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Our world is only partly globalized

Creating a more inclusive global economy requires more and better trade, not less trade. The word "globalization" often conjures up images of a world economy being uniformly woven together by trade, transport and technology, but this picture is only partly accurate (Ohmae, 1999). While many economies and people are already deeply interconnected – and others are in the process of rapidly linking up – other economies, regions and groups have not been able to successfully integrate into the global economy, or are not benefitting from the integration they have achieved so far.

These varying levels of global integration largely mirror varying levels of wealth, living standards and technological progress around the world – with the richer and more advanced economies often being the most open and integrated, and fast-emerging economies also moving in this direction, but many low-income economies, and even some middle-income economies, only partially integrated into the global economy, and at risk of being left even further behind by the world's ongoing economic and technological progress. As a result, today's unevenly globalized world is also an unequal world.

A diverging global economy has become a converging one

Two hundred years ago, the world was a more equal place largely because most people were equally poor. The richest economy in the world in 1820, Great Britain, had a per capita income only about five times larger than the poorest economy at the time, Nepal (Milanovic, 2023). The Industrial Revolution, which started roughly a half century before, marked a turning point, sparking an unprecedented surge of economic growth and technological progress that upended the relatively static and level global economic landscape that had prevailed up until then.

This great economic leap forward was limited at first – starting with Great Britain, expanding to the rest of Europe, and then expanding again to Europe's offr than 40 per cent. Today, those shares have reversed: Brazil, China, Indonesia and other developing economies account for almost 60 per cent of the world's GDP, while developed economies account for just over 40 per cent.

While the per capita output of emerging economies is still well behind that of advanced economies, the gaps are narrowing at an accelerating rate. China is the most striking example. In 1990, China had just 7 per cent of the GDP of the United States measured at market exchange rates, but by 2022, China's GDP, at US$ 18.3 trillion, was 73 per cent of the GDP of the United States, a ten-fold increase. China's per capita income is now roughly US$ 13,000, approximately 17 per cent of US per capita income – compared with less than 2 per cent in 1990 – and at current growth rates it could reach half of US levels by 2050. Other fast-growing developing economies are following a similar trajectory.

In the same way that the economic rise of the United States triggered a global economic boom in the second half of the 19th century, and the ascent of Japan and the "Asian Tigers" helped to drive even greater growth after 1945, the rapid development of four billion-plus people in the global South and East – together with their growing demands for technology, capital, advanced machinery and services – will inevitably drive further growth and income gains in the developed West as well. According to Hufbauer and Hogan (2023), US gains from engaging in world markets since 1950 amounted to almost US$ 2.6 trillion in 2022. Over the past decade and a half, China alone has accounted for 35 per cent of global nominal GDP growth, while the United States has accounted for 27 per cent (Prasad, 2023).

US per capita income has increased six-fold, while Swedes are 30 times wealthier today than they were 200 years ago (Roser, 2024).

The global diffusion of technology also benefits everyone because, as Paul Romer famously observed, knowledge is expanded, not reduced, when it spreads (Romer, 1986).

Many of today's leading-edge technologies, such as artificial intelligence (AI), quantum computing, robotics and biotechnologies, are still generated in developed economies. But as some emerging economies become more advanced, they are fast becoming technology innovators and leaders too – in telecommunications, aerospace, clean energy and other advanced technologies – adding to the positive feedback loop that is accelerating global economic progress.

The result is a world economy that is growing, developing and converging at an unprecedented rate, although developing economies' average per capita output is still significantly lower than that of advanced economies (see Figure A.1). According to World Bank data, in 1995, global per capita output, adjusted for inflation, amounted to roughly US$ 7,050. Even after setbacks such as the Asian financial crisis (1997-98), the global financial crisis (2007-09), the COVID-19 pandemic, and numerous regional conflicts and wars, global per capita output had increased by 65 per cent to over US$ 11,570 by 2023. And if growth rates continue at current trends, g17.1 (44 Td2dEisis)5 (lt)4.8g17.1 (u)1.5 (r)-0.p(r)2.5utcnalr28 thlop
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The combination of declining physical and policy-induced trade costs has helped to fuel an exponential growth in world trade. Between 1950 and 2022, annual merchandise trade grew at a rate of 5.4 per cent a year, translating into an extraordinary 45-fold expansion.

More recently, new sectors of world trade have been expanding even faster. Services trade has grown 6.8 per cent annually since 1990, digitally delivered services have grown at 8.2 per cent a year since 2005, and renewable energy goods trade (including solar panels and wind turbines) has grown fastest of all, by 10.3 per cent a year, more than double other goods trade (4.9 per cent), since 2005 (see Figure A.2).

With this expansion of trade has come a widening and deepening of global integration. Although slowing trade growth since 2008 seems to signal a slowdown in economic opening and integration worldwide, the global trade-to-GDP ratio rose from around 5 per cent in 1950, to 20 per cent in 1995, to over 29 per cent in 2023, underscoring the central role of trade in weaving together today's increasingly interconnected and interdependent world economy.

The world's fastest-growing economies are also some of the most open and integrated

Almost all of the fast-developing economies over the past 40 years – indeed, over the past two centuries – have used integration into the global trading system to drive sustained growth. While these economies may not have opened up in the same way, transformed at the same speed, or adopted the same policies, the common thread running through all their experiences is the shift towards more outward-oriented, trade-led economic growth strategies. In other words, openness and growth have gone hand-in-hand (see Figure A.3).

A more open and integrated world economy has enabled some developing economies to catch up with – and converge on – more advanced economies in several critical ways.

One is by leveraging global demand. Many low- and middle-income economies are unable to generate high growth by relying on domestic demand alone. Increased access to global markets for their exports

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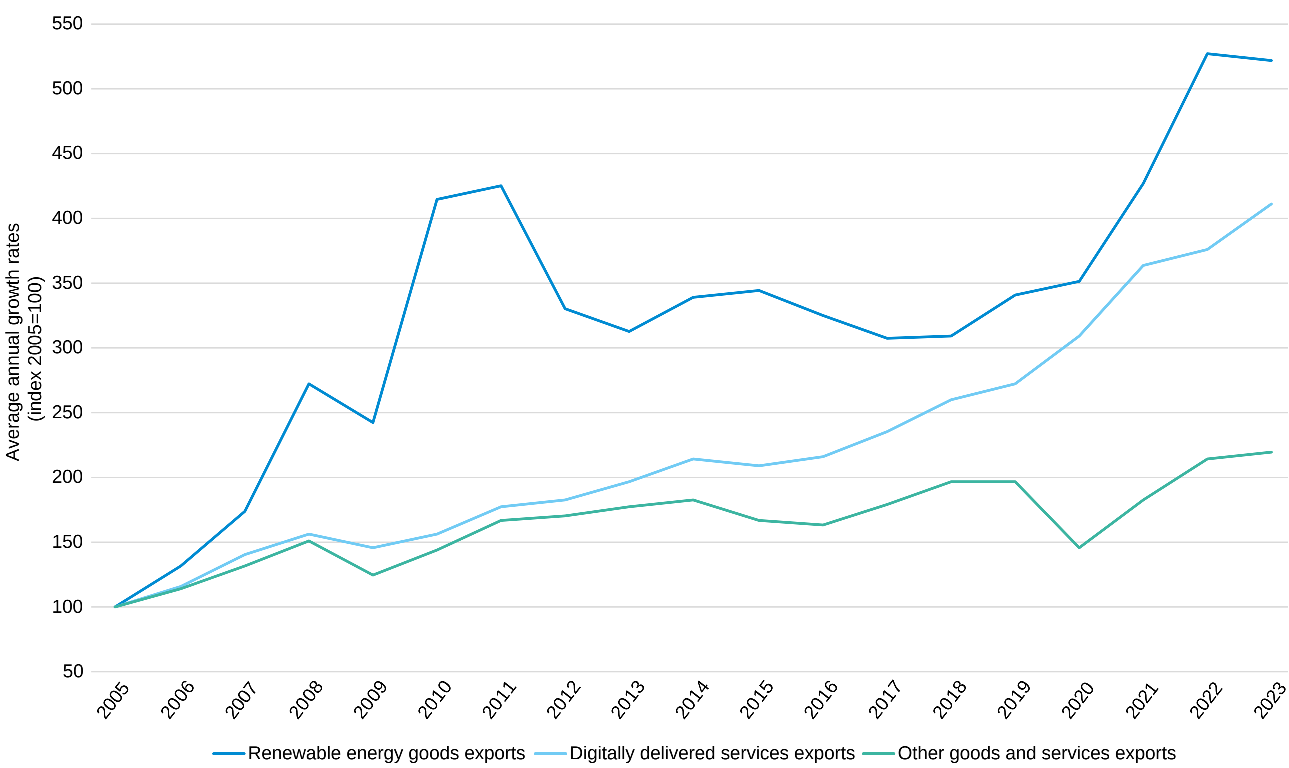

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has allowed them to leverage comparative advantages, exploit economies of scale, and overcome the constraints imposed by small and relatively poor

Either way, the globalization of technology has made it easier, cheaper and quicker for many developing economies to industrialize, helping them to accelerate learning curves and, in some cases, leapfrog stages of development (Baldwin, 2019).

Trade is necessary for fast growth, but is not sufficient

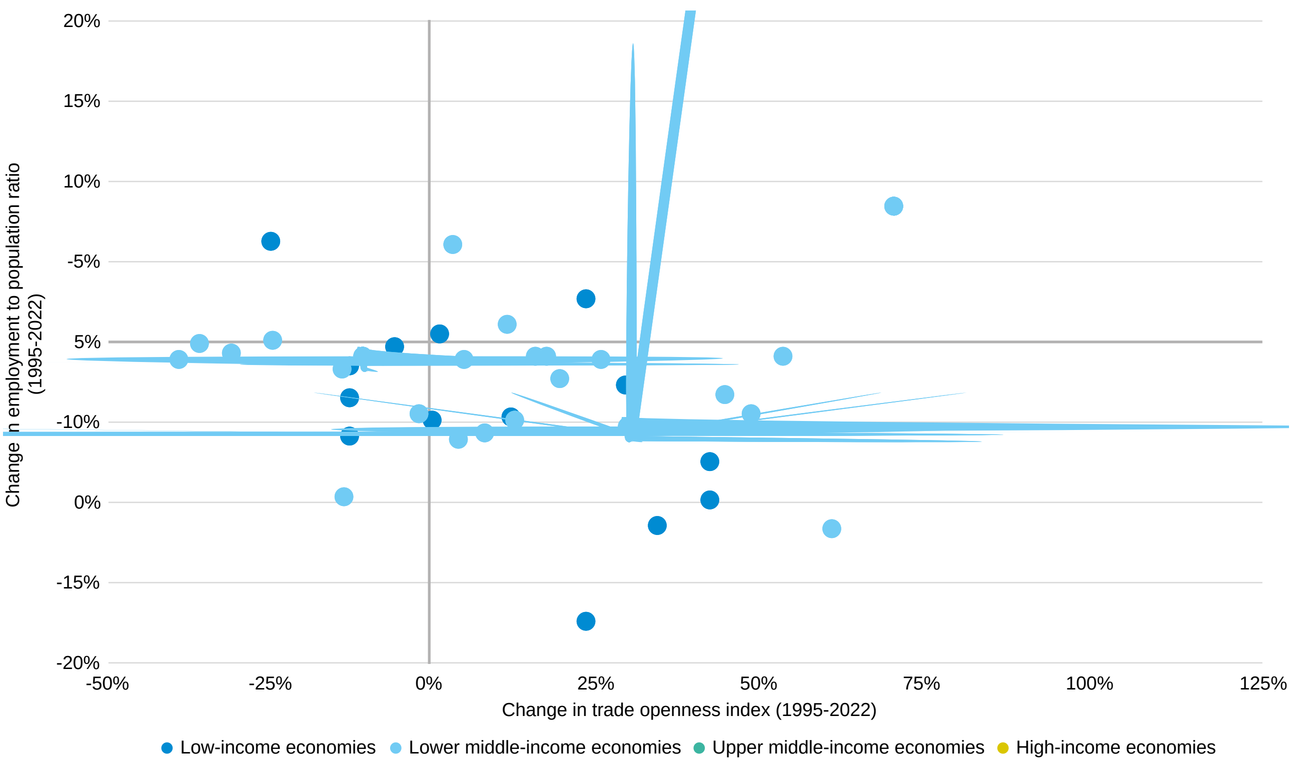
Economies that have successfully harnessed trade to drive faster growth have also implemented a range of domestic policies that have helped them to leverage their comparative advantages, facilitate connectivity to global markets, promote economic adjustment and cushion the adverse impacts of structural change.

At a minimum, they have provided the basic "operating system" that markets need to function efficiently – political and macroeconomic stability, effective financial and legal systems, and a transparent, efficient and non-discriminatory regulatory environment. They have also implemented complementary policies aimed at promoting FDI, encouraging competitive markets, protecting intellectual property and advancing sustainable development, recognizing that trade now increasingly takes place within complex global production networks and that integrating into the networks requires joined-up policies and strategies.

And fast-globalizing economies have usually invested heavily in infrastructure, adjustment assistance, the active upskilling and re-skilling of workers, and other "public goods" to create an enabling environment for trade-led growth and to help shift industries into more value-added production and exports.

Trade policies and policies related to macroeconomics, development, and inclusiveness are interlinked and can reinforce each other. By ensuring these policies are not only well-designed but coherent, trade can be better leveraged for sustained growth. More inclusive trade can, in turn, enhance the effectiveness of many other complementary policies, potentially creating a positive cycle of improvement. Trade encourages structural reform, increases productivity and spurs innovation, helping to expand economic opportunities. Old industries may decline but newer, more dynamic industries emerge; old jobs may disappear, but other better, higher-paying jobs are created. While the overall

F A.4: P [illegible] 1995-2022



correlation between trade and total employment tends to be marginally positive (see Figure A.4), millions of often higher-paid jobs are supported by trade.

As the economy grows and prices fall, more resources become available for investments in education, training and adjustment assistance, which can, in turn, help more people to take part in and benefit from economic growth. This virtuous circle can help to increase equality of opportunity, promote social inclusion and reduce extreme wealth disparities, especially among marginalized groups, if appropriate complementary policies are put in place.

Over the past 30 years, income inequality has evolved differently across economies, with some experiencing significant decreases, but many others facing persistent or widening disparities. Global income inequality remains high in absolute levels, with the level observed in 2020 comparable to that of the early 1900s. Wealth inequality has also remained consistently high over the past three decades, although the share of personal wealth owned by the top 1 per cent decreased slightly, from 31.4 per cent in 1995 to 30.6 per cent in 2022. These trends have led some to argue that international trade exacerbates inequality6 (n)6.4 (i)2.r

Moving towards more inclusive globalization presents opportunities and challenges

The ability of more economies to harness inclusive

– are fast becoming services exporters, because new digitally delivered services, such as online distribution, telemedicine and online business services can be delivered from any location on the planet that has and within economies. The WTO already promotes economic growth and inclusiveness by fostering rules-based, non-discriminatory and predictable trade relations and by improving governance through credible economic reform. This chapter notes that many complementary policies for development and inclusiveness require credible, transparent and coherent trade policy to be more effective, and vice versa. It discusses how making further progress in economic convergence and inclusiveness, requires balancing credible WTO commitments and relevant flexibilities (i.e., special and differential treatment for developing members), while implementing complementary policies and strengthening international cooperation. It calls for reducing trade costs, accelerating the accession to the WTO of new members, ensuring equitable dispute resolution, and providing technical assistance to strengthen members' capacity to implement WTO commitments and related-domestic policies. Enhancing inter-agency cooperation