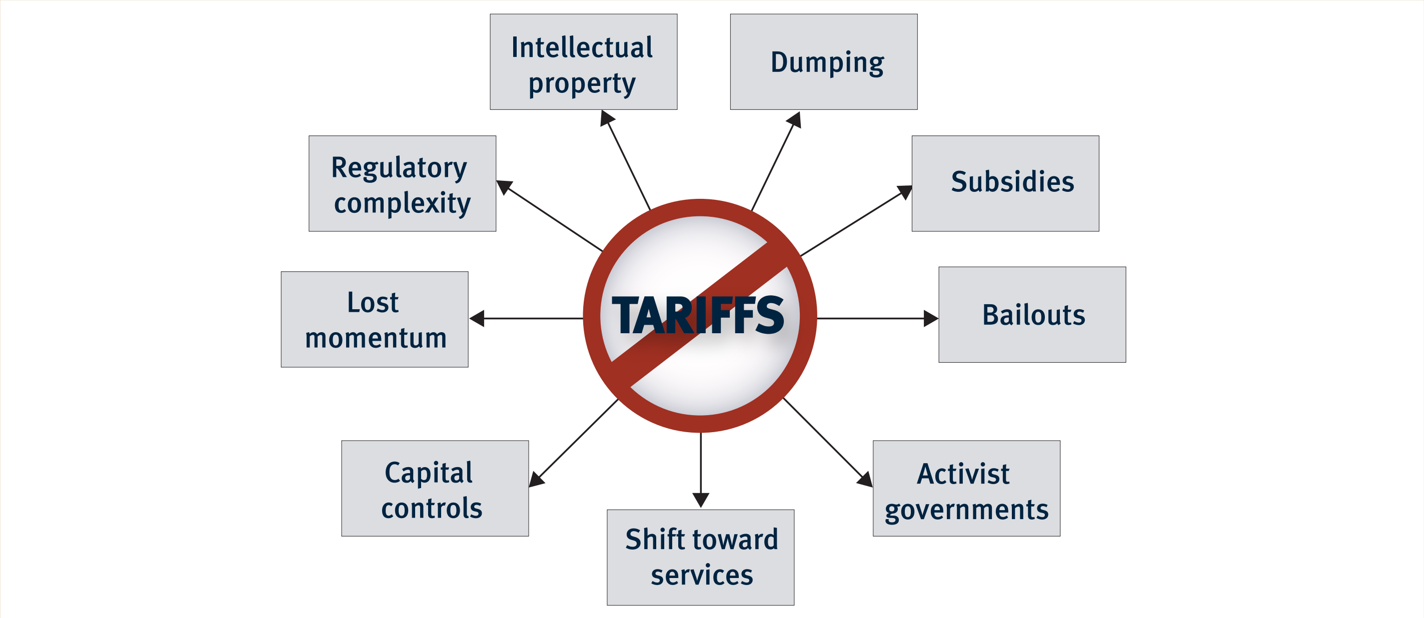
The progress towards freer trade is sometimes overstated. Canada provides an instructive example. While Canada recently struck much-celebrated free-trade deals with the EU and South Korea, less attention is paid to the tariffs it has raised on 72 fast-growing emerging economies (including the big four of China, India, Brazil and Russia) by an average of 3 percentage points.

One academic study finds that since November 2008, G-20 nations have introduced a mind-boggling 1,500 protectionist measures. Our sense is that non-tariff trade barriers are particularly on the ascent (Exhibit 15). Varieties include:

- **Intellectual property:** As the knowledge economy expands and patents become ever more expansive, intellectual property disputes are increasingly taking centre stage as a tactic for blocking foreign companies from entering certain markets.
- **Dumping:** Accusing a foreign company of selling its products at a loss in an effort to gain a market toehold is another popular technique to undermine foreign entry while circumventing World Trade Organization (WTO) rules against explicit tariffs.[6]
- **Subsidies:** Government subsidies for domestic companies via below-market borrowing costs, a preferential tax rate and/or subsidized wages provide a powerful barrier to entry against foreign firms, and a potent advantage in navigating foreign markets.
- **Preferential procurement:** Despite dubious legality, "buy domestic" clauses have repeatedly reared their heads in government procurement initiatives, most prominently in the U.S.
- **Bailouts:** During times of crisis, government bailouts to domestic firms provide an enormous advantage, whereas foreign-held firms are more likely to be forced to fend for themselves.

[6] Though it should be conceded that anti-dumping duties are by their very nature quite narrow in their application since they must identify a particular firm selling a particular product, as opposed to tariffs, which can be applied as a blanket across an entire sector or country.

Exhibit 15: Non-tariff barriers dominate



Source: RBC GAM

- **Activist governments:** Governments appear to be especially "busy" at present, potentially obstructing trade. Some of this relates to the aforementioned preferential procurement and bailouts. Another example is that while NAFTA in principle gives the U.S., Mexico and Canada unimpeded access to one another's markets, in practice many barriers can exist. For instance, Canada's efforts to export more oil to the U.S. have been repeatedly stymied by delays to the Keystone XL pipeline decision.
- **Compositional shift toward services:** As the world grows richer, economic output tends to become ever more service-oriented. It is unhelpful, then, that key service sectors such as banking, telecom and transportation tend to have large barriers to entry. These barriers are sometimes legislated, but sometimes merely the result of strong reputational advantages, economies of scale, the complexity of the service and customer inertia.
- **Capital controls:** Tighter capital controls restrict the flow of money, indirectly hindering the flow of trade (Textbox A).

Lost momentum

For any reader still skeptical that trade barriers are rising, a softer and therefore more easily digested version of the argument is simply that trade barriers are falling less quickly than before.

Perhaps the trade benefits accruing from the grand successes of the past few decades – the entry of China and the Soviet Union into the global economy, and the landmark free-trade deals within the EU and North America – have now been fully paid out.

By extension, additional major policy achievements will be needed to drive globalization much further. Certainly, one can think of mid-sized trade deals on the horizon, but the dream of global free trade remains elusive: 13 years have passed since the WTO's Doha Round of negotiations began, without resolution.

Protectionism final thoughts

By several measures, then, protectionism is an impediment to trade. The challenge lies in quantifying this. One academic paper[7] finds that protectionism did indeed increase in the throes of the financial crisis, but it could explain only a small fraction of the initial trade collapse during the crisis. Of course, trade has since partially rebounded while the protectionist environment has seemingly worsened. These combine to argue that protectionism must constitute a significantly larger fraction of the remaining trade underperformance today. We estimate that protectionism accounts for around one-fifth of the global trade shortfall.

[7] "Is Protectionism On The Rise During The Crisis?" by Kee, Neagu and Nicita.

TEXTBOX A: CAPITAL CONTROLS

When a product is traded in one direction, money flows in the other. It follows that another way of evaluating the barriers to trade is to examine the barriers to the free flow of capital.

Confirming the protectionism thesis, McKinsey finds that cross-border capital flows have diminished by a sharp 61% from pre-crisis levels through to 2012. Much of this decline reflects a tighter regulatory environment that constrains the activities of banks.

In recent years, there has certainly been a philosophical shift in favour of (limited) capital barriers. Even previously ideologically pure bastions like the International Monetary Fund (IMF) now concede that there are times when capital controls can be appropriate to prevent excessive currency and capital flow volatility.

Since the financial crisis struck, several countries have implemented tighter capital controls, starting with Iceland in 2008 and proceeding onward to Brazil, South Korea, Thailand, Indonesia and Cyprus. France and Canada[1] have both erected selective barriers to foreign direct investment. And of course China has long had fierce capital controls.

Even to the extent that capital can legally navigate its way around such barriers, the message is loud and clear that the money is not entirely welcome.

[1] In the form of rules that limit the entry of state-owned enterprises into the Canadian oil patch.

Structural drivers

In addition to these cyclical drivers, structural – and thus more enduring – factors have also eroded global export growth. We identify four: an enduring emerging-market economic slowdown, greater competitive parity, the possibility of saturated foreign markets and the effects of current-account rebalancing.

1) Emerging-market slowdown

Emerging-market economic growth has slowed strikingly over the past few years (Exhibit 16).

Naturally, this has had a significant effect on trade. To illustrate, China's import growth has tumbled as its demand has slowed, and export growth has also fallen (Exhibit 17). Indeed, emerging-market trade growth has decelerated more severely than among developed nations (refer back to Exhibit 8).

Why is this discussion held separately from the earlier commentary on a weaker-than-normal global economy? There are a couple of reasons:

A) The emerging-market slowdown is separate from the sluggish growth in the developed world. Whereas the developed-world slowdown was clearly the effect of the global financial crisis, emerging-market economies sailed through the crisis and have only slowed more recently. Providing confirmation of a sort, the IMF calculates that the bulk of the recent emerging-market slowdown relates to factors specific to developing economies rather than shrapnel from the global economy (Exhibit 18).

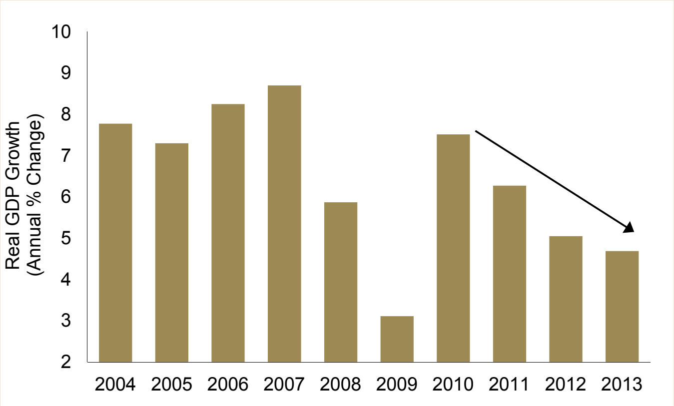
B) The emerging-market slowdown is arguably structural, whereas sluggish developed-world growth is primarily cyclical (and so addressed in the earlier "Cyclical drivers" section). As emerging-market economies become wealthier, it is natural for their sustainable growth rate to ebb. Simultaneously, prior emerging-market credit excesses are beginning to fade, ending an era of unnaturally fast growth. Finally, competitiveness is deteriorating in many emerging-market nations, as we discuss in the following section.

But, wait a second. Did slower emerging markets compromise trade growth, or might it have been slower trade growth hitting emerging markets? We believe the causality runs partially in each direction (Exhibit 19), but our intuition (backed by statistical causality tests) argues that the emerging-market growth-to-trade channel was indeed probably the more important one.

2) Competitive parity

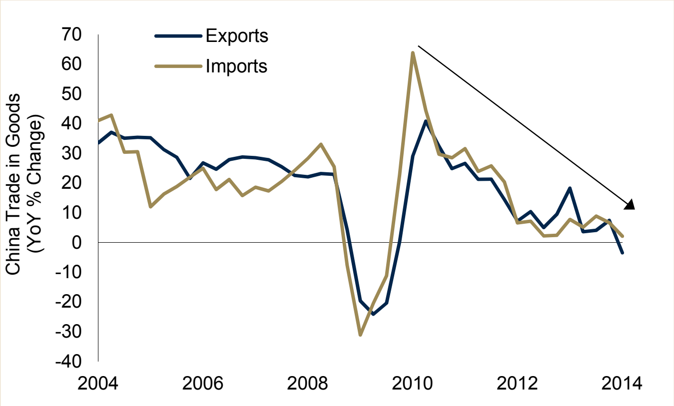
Wages in many emerging-market economies – China most notably – have substantially outpaced productivity gains. In contrast, much of the developed world, including the U.S., has restrained wage growth even as productivity has risen. This has

Exhibit 16: Emerging-market economic slowdown



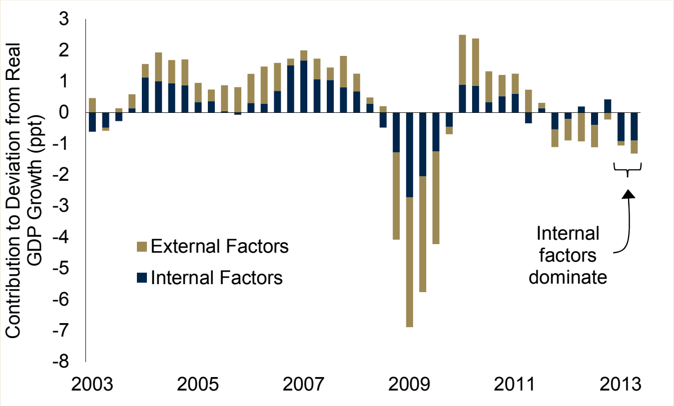
Source: IMF, Haver Analytics, RBC GAM

Exhibit 17: Fading China trade



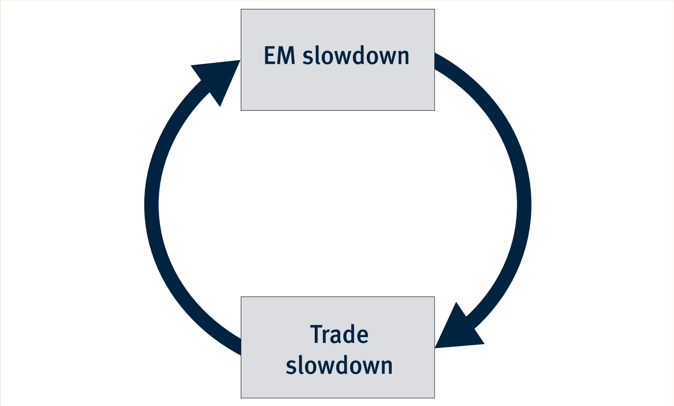
Source: State Administration of Foreign Exchange, Haver Analytics, RBC GAM

Exhibit 18: Latest EM slowdown mostly for internal reasons



Note: Average of emerging market (EM) countries excluding Argentina, Russia and Venezuela. Source: IMF, RBC GAM

Exhibit 19: Chicken or egg?



Source: RBC GAM

materially reduced the competitiveness gap between emerging markets and developed nations (Exhibit 20).

The growing importance of capital goods as a production input (and the freely available flow of such goods thanks to globalization) further diminishes the comparative advantages and disadvantages between nations.

All of this means that countries simply don't need to trade with one another as much as they might once have.

3) Trade saturation

An admittedly unconventional way of assessing the trade quandary is by evaluating who can conceivably buy all of the additional exports each year. China has managed to grow its nominal exports by a remarkable 17% per year over the past decade. Even adjusting for global population growth and inflation, it is difficult to fathom the average world consumer continuing to want 12% more Chinese products each and every year.[8] Could we be bumping up against some sort of natural saturation point that guides trade growth back into line with economic growth?

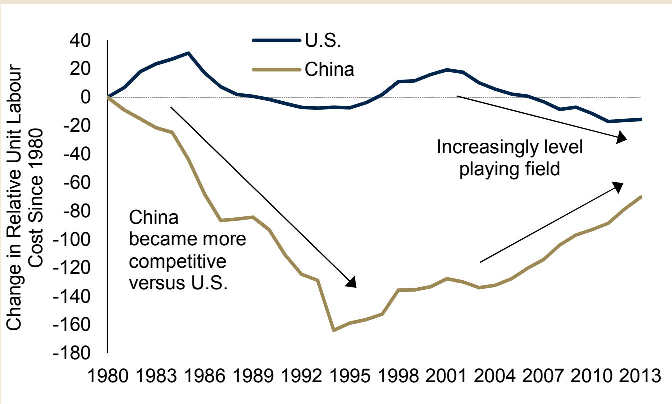
In China's case, its share of global exports is now almost equal to its share of global GDP. This hints that a sort of parity has been reached, at least for the world's largest emerging-market nation (Exhibit 21).

4) Current-account rebalancing

Another unorthodox structural consideration relates to the current account. The world's current-account imbalances have shrunk nicely over the past several years, with policymakers articulating a desire to sustain that trend into the future (Exhibit 22).

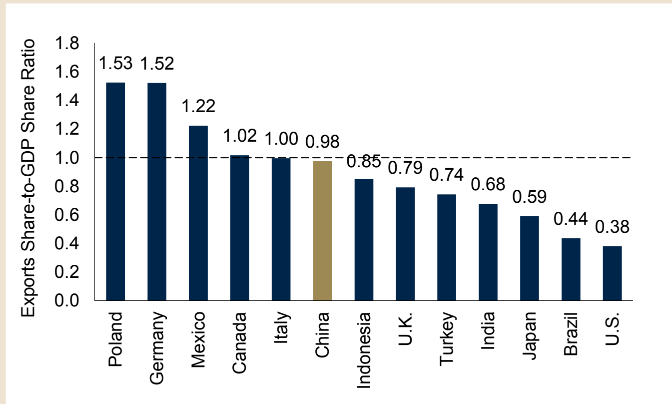
[8] This is a slight simplification since not all traded goods are directed to the consumer. Also, as supply chains grow ever more complicated, export growth can rise quickly even as value-added export growth lags.

Exhibit 20: Shrinking competitive differential means less trade



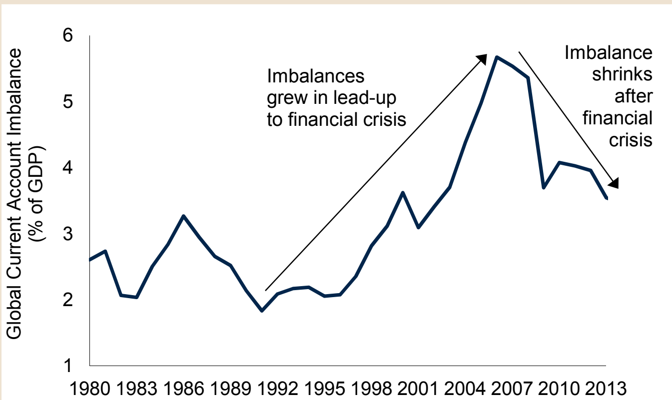
Note: Relative unit labour cost expressed in natural logarithm, then multiplied by 100. Source: OECD, Haver Analytics, RBC GAM

Exhibit 21: China's global trade share is consistent with the size of its economy



Note: Measured as a country's 2013 share of world exports divided by its share of world nominal GDP. Source: IMF, Haver Analytics, RBC GAM

Exhibit 22: Global current-account rebalancing



Note: Measured as sum of absolute value of current-account balance of individual countries, as percentage of world GDP. Source: IMF, Haver Analytics, RBC GAM

Exhibit 23: Near-term export outlook is improving slightly

	EXPECTED EXPORT GROWTH	EXPORT MOMENTUM	vs. DOMESTIC ECONOMY
U.S.	So-so	Flat	Poor
Germany	Good	Good	So-so
China	Subpar	Good	So-so
Overall	So-so	Good	So-so

Note: Derived from export and production components of U.S. ISM Manufacturing, German IFO and China PMI. Source: Haver Analytics, RBC GAM

One way of thinking about countries with large current-account surpluses is that they are "over-exporters," while those with big current-account deficits are "over-importers." Thus, as current-accounts rebalance, some of these prior trade excesses are gradually fading.

Trade outlook

With all of this in hand, the trade outlook can be broken into short-term and medium-term perspectives.

Short-term outlook

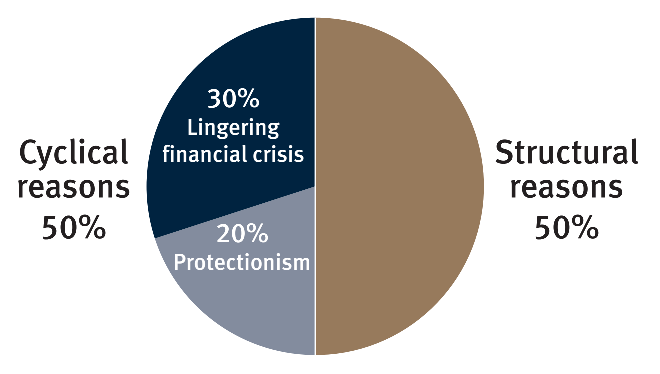
The short-term outlook – over the next six months or so – argues for a slight improvement in trade (Exhibit 23). A combination of trade surveys and actual trade trends argue for a so-so to good trade outcome over that time horizon. A smattering of port, rail and trucking statistics offer a similarly mixed outlook.

Medium-term outlook

Based on our analysis, it appears that around half of the trade slowdown is structural and half is cyclical (Exhibit 24). Thus, we cannot expect trade growth to fully return to its prior glories, but it should nonetheless partially rebound as geopolitical issues fade, the financial crisis gradually loosens its grip and the protectionist instinct (eventually) abates.

Put in the context of the ratio of trade growth to GDP growth, the global ratio should rise from its current dismal reading of around 1:1, to perhaps as high as 1.5:1. But it is unlikely to sustainably return to the historically normal 1.8 to 2.0 times GDP growth.

Exhibit 24: Why did trade slow?



Source: RBC GAM

Exhibit 25: Decelerating globalization impacts economy

ISSUE	EFFECT
Global GDP growth	Slightly slower
EM GDP growth	Slower
Inflation	Slightly higher
Inequality	Slightly less

Source: RBC GAM

Implications

Persistently slower trade growth can indeed be thought of as symptomatic of decelerating globalization (though not of outright declining globalization). This prospect brings several economic implications (Exhibit 25).

It is likely that sustainable global economic growth will suffer by several tenths of a percentage point in the face of slower trade growth, though this is difficult to assess with precision given changing value-added compositions[9] and the issue of causality between trade and GDP.

Any economic deceleration should be especially true for emerging-market nations. While the dominant relationship extends from slower emerging-market growth to slower trade, it is nevertheless a two-way street. A slower trade environment is particularly relevant for highly trade-dependent emerging-market nations. Those that best evade this slowdown will be the ones that succeed in building a larger domestic consumer base.

Diminishing globalization also means that some of the downward pressure on inflation may lighten, though it is important to acknowledge that the deflationary impulse from globalization was never as great as commonly imagined due to the positive force that emerging-market economies exert on commodity prices. Thus, the upward effects on inflation should be quite slight.

Finally, the pattern of accelerating inequality could also begin to slow. Although by no means the only influence on this trend (automation, declining unionization and the rate of return on capital also play important roles), globalization has undeniably repressed developed-world wages and offshored many middle class jobs. With greater competitive parity, these pressures should ease somewhat.

[9] A central challenge in assessing the economic effect of less trade growth is that – in an extreme scenario – two countries can swap the same container of goods back and forth indefinitely, ringing up an ever higher trade tally without a speck of implication for economic output.

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