St. Louis Fed

President's Message: Trade and Globalization since the 1980s

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Recent events, such as pandemic-related international supply chain issues, have put a spotlight on global trade. Yet, economists have studied trade for a long time, as it is one of the many important factors driving long-run economic growth.

Trade is generally associated with efficiency gains and higher productivity, and historically, world economic growth has benefited from increasing trade and globalization. However, globalization has been called into question to some extent in recent years, resulting in a reassessment of the general move toward greater integration.

Trend toward Globalization in Recent Decades

A trend to dismantle post-World War II restrictions to trade gained momentum in the 1980s and 1990s. U.S. corporations had performed well in the postwar era up to that point. Expanding access to the world's population seemed like the next step for some of these corporations and was an impetus for reducing trade barriers. As a result, we saw the rise of global brands during that period.

A continued reduction in trade barriers around the world also led to the North American Free Trade Agreement (NAFTA), more countries joining a European common market and China joining the World Trade Organization (WTO), to name a few key developments in global trade during the past several decades. Throughout this period, however, there was always the undercurrent of whether reducing trade barriers was the best strategy, which eventually led to backlash over shipping jobs overseas. Despite such criticism, the typical consumer has benefited from increased trade by being able to purchase cheaper and more diverse goods.

Globalization has also been an aid to lower inflation in recent decades. Former Fed Chairman Alan Greenspan, for instance, argued that the end of the Cold War as well as the increase in trade with China and India brought a significant amount of additional labor to world markets, which helped keep inflation low.[1] British economist Charles Goodhart argued that those effects will reverse in the decades ahead, however.[2] Of course, even though we have much more openness across the world in terms of international capital movements and trade, keeping inflation low and stable remains a domestic monetary policy objective and not something that we coordinate with other central banks.

A Reassessment of Globalization

In recent years, world public health and national security concerns have reinvigorated the debate focused on partly reversing globalization and keeping some production closer to home, as the future world might not be as war- or disease-free.

For instance, the pandemic prompted many American businesses to better diversify their supply chains to reduce vulnerability to major disruptions in certain materials or locations. In addition, we've seen businesses switch to "just in case"—rather than "just in time"—inventory.

While the post-World War II era of globalization has hit some stumbles, trillions of dollars of goods and services are still traded every day. The global economy continues to grow over time, technology keeps advancing, and people's ability to move goods and services around the world is constantly improving. Over the coming decades, we may see more integration of the global economy, regardless of the recent reassessment.

For an in-depth discussion of these and other considerations related to globalization, I invite you to read the main essay of our 2022 annual report, "The Shifting Tides of Global Trade," written by economists in our Research Division.

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Endnotes

1. See Greenspan's testimony on Nov. 3, 2005, before the Joint Economic Committee of the U.S. Congress.
2. For example, see Charles Goodhart and Manoj Pradhan's "Demographics will reverse three multi-decade global trends (PDF)," Bank for International Settlements, Working Paper No. 656, August 2017.