

## Donald Trump fires first shot against globalization

Will Donald Trump's protectionist measures be the spark that will ignite the trade wars? They are being compared to the Smoot-Hawley tariffs imposed in the United States in 1930, after the start of the Great Depression, in an effort to protect US jobs. Those tariffs have been blamed for exacerbating the depression, helping Hitler come to power and for the Second World War. Comparing Trump's move to Smoot-Hawley may be overdoing it, but it does have the potential to escalate into a full-fledged trade conflict.

Globalization wasn't supposed to end like this. A decade ago, before the financial crisis, it was seen as the panacea for all the ills of the world economy. Globalization had shifted production en masse to the poorer countries, where goods were manufactured and tradable services provided at rock-bottom rates. Many poor countries benefited and millions were lifted out of poverty. The low cost of production kept inflation down in the developed economies, in turn enabling central banks to keep interest rates low. The expansion of global supply chains to the Third World reduced wage pressures in developed countries, pushing up profits. The surplus was ploughed back into providing cheap loans for the masses, particularly for housing. Globalization was touted as being a win-win for everybody. It was the best of times.

The financial crisis ended the love affair. Countries schemed to push down their currencies in a bid to export away the recession. The crisis laid bare the cracks in Western society and populist parties jumped to take advantage of the disenchantment with the elites. But while there was much scare-mongering about trade wars, nothing much was done to undo the gains of the last few decades.

In any case, global trade had slowed substantially in the aftermath of the crisis and some economists spoke of the shortening of supply chains and the repatriation of capital to developed countries as 3D manufacturing and automation became more widespread. But this was a trend expected to be played out over years and decades.

And then there was Donald Trump, globalization's nemesis, catapulted to power on a protectionist and anti-immigration agenda. Globalization's secret was it had a worm in its bud. Shifting production to Asia was a handy weapon for depressing wages in the developed countries. As Dani Rodrik, one of the economists crying in the wilderness against the excesses of globalization pointed out, studies in the US have documented the adverse consequences on wages, labour-force participation and unemployment as a result of China's entry into the World Trade Organization. It is these losers from globalization who backed Trump.

Any rollback of globalization is a setback for the commanding heights of capital, most of which is transnational these days.

After all, the reason why US and other companies from the developed world went abroad was precisely to save on costs and increase their profits. Developing countries too have a lot to lose if the short-cut to development through exports, which worked so brilliantly for East Asia, is closed. As Joseph Stiglitz put it so pithily, when Trump became president, he "threw a hand grenade into the global economic order."

This isn't the first time globalization has destroyed local industry. Karl Marx had written as far back as 1848, "The bourgeoisie has..... drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but

raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe.....In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations.” This time, globalization is much more entrenched. Big capital has far too much to lose, and it will fight tooth and nail to keep what it has gained from globalization. They need global markets.

Trump, too, is not opposed to trade. But he wants to walk out of the old rules-based trading regime, replacing it with deals between individual countries, deals that will tilt the balance in favour of the US as part of his “America First” policy. Much depends on how other nations retaliate. But if Trump gets his way, globalization as we know it will be dead.

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