*Globalization Isn't Unraveling. It's Changing.*

The flow of trade, people and ideas among countries isn't inevitably headed toward decline following Russia's invasion of Ukraine. But it could be reshaped.

by Justin LahartFollow, Wall Street Journal,  15 aprile, 2022

"Globalization is not something we can hold off or turn off," former President Bill Clinton told an audience in Vietnam in 2000. "It is the economic equivalent of a force of nature—like wind or water."

After Russia's invasion of Ukraine, it is an unwinding of globalization that gets spoken of with the same air of inevitability. The steady increases in the flows of trade, money, people and ideas among countries since the end of World War II seems destined to go into reverse during an extended period of Balkanization, with Russia and its allies operating in one sphere, China in another and the U.S. and its allies in a third. In short, the world could be in for something like what happened just over a century ago, when World War I, the Russian Revolution and, yes, a global pandemic provoked countries to turn inward.

For investors, this prospect is unsettling. They have been some of globalization's biggest winners, particularly during the period of hyperglobalization that began in the 1990s, with the dissolution of the former Soviet Union, the transformation of China into an economic powerhouse and the advent of the internet. Increased trade allowed countries to focus on making the goods and services they were best equipped to produce, and provided multinational companies with new customers and new pools of low-cost labor to tap. Transformative technologies that during the Cold War might have been kept locked away by governments and militaries instead made their way to the marketplace. Many of the benefits flowed to companies' bottom lines: In the U.S. for example, after-tax corporate profits as a percentage of gross domestic product went from 5% in 1990 to 10.5% last year.

Just as the path toward a more globalized world isn't inevitable, however, neither is globalization inevitably going into retreat. True, the invasion of Ukraine could be characterized as Russian President Vladimir Putin lashing out at the cosmopolitan, globalized Western world. On the other hand, the vigor with which Ukrainians are defending their country, and their desire to become more integrated with the rest of Europe, serve as a reminder that globalization's benefits can extend beyond mere economics. Perhaps what the coming years might bring is not an end to globalization, but a reshaping of some of its terms, with investors continuing to enjoy its benefits, but also bearing more of its costs.

Russia's isolation, in itself, does not count as anything like the blow against globalization struck in World War I, when "[m]oved by insane delusion and reckless self-regard, the German people overturned the foundations on which we all lived and built," as the economist John Maynard Keynes put it in "The Economics Consequences of the Peace," the 1919 book where he warned of what the collapse of European integration might portend.

Adjusting for the differing costs of goods and services across countries, Germany's economy in 1913 accounted for 8.7% of global GDP, according to estimates by economic historian Angus Maddison. Russia's share of global GDP last year was just 3.1% on that basis, estimates the International Monetary Fund, and an even smaller 1.7% in dollar terms. More important, Germany before World War I was at the nexus of European trade. "Round Germany as a central support the rest of the European economic system grouped itself, and on the prosperity and enterprise of Germany the prosperity of the rest of the Continent mainly depended," wrote Mr. Keynes. Russia's role in the European economy, in contrast, is primarily as a provider of oil and other commodities, and it plays a minor role in global supply chains.

China is, of course, a far more important global economic player than Russia. In dollar terms it accounted for more than a sixth of global GDP last year, according to IMF estimates, and the importance of its role in global supply chains has been made painfully apparent over the course of the pandemic. Its economy is also hugely dependent on trade with the rest of the world, and particularly with developed economies such as the U.S. Were it to decide to somehow unshackle itself from the global system, perhaps due to a future conflict over Taiwan, the economic and societal impacts on its own domestic system would be huge. The hope is that, seeing the fallout from Russia's invasion of Ukraine, this is something its leaders would prefer not to countenance.

The bigger threat to globalization, and the more important lesson from Russia, might be that in its more recent stages it has left too many people behind. Many Russians went from embracing free markets following the collapse of the Soviet Union in 1991 to feeling betrayed by them by the time of the 1998 Russian debt crisis—a change that helped lay the groundwork for Mr. Putin's rise to power. In the U.S. and elsewhere in the developed world, many of the benefits from globalization that companies and their investors accrued haven't been sufficiently passed on to much of the general population, worsening inequality and breeding contempt. The wage gains that are now raising companies' labor costs, and beginning to pressure profit margins, might be difficult for investors to swallow, but might also help foster a broader recognition of what globalization is good for.

There might be other changes to globalization's dynamics coming. Both the shortages the pandemic induced and the Russian invasion bring home how becoming over-reliant on a single country's production, be it of microprocessors or of natural gas, can be dangerous, for example. More broadly, perhaps there will be a recognition that globalization is neither a fait accompli nor a magic wand that can in and of itself lead to a more prosperous future.