

Time *for* Globalization 2.0?

BY ROBERT D. ATKINSON

*This time without
the mistakes?*

From the fall of the Soviet Union to the 2016 election of President Donald Trump, America rode the globalization horse, leading the charge for the near-complete global integration of finance, investment, and trade. In this utopia, economic borders would be a thing of the past, capital would find its most efficient use anywhere around the world, and the globe would be awash with win-win outcomes. Sure, some workers might get hurt, but they could move frictionlessly to thriving communities and “learn to code.” It was America’s destined role to lead the world to this brighter place. Those who didn’t embrace that view were, well, beyond the pale and accused of being ignorant of basic economic principles.

It is easy to look back with incredulity and for some, even disdain, but this would forget the heady days after the long Cold War, and the belief in, as former U.S. State Department official Francis Fukuyama called it, “the end of history.” Or as former Intel CEO Craig Barrett stated, “Capitalism has won and economy trumps all going forward.” With the exception of a few malcontents, who didn’t agree? Indeed, it was, and for many still is, a simple, seductive, and sublime conception.

Needless to say, that vision didn’t work out quite the way its advocates believed or promised. The rise of an array of “behind the border” trade restrictions, many unchallengeable in the World Trade Organization system, was unexpected for many, as was the recalcitrance of many leading nations, especially in the “global South” and led by India, toward getting fully on board. But most important was the rise of China, a country that willfully



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skirted global trade rules in the 2000s and abandoned and flouted them by the 2010s.

And so, the political economy of trade in the United States, but also in many OECD nations, shifted from one of utopian optimism to almost dystopian despair. Domestically we have gone from America the leader to America alone. It didn't matter which party was in power. The first Trump administration opposed market opening, signaled by its day-one abandonment of the Transpacific Partnership trade agreement. But so did the Biden administration, with its "pause" on new trade agreements (a euphemism for ban), its pulling the United States out of the WTO Joint Statement Initiative on e-commerce, and its embrace of Buy America and other protectionist measures. Now the second Trump administration promises to go all in on autarky, with across-the-board tariffs on friends and foes alike.

At one level, it could be expected that the response to the failures of Globalization 1.0 would be a Hegelian antithesis. If Globalization 1.0 was bad, domestic autarky, protectionism, and America alone was the unfortunate response.

But America can and should do better than reaction and rejection. Pundits, analysts, advocates, and policymakers can now acknowledge that we have spent enough time in a counterproductive globalization rejection phase, and it's time to abandon the road to autarky. The problem, of course, is that even in Globalization 1.0 there were still significant contingents on the right and the left that fundamentally rejected and even despised globalization, at least corporate-led globalization. The stumbles and falls of Globalization 1.0 created an opening for their autarkic vision.

DEFENSE OF GLOBALIZATION 1.0

The reality is that Globalization 1.0 cannot be resurrected. Yet many advocates of globalization and free trade continue to embrace the original model, hoping that if they just hunker down, the protectionist storm will pass. They seem

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to believe that more op-eds and articles telling the clueless MAGA rubes that globalization has actually been to their benefit will do the trick.

The reality is that in their rightful rejection of Autarky 1.0, many defenders of globalization have a tin ear to the reality that Globalization 1.0 contained its own structural challenges which meant that it would never achieve its vision. Globalization 1.0 is no longer purpose-fit to the times in which we live.

Indeed, in their zeal to turn back the clock to 2016, many deny any and all problems from trade. U.S. manufacturing? It's healthier than ever and anyone who doesn't agree is protectionist, or even worse, racist, according to

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Peterson Institute head Adam Posen. Loss of millions of manufacturing jobs? Don't worry, it's all the machines' fault, don't blame trade. Middle class economic anxiety? Don't blame globalization, blame automation and lack of adequate worker education. Hollowing out of the defense-industrial base? Don't worry, we have artificial intelligence. Voters turning against globalization? It's their fault for being nativists and being stirred up by protectionist demagogues. Losing our lead in advanced industries to China? No way, China can't innovate and we have Silicon Valley. But be sure to give workers that have lost because of trade a bit more money and training.

Denial of reality and incorrect interpretations of data might delay the full realization of the bankruptcy of Globalization 1.0, but not for long. Trump's reelection should have made that obvious. So rather than engage in a rear-guard denial of the problems, advocates of globalization should understand that something actually went wrong—that the unwashed masses may actually be on to something—and begin to work for a better version of globalization, something beyond simply expanded trade adjustment assistance for the "losers."

WHAT WENT WRONG?

The goal of globalization was not wrong, but the means by which U.S. leaders pursued the goal was. If America had done it right, both the outcomes and the attitudes toward globalization would have been better. Here are a few of the most important factors globalization advocates got wrong.

First, American techno-economic interests took a back seat to U.S. foreign policy interests. In their effort to contain the Soviets after World War II, U.S. policymakers consistently put U.S. economic interests in a subordinate position to U.S. foreign policy interests. If we needed to open up U.S. markets so a nation didn't tilt toward Moscow's

orbit, we did it. If we had to cut off U.S. exports to punish a nation, even if U.S. competitors gained the market, we did it. We could afford to sacrifice U.S. techno-economic interests because we believed America was dominant. That is no longer the case.

Second, globalists assumed China would join the free trade coalition. Near peak globalization in the late 1990s, it was assumed that U.S.-led globalization was like the Borg from *Star Trek*: you shall be incorporated and in so doing,

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become a democratic, market-based economy. And that was the assumption behind letting China join the WTO. Perhaps it was worth the gamble. But the gamble didn't pay out.

Third, globalists assumed a more efficient global division of labor would lead the United States to specialize in high-value-added goods and services. Economist Robert Solow wrote, “China will compete for some low-wage jobs with Americans. And their market will provide jobs for higher-wage, more-skilled people. And that's a bargain for us.” The problem is that America has lost both low- and high-wage industries. High-tech was prone to offshoring, with the United States running a trade deficit in high-tech goods since the year 2000. Moreover, other countries moved up the value chain faster than anticipated to the

point where U.S. output in advanced industries is below the global average as a share of GDP.

Fourth, most globalists rejected industrial policy. Libertarian and former Fed Chair Alan Greenspan spoke for many when he stated, “We are fortunate that, thanks to globalization, policy decisions in the United States have been largely replaced by global market forces. ... [I]t hardly makes any difference who will be the next president. The world is governed by market forces.” Except that it wasn't. Other nations put in place industrial policies to win global market share in high-value industries. In contrast, *laissez-faire* dominated in the United States, with few policies put in place to compete with foreign industrial policies.

Fifth, the architects of the post-World War II global trade system really did believe it would be a largely self-enforcing, self-policing system. Nations would exert moral suasion on others to be faithful actors; failing that, after the WTO's founding in 1995, they would resort to the WTO's legalistic dispute settlement mechanism when necessary. As one analyst observed, “The system relies on international peer pressure for the bulk of its enforcement.” However, the entry of China challenged this system. The WTO system was not structured to address a recalcitrant nation like China, in part because China avoids codification of many policies to avoid detection and enforcement actions against it. Moreover, the extent of China's infractions was so massive and insistent it was like playing whack-a-mole.

Sixth, globalists believed that “behind the border” barriers would be limited and declining as new waves of trade opening, such as the Doha round, proceeded. But while the international trade community made great strides in removing tariff-based barriers over the past three decades, in many cases countries have surreptitiously complemented their reduction by erecting new types of trade-distorting non-tariff measures. Such non-tariff measures are almost twice as trade-restrictive as tariffs, and their use continues to grow. One study estimated that while 54 percent of all protectionist interventions used in 2010 were non-tariff barriers, their usage increased to 61 percent by 2016.

Seventh, globalists refused to focus on currency adjustment as a natural, market-based adjustment mechanism. If a high-wage country is competing with a low-wage country and the price competitiveness of its traded sectors begins to suffer, the natural adjustment mechanism is for the high-wage country's currency to decrease in value relative to that of the low-wage nation. If that occurs, then there is less need for wage suppression in rich countries, a lower trade deficit, and less deindustrialization. But that was never going to happen in Globalization 1.0. The International Monetary Fund and the WTO refused to make currency manipulation

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for competitive advantage actionable. And U.S. policymakers defended the strong dollar. This was a sure-fire recipe for large U.S. trade deficits and lost manufacturing output relative to GDP.

AUTARKY AND PROTECTIONISM NOT THE ANSWER

While Globalization 1.0 was proceeding apace, there was a vocal minority in the United States who said no. As the problems and contradictions from Globalization 1.0 became more severe, those minority views grew, until with the first Trump administration they broke through.

Their complaints were many. The benefits of globalization were vastly overstated. Globalization only helped corporations. Multinationals took away nations' sovereign rights. Globalization led to a race to the bottom in terms of taxes and regulations. Globalization not only hurt work-

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ers in the "global north," it also hurt them in the "global south." Globalization hurts both consumers and workers. Other countries acted unfairly and took advantage of the United States.

For the most part, these arguments were advanced by an anti-corporate left who preferred to "think global" (that is, side with the global proletariat over the interests of America) and "act local" (produce everything through worker- or government-owned co-ops). These complaints can and should largely be dismissed as the complaints of advocates who refused to accept the reality of an advanced industrial world, and instead sought a calmer, more serene pastoral life filled with organic farms, craft brewed beer, artisanal goods, and a local "care economy."

The "new right," however, offered a similar critique, but one based more on other nations taking advantage of the United States. As Trump supporter and former senator

and attorney general Jeff Sessions wrote, "The globalists were like the Lilliputians, using their many strings to bind the giant Gulliver [the United States]."

But if trade had been structured properly, it would have been possible to imagine a different kind of globalization. Here the United States is more successful in enforcing trade laws and driving market-oriented conduct. It puts in place manufacturing policies like those of our leading trading partners Germany and Japan. It drives down the value of the dollar. It limits the import of goods produced and traded unfairly by Chinese companies. In this scenario, there is almost as much global trade, but the United States does not run a trade deficit. Some workers would still be hurt, especially in lower-wage, less technologically complex sectors. But their losses would be offset by gains for workers in medium- and higher-wage, more technologically complex sectors such as autos, machinery, equipment, and aerospace.

The new right also argues that we simply do not need trade because the U.S. economy is so big. When Trump says that we don't need trade with Canada because we produce our own cars, timber, and milk, he is reflecting that view. But the reality is that some industries do need global scale, either because there are not enough customers in the United States or because production experiences continued declining marginal costs with overseas sales. Also, even if American industries could do okay with only the U.S. market, foreign firms would have access to the rest of the world's markets, and by doing so have a more competitive cost structure than U.S. firms serving only domestic markets.

GLOBALISTS FIGHT A REARGUARD ACTION

Globalization 1.0 always had its critics, but it was not until the 2010s that their arguments gained traction, and especially starting with Donald Trump's 2016 presidential campaign. In response, globalists mounted a vigorous campaign of defense. But rather than engaging in a process of honest critique and reformulation to correct what went wrong with Globalization 1.0, they mostly focused on defending its record against the critics while extending somewhat more sympathy to the losers.

In 2017, Carl Bildt, the former prime minister of Sweden and an ardent globalist, dismissed opponents by pointing to the fact that globalization delivered more prosperity to more people than anyone could have dreamed possible just a few decades ago. The fact that most of those people live in China and do not vote in developed-country elections is irrelevant to hard-core globalists.

In a 2018 *Foreign Affairs* article, Kenneth Scheve and Matthew Slaughter acknowledged that Americans have anxiety and anger about globalization and change. But this was not principally due to supposed income losses, but to Americans' inability to secure meaningful roles in their

families and communities. And so rather than admit there was anything wrong with how globalization was structured, they proposed a better way of “investing in human capital” so the losers could more easily transition to something else.

In perhaps the most comprehensive effort to save Globalization 1.0, a distinguished panel of centrist globalists, including former Biden national security advisor Jake Sullivan, published in 2020 a Carnegie Endowment report titled, “Making U.S. Foreign Policy Work Better for the Middle Class.” The title gives away the story: globalization and U.S. trade policy has worked fine for America but has hurt some workers (the middle class). But the authors

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did not get very far in crafting even significant reforms to Globalization 1.0, much less constructing a Globalization 2.0 framework. They start by claiming that the impacts of trade and manufacturing loss on the middle class were overblown. And of course, they call for more domestic policy efforts to help the losers from trade and more trade agreements.

WHAT SHOULD GLOBALIZATION 2.0 LOOK LIKE?

American politics is likely to be on the anti-globalization side of the pendulum for the near future, at least. Too many still see Globalization 1.0 as a failure at best, and a plot to sell out American democracy at worst, and can’t entertain pragmatic thinking about reform and the development of Globalization 2.0. Trump and his followers are firmly committed to the antithesis of Globalization 1.0—autarky and tariffs.

Nonetheless, it’s time to start charting a course for what a new Globalization 2.0 should look like and to build support for such a system. Globalization 2.0 is not Globalization 1.0 just with more assertions that “trade is good” and doling out a few more dollars to the losers. And it certainly it’s not Biden and Trumpian autarky. Rather, it is global trade and integration, but of a different kind. Globalization 2.0 needs to be grounded by at least six core principles.

1. CHINA CHANGES EVERYTHING

When Globalization 1.0 was crafted, China was a blip on the global economic radar screen—a desperately poor country that had little technological capability. As such, globalists assumed that as it integrated into the global market, it would be a normal country: one that mostly practiced free trade, but where it succumbed to domestic protectionist forces here and there, these would be mostly disciplined by the WTO.

But we need to understand that for China, a desire to make money—the fundamental driver of trade and of capitalism—is secondary. Its primary goal is to capture market share, and thereby damage advanced economies and pave the way for China to become the world’s pre-eminent superpower. Countries like China are called power traders, and they are named such because their policies and programs are designed not only to advance their own power, but to also degrade that of their adversaries, even at a financial cost to their own economies. Globalization 2.0 needs to recognize that it is impossible to resurrect a globally integrated trading system that is welfare-enhancing as long as China is a power trader.

2. FREE TRADE, PRAGMATIC TRADE, AND STRATEGIC TRADE

Globalization 1.0, with its embrace of the WTO and the most-favored-nation principle, envisioned a world where America treats all other nations the same when it comes to trade. It was also premised on the notion that nations are generally rules-compliant free traders, and to the extent they diverted from that path, it was due to protectionist forces the WTO was capable to address.

This framing no longer works. Because of the WTO’s governance structure, including the influence of China and India, it has become a spent force, unable to effectively discipline trade scofflaws. One only has to look at China’s behavior since joining the WTO and especially at issues related to China’s core industrial interests. In addition, there

Promote the General Welfare?

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are a host of practices, including weaponized antitrust and other behind-the-border measures, that the WTO is not set up to address.

Globalization 2.0 is a framework where America engages in fair and reciprocal trade with allies. As policy experts Elizabeth Economy and Melanie Hart argue, a productive next step for the United States would be to use the framework of the U.S.-Mexico-Canada Agreement to incorporate more countries into it, such as Australia, Japan, Taiwan, and the United Kingdom, some in Latin America, and perhaps the European Union (if it cleans up its act). This could and should be structured with a strong and binding dispute settlement process. Of course, with Trump essentially destroying the USMCA, this would need to be backed up by new legislation limiting presidential authority to disregard Congressionally passed trade agreements.

For nations that are not adversaries but also not fair and free traders, such as India, Brazil, and other quasi-mercantilists, the United States should not be bound by the WTO. We should try to continue to use it as a forum for dispute resolution, but often that will not suffice and the United States will need to resort to *realpolitik* through unilateral actions.

When it comes to strategic rivals, especially China, much more needs to be done. First and foremost, the U.S. government needs to focus on preventing the degradation of American advanced industry capabilities. Besides a national advanced industry strategy, this means blocking virtually all Chinese inward foreign direct investment as well as limiting Chinese imports in industries where China does not play by the rules, especially the use of USITC Section 337 remedies.

3. AMERICA FIRST, BUT NOT ALONE

President Trump is right: for too long U.S. trade policy allowed lopsided trade arrangements that benefited



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other nations more. That has to stop. America’s power—diplomatically, economically, and militarily—is no longer so predominant that it can afford to sacrifice its own techno-economic interests for the sake of the global order.

But autarky would be a grave mistake, not only isolating the country from the global techno-economic system, but also leading to the loss of domestic production of now globally integrated industries, such as commercial aircraft, aerospace, chemicals, biopharmaceuticals, machinery and equipment, computer and electronics, scientific instruments, software and internet services, medical equipment, guided missiles, space vehicles, and more. Autarky would be particularly bad for the nation’s defense producers, especially given the declines as a share of GDP in defense spending. Defense contractors rely on selling to allied

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nations in order to keep innovating and keep costs down for the Defense Department. If the Trump administration embraces autarky, our allies are likely to do the same even more, including for defense industry production.

Putting America first requires ensuring reciprocity by trading partners. A Globalization 2.0 policy would be to say to these nations that America would like to engage in closer partnerships, especially to counter China, and if you refuse to do that, the United States will increase our average tariff rate to your levels.

4. EMBRACE A NATIONAL ADVANCED INDUSTRY POLICY

The United States cannot expect to win in global competition without supporting companies exporting from the United States or facing import competition. All too often, these companies are competing against foreign companies that are backed by their state, making competition anything but fair. Free-market advocates can call for letting the market decide, but it is illogical to think that with all else equal, a company in the United States could outcompete a foreign company with a protected home market and massive direct and indirect subsidies. Tariff walls are a short-term sugar high, leading to long-term U.S. advanced industry

decline. If globalists want to win the war of ideas with the autarkists, they will need to embrace national industrial strategy. Otherwise, the default position is to simply choose not to compete through a wide array of import restrictions.

5. ALIGN AGAINST CHINESE INNOVATION MERCANTILISM

While the goal should be America together with our allies, that will first require allies to roll back their unfair practices targeting U.S. companies. For example, there are a host of ways that Europe protects its markets and disadvantages U.S. companies, all of which contribute to the large bilateral trade imbalance. These include discriminatory commercial and government purchases, imposition of digital services taxes on U.S. technology companies, exorbitant fines against U.S. companies, price controls on U.S. drugs, regulations that discriminate against U.S. firms, restrictions on data flows, government-supported import substitution of U.S. services including cloud computing, standards manipulation, and weaponized antitrust. Canada has acted in a similar, if less extreme, manner.

The U.S. government cannot continue keeping the allied partnership so sacrosanct that it puts up with these kinds of trade aggressions. It's akin to a spouse who is so desperate to keep the marriage together that she turns a blind eye to her husband's philandering. Just like the spouse is justified in demanding future fidelity in order to keep the marriage intact, the United States is justified in

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demanding significantly fewer trade barriers and technological aggression from our allies. The United States can't reasonably expect to get everything it wants, though it should expect significant progress. But Trump's use of tariffs, not as a bargaining tool but as a wall, will only lead to U.S. isolation and decline.

A second key component of this new allied partnership should be a commitment to join ranks to combat Chinese innovation mercantilism, including serious consideration of whether WTO commitments are sustainable when China uses texts like the Agreement on Subsidies and

Countervailing Measures as a roadmap to design industrial policies that are difficult to enforce against. Ideally, our core allies, including the Commonwealth nations, the European Union, Japan, Korea, and Taiwan, work together. If nations want to have their cake and eat it too, we should make it clear that they are no longer core trade allies. It appears that the European Union likes its cake, as President Ursula von der Leyen recently stated that she intends for the European Union to develop much closer ties with China now that Trump is president.

If nations want to participate in open trade with the United States, they need to choose the West's fair and open markets and freedom. That means working with the United States on policies to help win over unaligned nations, while coordinating on actions to limit China's targeted destruction of allied core industries. If nations are willing to stand up and be part of this U.S.-led coalition, then the United States will engage in open free trade with them.

6. INSIST ON FLOATABLE CURRENCIES, ESPECIALLY THE U.S. DOLLAR

Globalization does not work if currency values cannot respond to global competitiveness. The U.S. government should stop defending the value of the dollar as long as the United States is running a trade deficit.

OPPOSITION AND NEXT STEPS

There will be opposition to Globalization 2.0. It is not the autarkic agenda the Trump administration or many organizations such as the Coalition for a Prosperous America seek. Advocates of Autarky 1.0 are suffering a kind of post-traumatic stress syndrome from the harms of Globalization 1.0, unable to process the current world rationally. In part because of the failures of Globalization 1.0, few can intellectually and fairly consider Globalization 2.0, and instead they default to rejection and autarky.

Globalization 2.0 will have to emerge from patriotic pragmatists: individuals who put America first, but not alone. These individuals will support a strong U.S. advanced industry base, but do not want to protect all manufacturing firms and jobs, and can distinguish between a free trade agreement with Britain and one with China.

The reality is that unless believers in Globalization 1.0 get on board and embrace the real and viable alternative of Globalization 2.0, the Trumpian protectionists will likely prevail. Right now, autarky beats Globalization 1.0. This won't be true forever, but the amount of damage done to the U.S. economy and U.S. foreign policy relations from years of protectionist autarky will be severe. Better to work now to craft a viable alternative so that the 2028 election can offer something more than a choice between free trade and protectionism. ♦