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Globalization and its Contents: An Update

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Philipp Harms, Johannes Gutenberg-Universität Mainz

Abstract:

This is the manuscript of a keynote speech which I gave in October 2023 at a conference that celebrated 30 years of the Polish-German Academic Forum at the Warsaw School of Economics. The text reviews the evolution of globalization in the past decades, covering various dimensions of economic integration and devoting particular attention to the experiences of Poland and Germany. It then discusses the theoretical merits of free trade and international capital mobility, but also its distributional consequences, and eventually summarizes the empirical evidence on the effects of economic globalization. Finally, it sheds light on the recent anti-globalization backlash and analyzes the forces and motivations that determine individuals' attitudes. The text concludes with the assessment that, if globalization is to persist, it has to be perceived as more than a purely economic project.

Globalization and its Contents: An Update

Philipp Harms, Johannes Gutenberg-Universität Mainz

1. Introduction

In the summer of 1992, I visited Poland for the first time in my life. As a student of Slavonic studies at the University of Konstanz, I attended a language course at the University of Warsaw's Polonicum, and when I boarded the train in Berlin, I had no idea what to expect. The Cold War, which had shaped my childhood and youth, had just ended, and as an average twen who had grown up in the Western part of Germany, I had a very vague concept of what had been hidden behind the iron curtain. Sure, I knew the movies of Krzystof Kieslowski and Andrzej Wajda. I loved the piano sonatas, mazurkas and polonaises of Chopin. As a child, I had been a fan of Bolek i Lolek cartoons. And I knew some novels by Henryk Sienkiewicz, some theater plays by Slawomir Mrozek, and some poems by Ceslaw Milosz. Finally, of course, I was aware of Poland's heroic fight for freedom, which had started in the dockyards of Gdansk in 1980, and to which Germans eventually owed the unification of their own country. By and large, however, - and in this respect, I was not too different from most of my fellow students – Poland was perceived as a part of the so-called "Eastern Block", and most citizens of the Federal Republic of Germany were unable (or reluctant) to perceive the countries formerly dominated by the Soviet Union in all their heterogeneity and diversity.

Blame all this on my ignorance. But also blame it on the fact that, in 1992, the phenomenon called globalization had only just started to take off. From today's perspective it is hard to believe how limited our horizons were back then. Of course, we had to live without the internet, so the flow of information was constrained and slow. However, the gradual disappearance of informational boundaries that started in the 1990s was not just a technical phenomenon. It was also driven by the intensifying and accelerating economic interaction between people, firms and institutions located in very different parts of the globe. In most of this speech, I will concentrate on the economic aspects of globalization. However, we must not underrate the importance of the formal and informal contacts that came with all these economic transactions, the broadening of our horizons, our experience of diversity and heterogeneity. In fact, I will come back to this theme towards the end of this contribution, and I will emphasize that, if economic globalization is to survive, it has to be more than a purely economic phenomenon.

Some 30 years after my first visit of this city, I feel honored to give this keynote speech to celebrate the Polish-German Academic Forum at the Szkola Glowna Handlowa w Warszawie. At the end of my visit in 1992, I left Poland with the firm conviction and hope that Germany and Poland would eventually become neighbors whose citizens and policymakers would treat each other with mutual understanding and respect. During the past decades, the Polish-German Academic Forum has certainly contributed to achieving this goal.

Let me now comment on the enigmatic title I chose for this presentation: "Globalization and its Contents: An Update". In 2002, Joseph Stiglitz, Nobel prize laureate and one of the most original and influential economists of the past decades, published a book with the title "Globalization and its *dis*contents" (Stiglitz, 2002), in which he did not criticize the process of globalization as such, but the role of international financial institutions like the IMF, the dominance of what he perceived as a harmful "laissez-faire" doctrine, and the failure to manage the process in a way that was beneficial and inclusive for large parts of the population. Stiglitz's book provoked a considerable number of – partly enthusiastic, partly highly critical – reactions, among which Peter Marber adopted the title's pun in 2004, emphasizing the benefits of globalization: "Globalization and its Contents" (Marber, 2004). Almost 20 years have passed since then, some problems have disappeared, others have emerged. In the meantime, Joseph Stiglitz has updated his thoughts on the *discontents* of globalization (Stiglitz, 2017). So let me deliver an update on globalization and its *contents*.

My presentation will be structured as follows: I will start in Section 2 by describing the evolution of globalization along various dimensions, shedding special light on Poland's and Germany's experience. In Section 3, I will first review the theoretical arguments on the growth and welfare effects of economic globalization, which drove the dismantling of barriers to international trade in goods, services and assets back in the 1990s. I will then touch upon the empirical evidence on the merits of globalization that we have collected so far. Finally, I will turn to the "dark sides" of globalization that have become increasingly prominent in the past decade. In Section 4, this will bring me to the question how people perceive globalization, and what might be underlying the political backlash against globalization that we have been observing since the global financial crisis of 2008/09. Section 5 will offer a short summary and an important conclusion.

2. Globalization, then and now

In what follows, I will define globalization as the integration of international markets for goods, services and assets, or – from the other side – the *dismantling of barriers* that prevent international trade and capital flows. Some authors date the start of the "second wave of globalization" in the mid-1980s[1], but most of them would agree that the process really took off in the early 1990s.

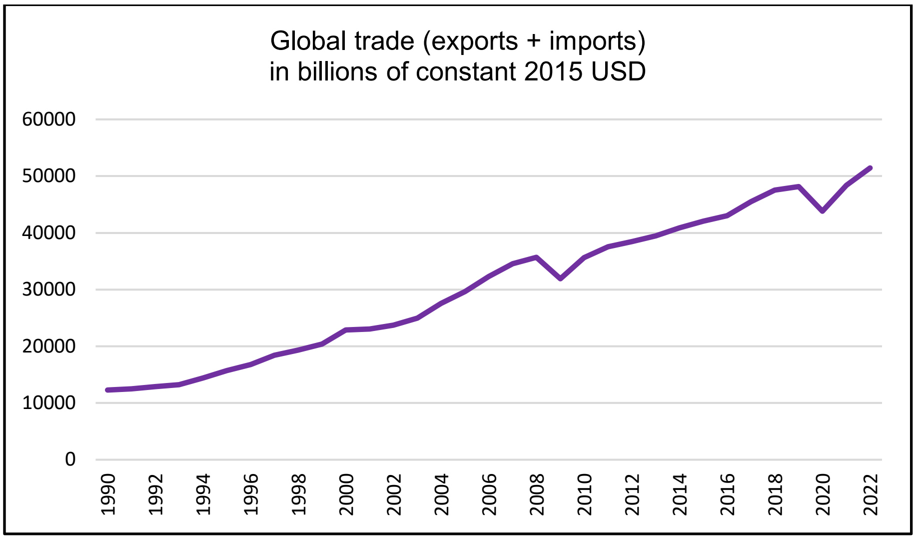

Figure 1: The evolution of global trade. Source: World Bank (WDI)

At that time, the advent of the internet started to enormously facilitate the exchange of information, and trade costs decreased substantially. Most importantly, however, the fall of the iron curtain, far-reaching reforms in Latin America and Asia and, finally, the foundation of the World Trade Organization triggered the considerable increase in international trade and capital flows that characterized the 1990s and early 2000s. **Figure 1** depicts the evolution of international goods and services trade – defined as the global sum of exports and imports in constant US dollars – between 1990 and 2022. It demonstrates the enormous growth of international transactions by a factor of five, documents the great trade collapses during the global financial crisis of 2008/09

[1] The "first wave of globalization" unfolded in the last decades of the 19th century and ended with World War 1 (see, e.g. Meissner, 2015).

and the Corona pandemic of 2020/2021, but also the recovery of trade in the wake of these crises.

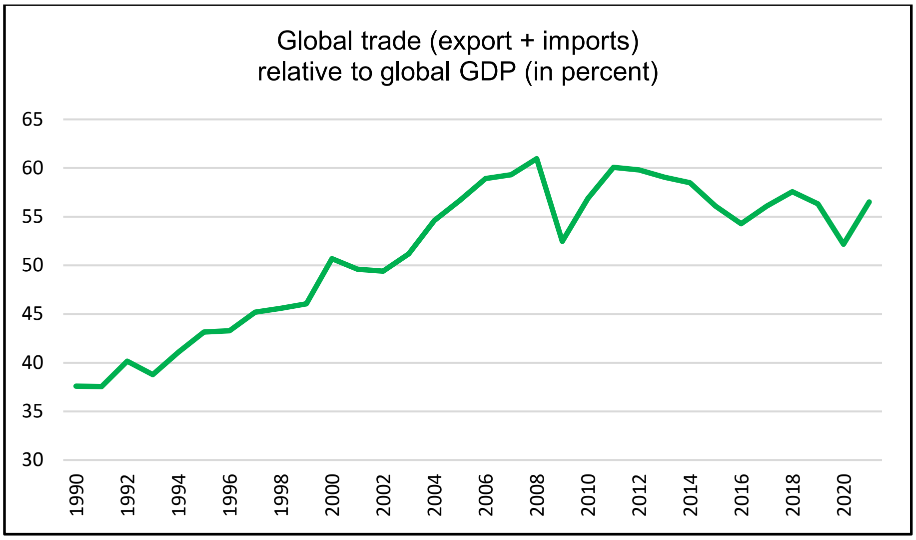

Figure 2: The evolution of global trade (percent of GDP). Source: World Bank (WDI)

Of course, the expansion of international trade went hand in hand with the growth of overall economic activity, so to really assess the rise of globalization, we have to divide global trade by global gross domestic product (GDP). This is what **Figure 2** does. It shows the considerable increase of trade relative to GDP from below 40 percent in 1990 to slightly above 60 percent just before the global financial crisis. It also documents that trade has grown less slowly than GDP in the past 15 years, forcing the ratio to stagnate or even decrease. Despite this development, however, we are still far away from the situation that characterized the early 1990s.

How did Poland and Germany experience the rise of international trade in the past 30 years? **Figure 3** depicts the evolution of trade – in constant US dollars and relative to GDP – between 1995 and 2021. It documents the rapid advance of globalization in both Poland and Germany. In fact, both countries' exposure to international goods and services trade is far above the world average Or, to put it bluntly: in both Poland and in Germany, people live in very globalized economies.

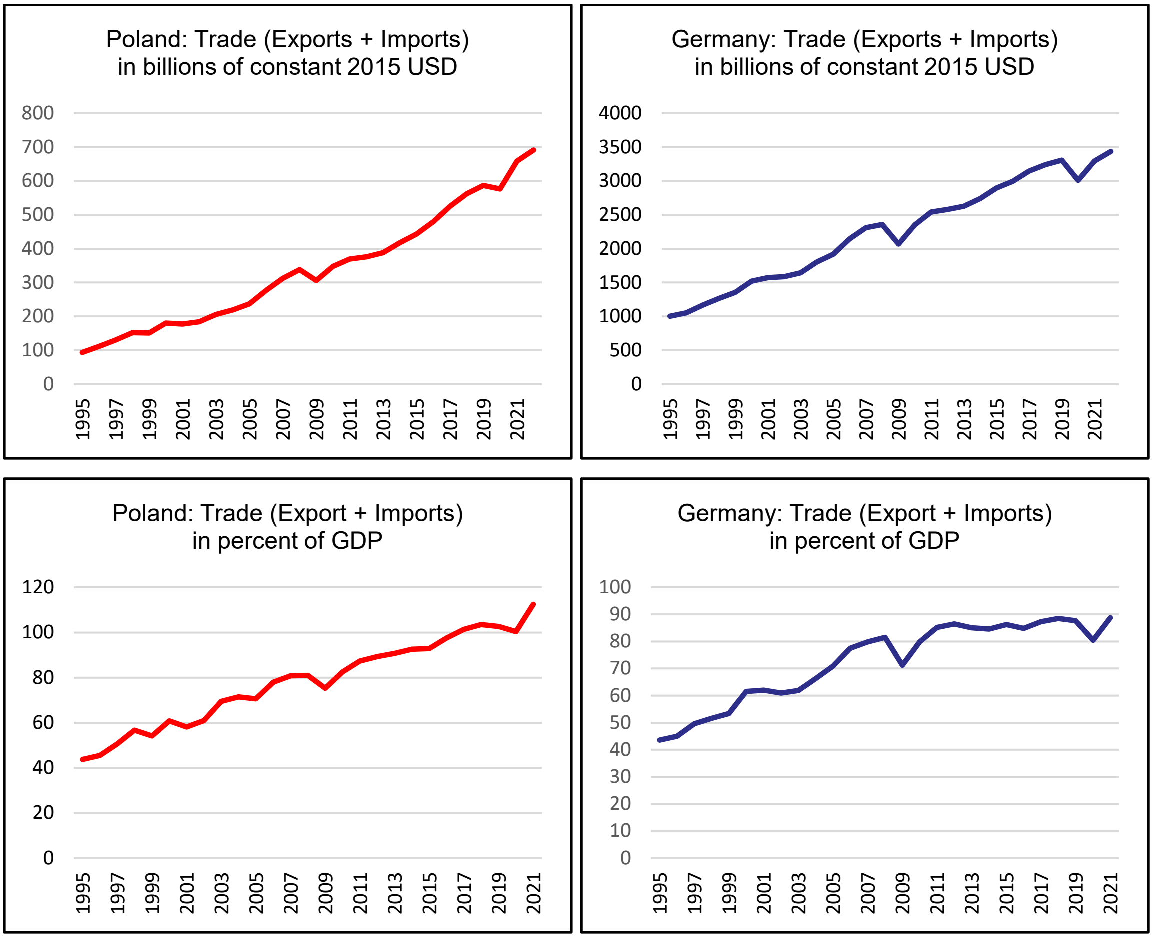

Figure 3: The evolution of trade in Poland and Germany. Source: World Bank (WDI)

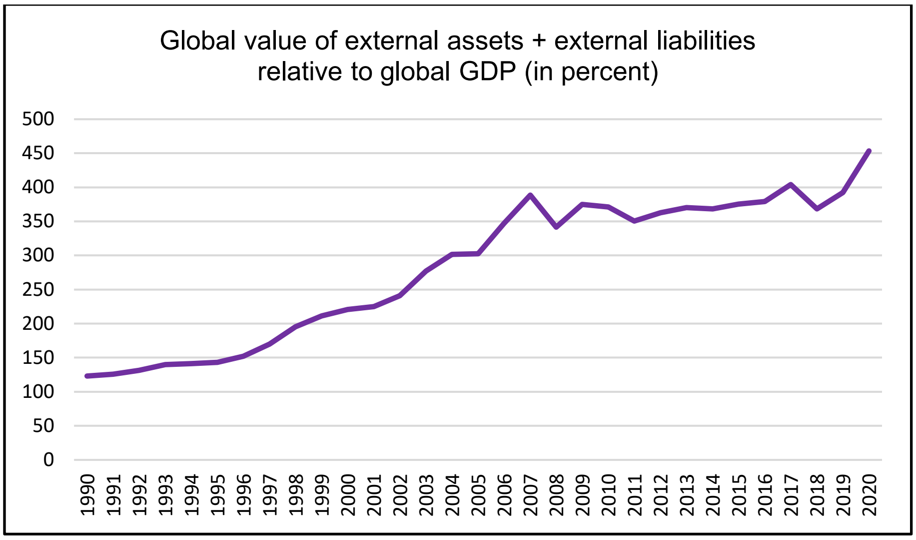

Figure 4: Global de-facto financial globalization. Source: Lane and Milesi-Ferretti (2018) and own computations.

As I mentioned above, economic globalization is not only about international trade in goods and services, but also about the dismantling of barriers to international capital flows. A standard measure to assess a country's de-facto integration into international financial markets is the sum of its external assets and liabilities relative to its GDP. **Figure 4** shows this ratio for the world as a whole, documenting the rapid advance of financial globalization. By now, the value of external assets and liabilities exceeds countries' GDP by a factor of almost five, on average. **Figure 5** depicts this measure for Poland and Germany. Interestingly, Poland's de-facto financial globalization is below the global average, while the value for Germany is above it. However, both countries have become considerably more integrated into international financial markets since the early 1990s.

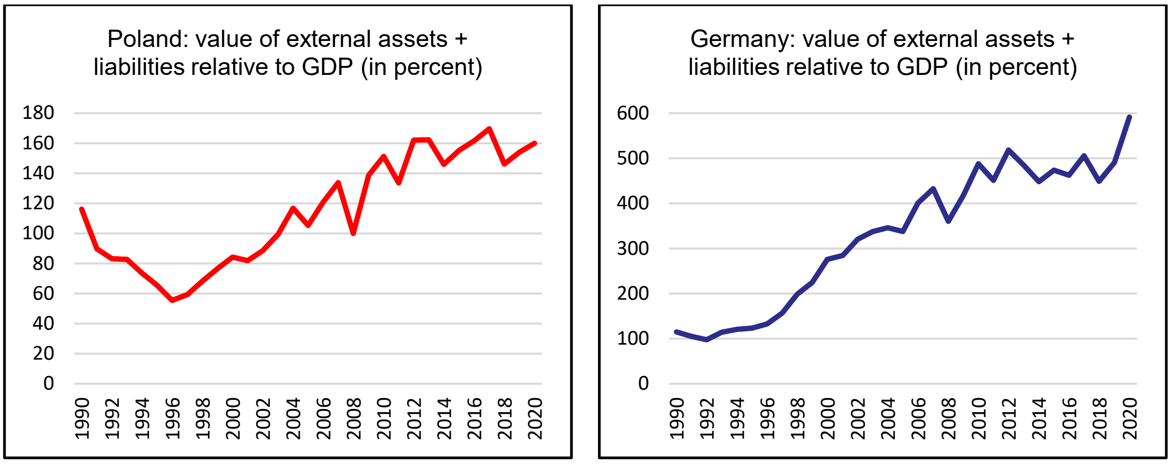

Figure 5: De-facto financial globalization in Poland and Germany. Source: Lane and Milesi-Ferretti (2022) and own computations.

Another way to diagnose the extent a country's financial globalization is to look at the barriers it erects to regulate international capital flows. The pervasiveness and intensity of these barriers is reflected by the measure of "financial openness" developed by Menzie Chinn and Hiro Ito on the basis of the IMF's Annual Reports on Exchange Arrangements and Exchange Restrictions. The Chinn-Ito measure is defined on a scale between -2.5 and 2.5, with higher values describing more financially open economies. **Figure 6** demonstrates the gradual dismantling of restrictions to international capital flows in Poland, with its de-jure financial openness eventually exceeding the global average, and the persistently high degree of de-jure financial openness in Germany.

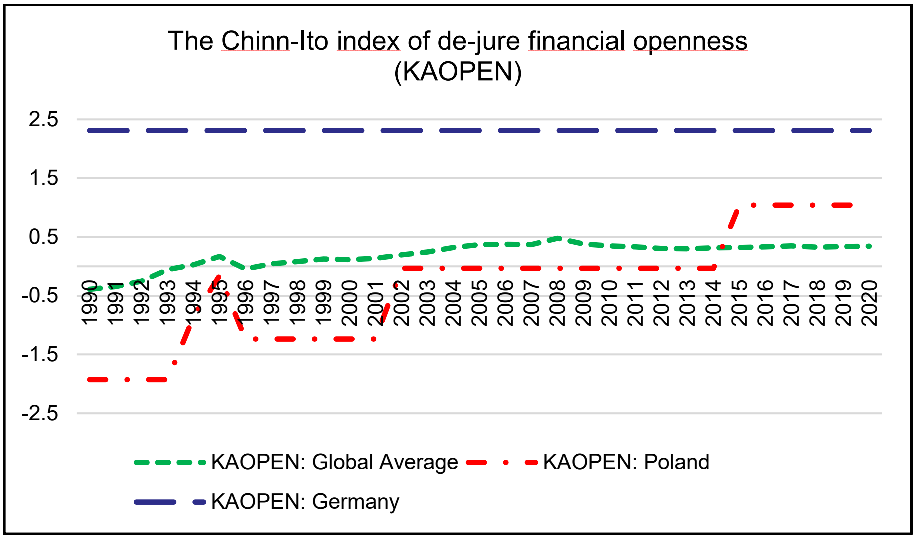

Figure 6: De-jure financial openness in Poland and Germany. Source: Chinn and Ito (2006)

So far, I have considered trade openness and financial openness in isolation. A measure that combines both aspects is the KOF index of economic globalization, compiled by the Swiss Economic Institute (KOF) at ETH Zurich. This measure is defined on a scale between zero and 100 and distinguishes between the de-jure side – the rules and regulations determining international transactions – and the de-facto side, i.e. the volume of observed cross-border flows and activities.

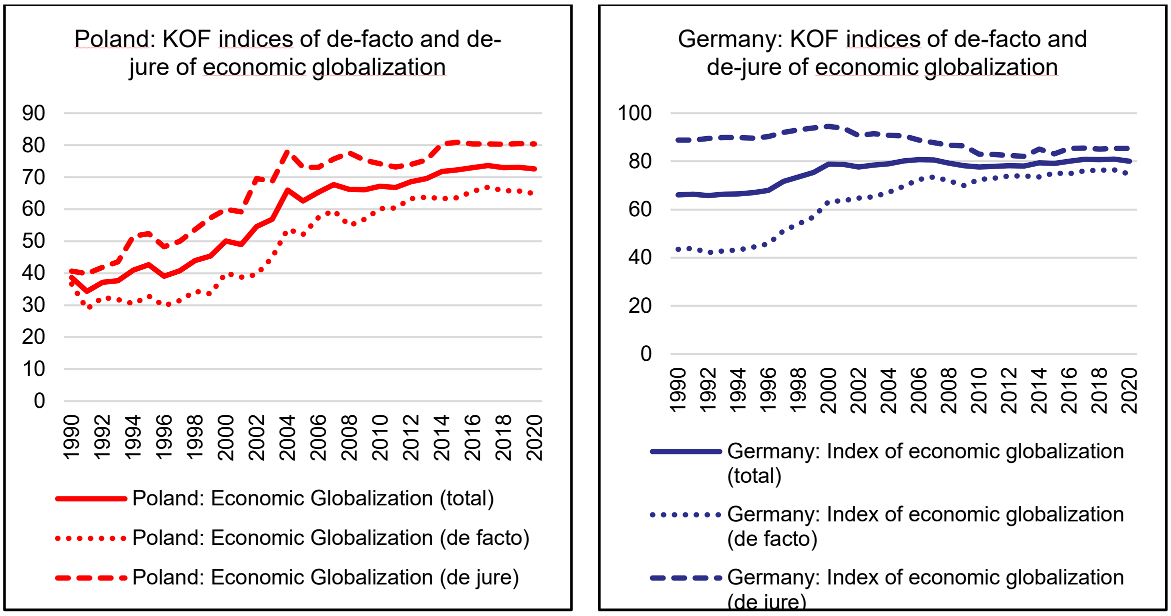

Figure 7: KOF indices of economic globalization. Sources: Dreher (2006), Gygli et al. (2019, 2022).

Figure 7 depicts the evolution of this index for Poland and Germany between the early 1990s and 2020, supporting our notion that economic globalization has increased substantially in both countries. in fact, for both Poland and Germany, the current value of the KOF index by far exceeds the global average, which is currently at around 60.

3. (What) did globalization deliver?

As I tried to convince you in the preceding section, globalization has proceeded rapidly in the world as a whole – especially in the years before the global financial crisis – and it has proceeded even more rapidly in Poland and Germany. The question I want to address now is whether this evolution has yielded the benefits that were expected by both researchers and policymakers at the start of the 1990s.

3.1. Theory

Let's start with international goods trade. Theory offers numerous reasons to embrace free trade: since, at least, David Ricardo's Principles of Political Economy and Taxation published in 1817, people started to understand that trade was not a zero-sum game, and that nations who allowed for the free flow of goods across borders benefited from a more efficient international division of labor. To use Ricardo's famous example: even if England is "so circumstanced" to be less productive in manufacturing wine and cloth than Portugal, it is advantageous for both countries to open up for international trade and to specialize according to their comparative advantage – with England producing and exporting cloth and Portugal producing and exporting wine. Roughly a century later, Eli Heckscher and Bertil Ohlin made a similar case for the gains from trade, relating comparative advantage not to technological differences, but to differences in factor endowments. In the second half of the 20th century, Elhanan Helpman and Paul Krugman revolutionized trade theory by pointing out additional gains emerging from intra-industry trade between similar countries: under imperfect competition, market entry reduces monopoly rents and rises real incomes. Moreover, a more diverse basket of goods increases utility due to consumers' love of variety. Most recently, Marc Mélitz added the argument that free trade shifts the distribution of firms towards the more productive enterprises and thus enhances aggregate output.

When it comes to capital flows, theory offers a similar multitude of arguments in favor of dismantling barriers to international investment: first, free trade in assets results in a more efficient allocation of capital. More specifically: capital is installed where its marginal productivity is highest, benefitting both creditors (who reap higher returns) and debtors (who are able to realize investment projects at much lower costs than under autarky). In addition, financial globalization allows for consumption smoothing and the diversification of income risks, enhances the transfer of technology and the development of the financial sector. Finally, it promotes specialization in production and enables countries to exploit their comparative advantage.

3.2. Empirics

Based on the theoretical arguments sketched in the preceding section, we would thus expect a clear correlation between globalization and standard measures of economic prosperity. Do we see it in the data?

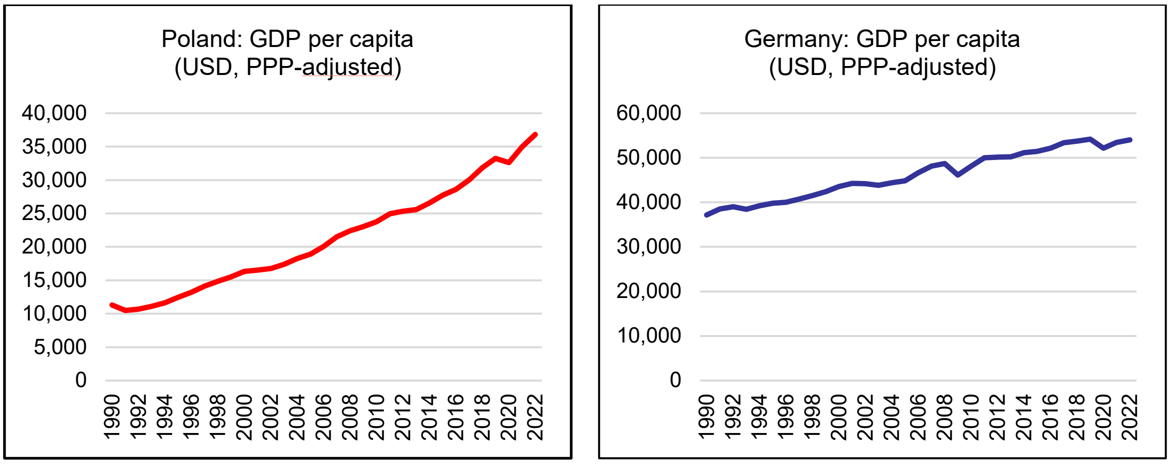

Figure 8: The evolution of real per-capita GDP in Poland and Germany. Source: IMF (World Economic Outlook database).

Figure 8 shows the evolution of real per-capita GDP – adjusted for international price differences – in Poland and Germany since the early 1990s. In Poland, today's GDP per capita is 3.5 times higher than it was in 1990s, while Germany experienced a rise by a factor of 1.4. Let me dwell on this for a second: Today, the average person in Poland experiences a standard of living that is 3.5 times as high as in 1990. This is a remarkable achievement. And even the additional 40 percent reaped by the average German is no small change. Bear in mind that we are comparing today's situation not to a distant past, but to a time that most of us have no trouble to recall.

It would, of course, be naïve to assign these massive increases in average prosperity to globalization alone. First and foremost, technological progress, as reflected by increases in labor productivity, has certainly contributed to this evolution. Second, countries that wisely handle international trade usually handle other determinants of prosperity wisely as well, i.e. the dismantling of trade and investment barriers was probably associated with other growth-enhancing policy measures. Identifying the separate causal effect of free trade on GDP is thus not easy. Starting with the seminal contribution by Jeffrey Frankel and David Romer (1999), a large strand of literature has tried to solve this problem. Recently, James Feyrer has come up with an ingenious empirical strategy that uses advances in air transport and countries' geographical location to predict countries' volume of trade (Feyrer, 2019). Using this instrument, Feyrer documents a significantly positive effect of trade on the growth of per-capita GDP.

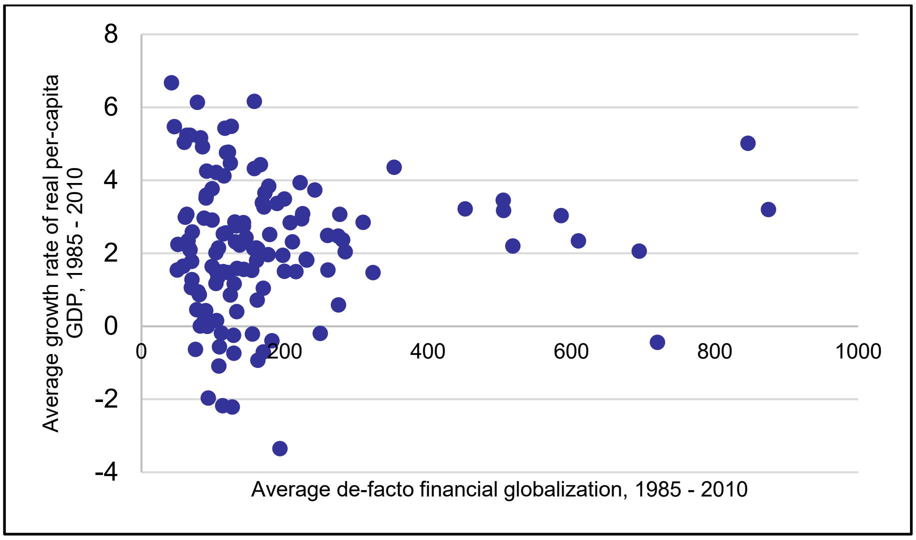

Figure 9: De-facto financial globalization and economic growth. Source: Harms (2016).

While the notion that free trade enhances income and prosperity for countries as a whole enjoys strong empirical support, the picture looks somewhat bleaker when it comes to the effects of financial globalization. Starting in 2003, Ayhan Köse, Eswar Prasad, Kenneth Rogoff and Shang-Jin Wei published a series of working papers that eventually resulted in a contribution in the IMF Staff Papers in 2009 (Köse et al., 2009). Compared to expectations, their results were sobering, to say the least: some 10 years after globalization had started taking off, the team did not find any evidence that more globalized economies had enjoyed higher growth rates. The scatterplot in **Figure 9**, taken from my textbook on international macroeconomics, supports this finding: even a very benevolent interpretation of this scatterplot would not find a positive correlation between financial globalization and the growth of real per-capita GDP. As Köse and his co-authors demonstrate, controlling for other potential determinants of economic growth does not alter this non-result.

To those who remember the 1990s, this somewhat frustrating result may not come as a surprise: while the 1980s suffered from the aftermath of a series of sovereign defaults at the beginning of the decade, the 1990s were shattered by a sequence of currency crises in emerging markets. Recall the so-called “peso crisis” in Mexico of 1994, the Asian crisis of 1997 and 1998, and, eventually, the Argentine default in 2000 and 2001. In all those countries, the crises ended a period of massive inflows of “hot money”, and the financial turmoil that followed destroyed most of the gains in prosperity that they may have helped to achieve.

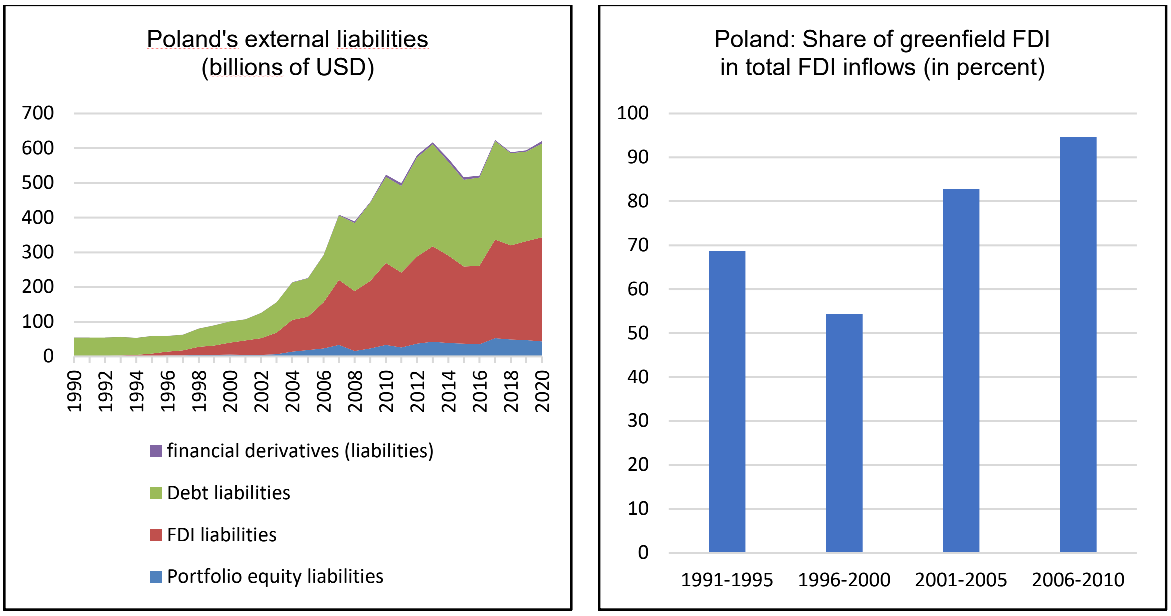

Figure 10: The structure of Poland’s external liabilities. Source: Lane and Milesi-Ferretti (2018), Harms and Méon (2018), based on data from UNCTAD.

Does this mean that financial openness is pointless or even detrimental? Not if one distinguishes between different types of capital flows. In fact, there is a wide-spread consensus that foreign direct investment – in short: FDI, driven by long-term strategies rather than short-term return-maximization, and contributing to the transfer of technologies and organizational efficiency – has a much brighter track record than, e.g., debt-type capital flows. In a paper published in 2018, Pierre-Guillaume Méon and I demonstrate that FDI has a positive effect on growth – and mostly so when the “greenfield” component is considered, i.e. the build-up of new factories from scratch rather than the purchase of existing companies in the context of mergers and acquisitions. What does this mean for Poland? **Figure 10** shows that, in recent years, the structure of Poland's external liabilities has shifted from debt to equity, most notably FDI. Moreover, the data from UNCTAD that Pierre-Guillaume Méon and I used in our study suggest that the share of greenfield investment in FDI inflows always was above 50 percent and increased substantially in the first decades of the 21st century. This suggests that Poland enjoyed the more benign variant of international capital inflows and thus benefited from being integrated into global financial markets.

3.3. The dark side(s) of globalization

Does this mean that all is well, and that people who are skeptical about globalization should just attend a few economics lectures to learn better? The answer is, of course, no: starting with Ricardo, economists were always aware of the hairy distributional implications of opening up to free trade. In the short and medium run, the specialization of an economy along comparative-advantage lines is associated with structural change, and the costs imposed on those individuals who are employed in contracting industries may be enormous. To make matters worse: even when the lengthy process of moving people and capital to other industries has ended, some individuals may not be better off than under autarky. The Stolper-Samuelson theorem argues that a country's scarce factor loses out in real terms, and that these losses are not a temporary phenomenon, but characterize the steady state. With respect to the income distribution in emerging markets and developing countries, the Stolper-Samuelson theorem still offers a glimpse of hope, suggesting that free trade should increase labor incomes in labor-abundant economies. However, in a more recent contribution, Robert Feenstra and Gordon Hanson (1997) argue that international trade in intermediate goods harms low-qualified workers in both rich and poor countries.

Of course, there is no contradiction between the claim that globalization yields gains to a country as a whole and the insight that it might have adverse consequences for some parts of the population: as long as the aggregate gains from trade are higher than the aggregate losses, an appropriate transfer mechanism could compensate for the losses. However, if such a transfer mechanism does not exist – or does not work – one should not be surprised by meeting fierce resistance against globalization in some parts of the society.

In fact, there is emerging evidence that globalization has contributed to the rise in income inequality observed in recent decades. This is the essence of a recent IMF Working Paper by Valentin Lang and Marina Mendes Tavares (2018), which relates changes in inequality to changes in the KOF measure of globalization introduced above. While a positive correlation between globalization and inequality is already suggested by a visual inspection of the data, it turns out that this relationship does not disappear when the authors use a more sophisticated empirical strategy. Moreover, they demonstrate that the effect is non-linear, with increases in globalization raising inequality predominantly in already very globalized economies. Probably the most influential contribution on the distributional effects of trade on inequality has recently been made by David Autor, David Dorn and Gordon Hanson (2013). In a sequence of papers they first assess how strongly US-American commuting zones were affected by the massive increase in low-cost manufacturing imports from China. Using this information, the team demonstrates that employment decreased, unemployment increased, wages dropped, and transfers rose in those commuting zones that were more heavily affected by trade. Workers living in those parts of the countries lost on all accounts. And, for some reason, people were reluctant or unable to move to other regions where economic developments were more favorable.

4. The anti-globalization backlash

Given the potentially adverse effects of globalization, it is not surprising that both international trade and international capital flows are met with skepticism by some parts of the population. The standard narrative identifies the "globalization losers" – those who are particularly exposed to structural change and low-wage competition from other countries – as those who are susceptible to anti-globalization rhetoric, be it from the left or the right. In fact, when we relate regions' exposure to Chinese import competition to the success of the Republican party in the presidential elections of 2016, we see a clear correlation: with its "Make-America-Great-Again"-slogans, Donald Trump seems to have won over those parts of the population who were frustrated about their economic situation. Again, of course, identification is not trivial: both exposure to the Chinese import shock and voting decisions may be driven by factors other than globalization. However, both David Autor and his co-authors (2020) as well as Italo Colantone and Piero Stanig (2018) identify a causal effect of globalization on the rise of right-wing populism. Considering the evolution of political attitudes in Britain, Nils Steiner and I demonstrate that individuals living in British regions that were more heavily affected by low-cost import competition from China tended to become more nationalist over time (Steiner and Harms, 2021).

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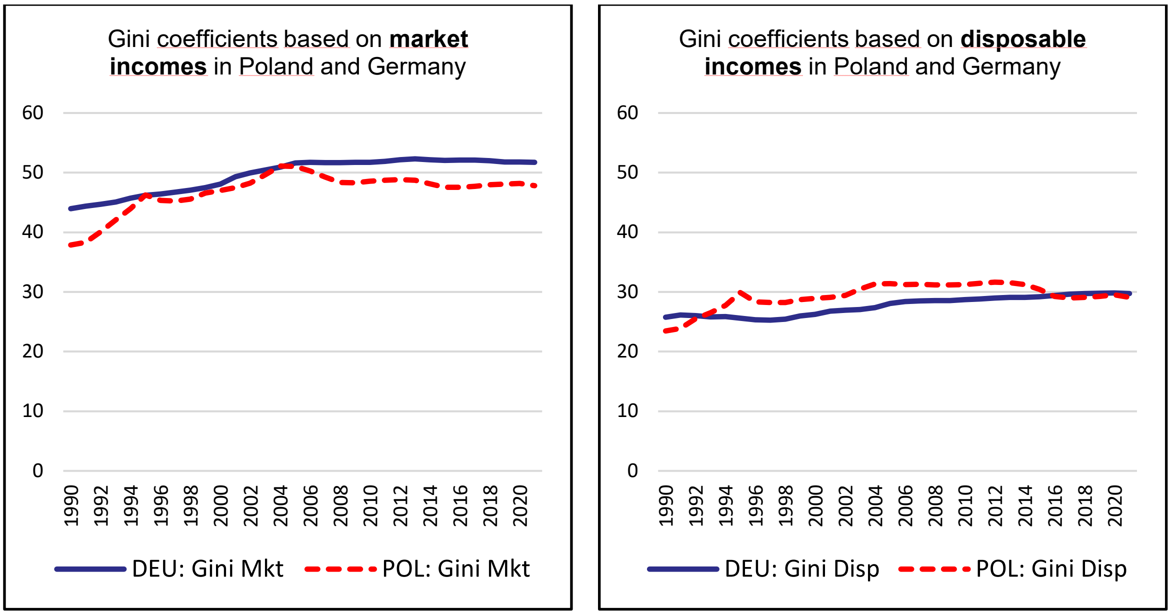

Figure 11: The evolution of inequality in Germany (DEU) and Poland (POL). Source: Solt (2020).

How did inequality and attitudes towards globalization evolve in Poland and Germany? **Figure 11** documents that inequality – as measured by the Gini coefficient of market incomes – has increased in both countries since the early 1990s, with the increase in Poland being more pronounced than in Germany. However, once one considers the Gini coefficient of *disposable* incomes, which corrects market incomes for public redistribution through taxes and transfers, the increase in inequality is less pronounced.

While inequality measures like the Gini coefficient describe how the distribution of incomes evolves over time, survey data allow assessing how people *perceive* their economic situation. In a current project with Piotr Stanek, we analyze several waves of the European Social Survey (ESS) with a special focus on Poland. Among other things, the questionnaire asks respondents whether they can comfortably live on their current income. As documented by **Figures 12a**, the share of respondents in Poland who are experiencing financial difficulties (the LHS panel) or *severe* financial difficulties (the RHS panel) has decreased substantially since the early 2000s. As **Figure 12b** demonstrates, financial difficulties are more pervasive among respondents with lower educational attainment, but the *evolution* is more or less the same across all educational groups. While I don't want to sell this as an exhaustive analysis of social structures in Poland, these figures shed some doubt on the notion that a large share of the population feels pauperized.

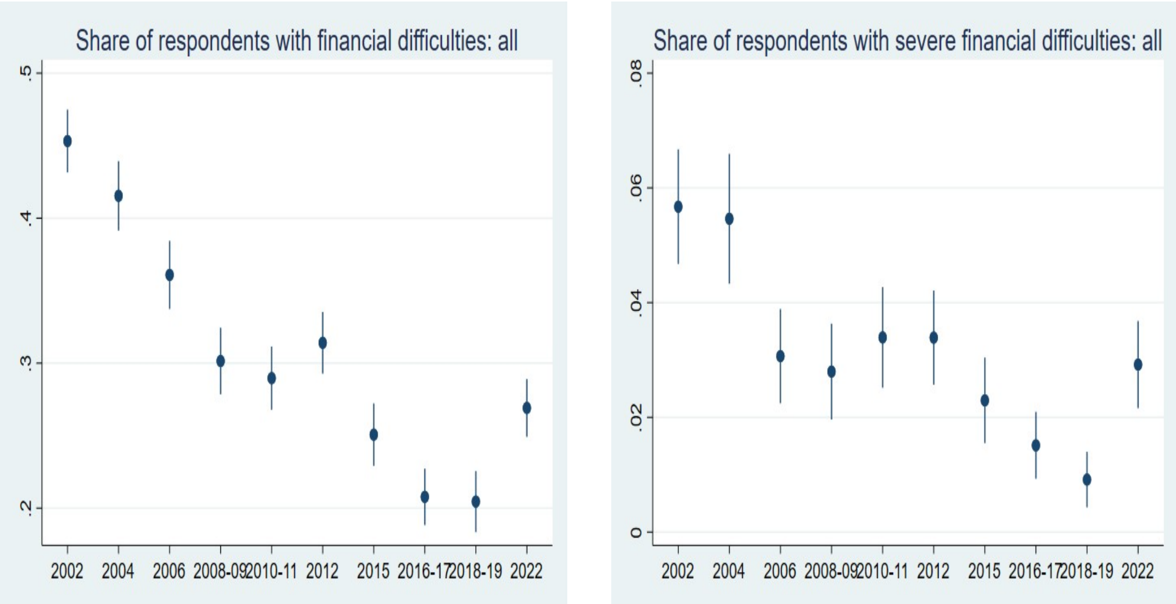

Figure 12a: Individuals' assessment of their financial situation in Poland. Source: European Social Survey and own computations. Point estimates and 95% confidence intervals.

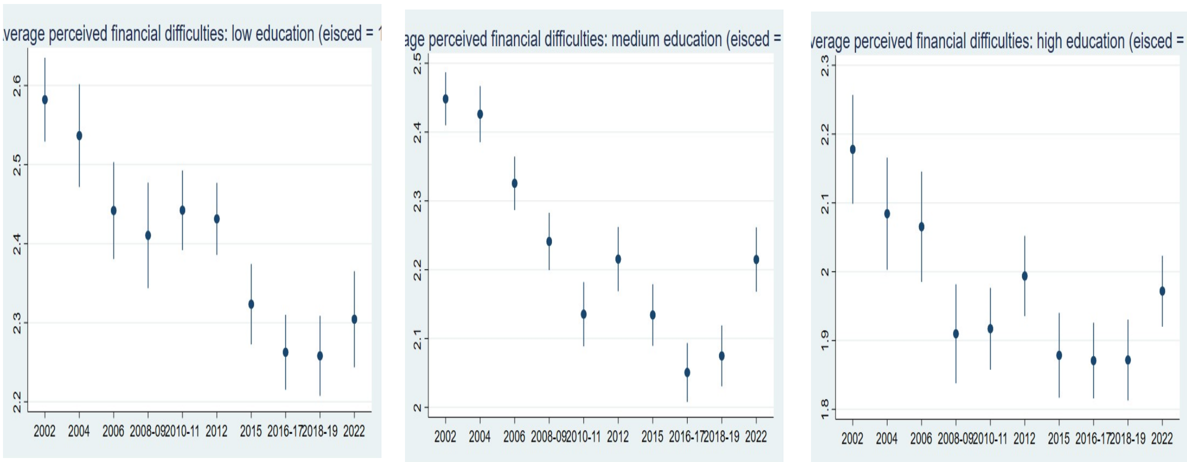

Figure 12b: Individuals' assessment of their financial situation in Poland. Left: Low educational attainment (lower secondary and less than secondary education), Middle: Intermediate educational attainment (upper secondary to advanced vocational education), Right: High educational attainment (university education: b.a. or m.a. level). Source: European Social Survey and own computations. Point estimates and 95% confidence intervals.

What about attitudes towards globalization in Poland and Germany? While international surveys offer different approaches to assessing how individuals perceive globalization, the European Social Survey's item inquiring about individuals' attitudes towards European Integration offers the advantage of being available on a fairly regular basis since the early 2000s.

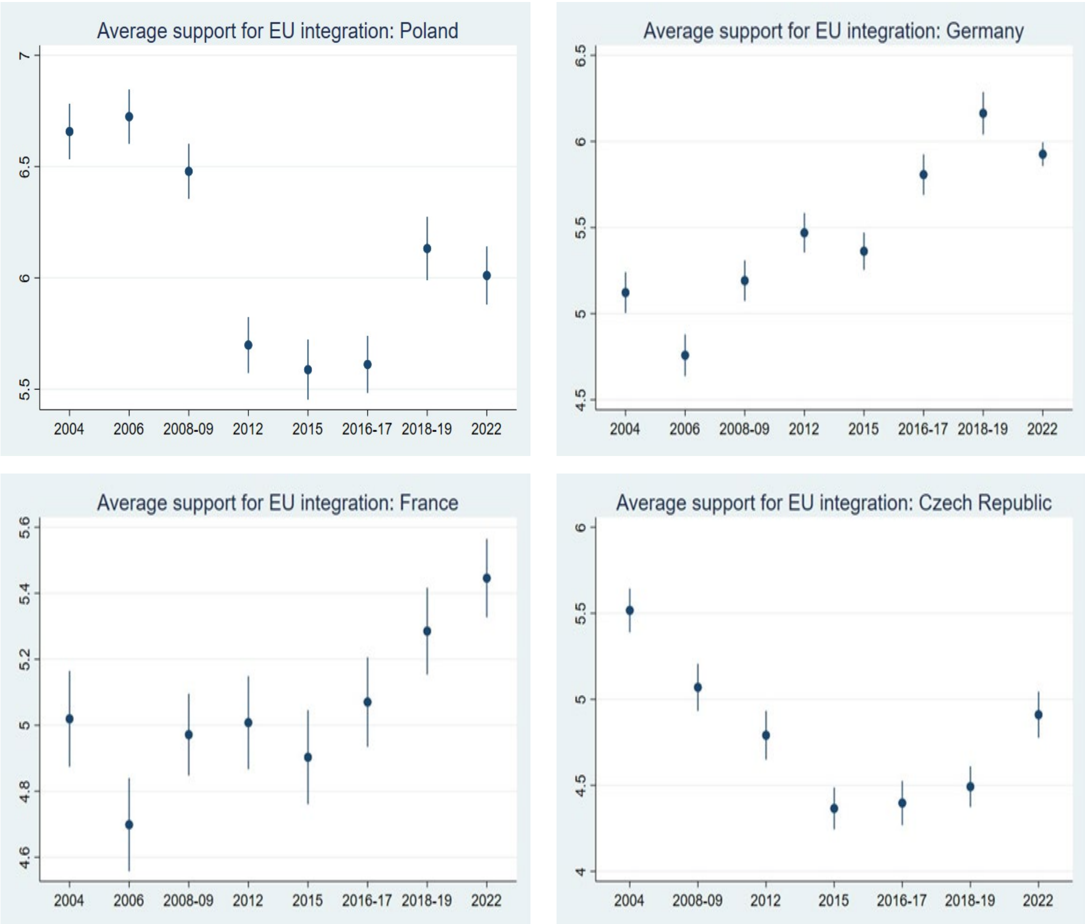

Figure 13: Support for EU integration in selected European countries. Source: European Social Survey and own computations. Point estimates and 95% confidence intervals

Figure 13 illustrates how average support for further EU integration has evolved in four countries, juxtaposing Poland, Germany, France and the Czech Republic. Interestingly, average support for European integration among Polish respondents dropped substantially between the 4th ESS wave in 2008-09 and the 5th wave in 2012. This evolution is very different from developments in Germany and France, which suggest an increasing enthusiasm vis-à-vis an intensified European integration, and it is similar to the declining support observed in the Czech Republic. Sure, apart from considering the evolution of support, one should also pay attention to its level: despite the drop in the early 2000s (and the more recent recovery), Polish endorsement for further European integration still ranks highest among the countries covered by the ESS. Still, the drop between 2008 and 2012 is remarkable. A valid question is whether this evolution is driven by the attitudes of those who feel left behind by globalization, and who voice their disappointment and frustration by reducing support for European unification. The answer, however, is no. **Figure 14** demonstrates that, when we split respondents into three groups according to their educational attainment, we see the differences in levels that we would expect, with the low-qualified being less enthusiastic about further EU integration than the high-qualified. However, the *drop* in support is even more pronounced in the latter group than in the former. This does not square well with the narrative that resistance against globalization in general – and EU integration in particular – is, first and foremost, driven by those who see themselves harmed by foreign competition and international finance. It seems, instead, that European integration has also lost its appeal among the more privileged members of society.

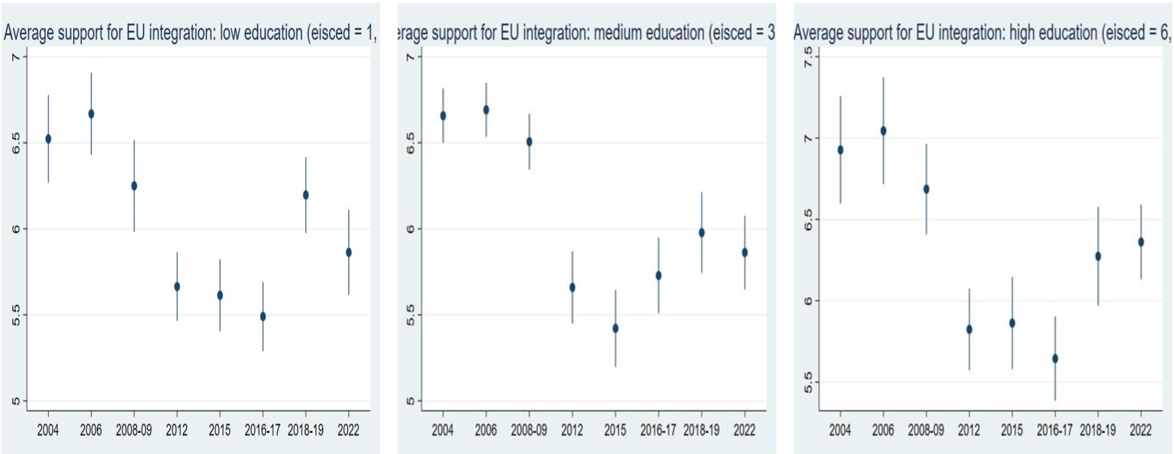

Figure 14: Support for EU integration in Poland. Left: Low educational attainment (lower secondary and less than secondary education), Middle: Intermediate educational attainment (upper secondary to advanced vocational education), Right: High educational attainment (university education: b.a. or m.a. level). Source: European Social Survey and own computations. Point estimates and 95% confidence intervals

This observation is reminiscent of a result that Jakob Schwab and I derived in a paper published in 2020: Using survey data from the International Social Survey Programme (ISSP), we considered participants' responses to the statement that their country should limit imports of foreign goods. Our goal was to find out whether changes in average responses between the ISSP waves of 2003 and 2013 were related to country-specific experiences during the global financial crisis of 2008-2009. In fact, we found that, ceteris paribus, countries that had experienced higher and more protracted drops in output and a stronger increase in inequality saw support for international trade wane between 2003 and 2013. When focusing on respondents' socio-economic characteristics, we found that individuals with a higher income, a higher educational attainment, a superior position at the workplace and a more "cosmopolitan" perspective on the world were more supportive of free trade than individuals at the other end of the respective scale. This is not surprising and totally in accordance with the standard narrative. What *is* surprising, though, is that, for the countries in our sample, the difference in support between alleged "globalization winners" and "globalization losers" substantially decreased between 2003 and 2013. As we demonstrate, the former group was 46 percent more likely to support free trade than the latter in 2003. In 2013, this difference had shrunk to 35 percent, and this is not because the poor and destitute had become more positive about globalization. We conclude that, when discussing the anti-globalization backlash observed in recent years, it is not enough to look at the lower end of the income distribution. Instead, one also has to acknowledge an eroding enthusiasm of the elites, i.e. a declining support for globalization expressed by those who benefit most from the process of international economic integration. What are the causes of this evolution? Maybe the development is driven by economic factors that we failed to control for. But maybe – and after a series of empirical tests we are inclined to favor this interpretation – people have just become complacent. It seems like globalization has become an achievement which people are taking for granted, and which they are reluctant to actively endorse and defend.

5. Summary and conclusions

What do I want you to take away from all this? First, we know more about the benefits and drawbacks of economic globalization than we did when Joseph Stiglitz wrote the first version of his book back in 2002. The beneficial effects of trade openness on aggregate prosperity are supported by more solid empirical evidence than twenty years ago. Financial globalization, in general, turned out to be a disappointment, but specific aspects of it – notably, foreign direct investment of the greenfield type – delivered the gains in productivity and growth that people had hoped for. We are also more aware of the downsides of economic globalization, most notably its contribution to rising income inequality. Given these distributional effects, it is not surprising that political entrepreneurs have identified the grief and frustration of globalization losers as a policy platform to further their own careers. It is not surprising that globalization enhances the attractiveness of populist policies for those who perceive it as a threat rather than a blessing.

What is perhaps most surprising is the "eroding enthusiasm of the elites", which I described at the end of the previous section. If those who are likely to benefit from globalization do not fervently defend the free international movement of goods, services and assets, who will? If this group takes past decades' achievements in terms of international political and economic integration for granted, these achievements will eventually be lost. The costs would be enormous, not just in economic terms.

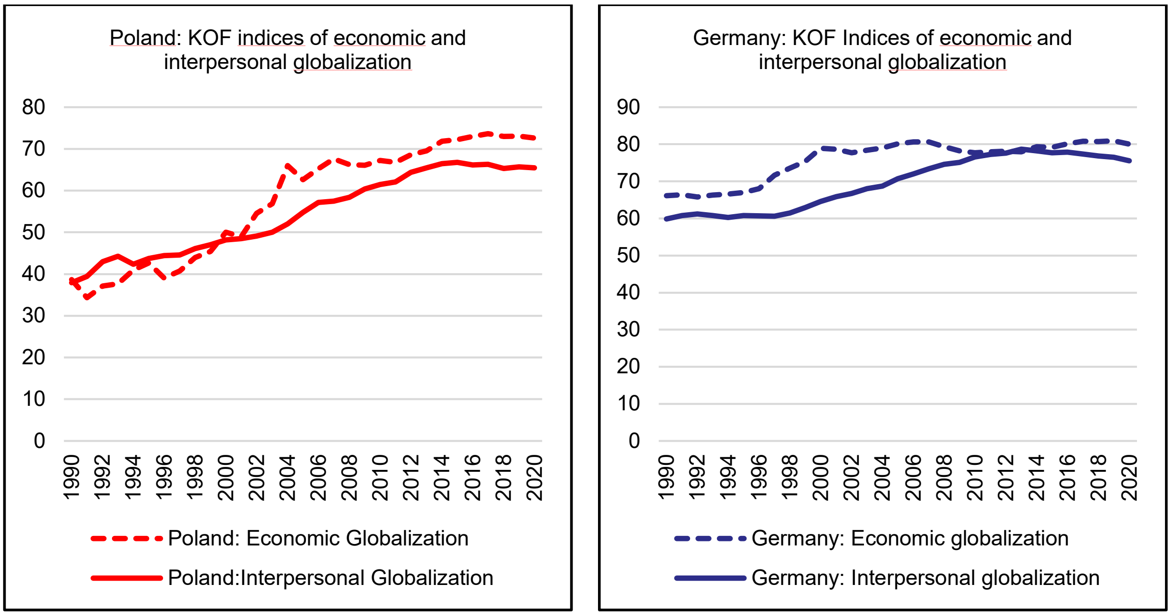

Figure 15: KOF indices of economic and interpersonal globalization in Poland and Germany. Source: Dreher (2006), Gygli et al. (2019, 2022).

This brings me back to my initial remarks. Not surprisingly – and almost by definition – I am an enthusiastic supporter of globalization. This attitude reflects my conviction that countries benefit from international exchange. Of course, my positive perspective may also be driven by my own privileged position and distributional interests: as most people in this room, I consider myself a "globalization winner". First and foremost, however, I think that globalization is more than just an economic phenomenon. After his trip to Warszawa, the ignorant twen that I was in 1992 massively benefitted from the world becoming more open, more accessible, more heterogenous and complex, but also more interesting. This is a side-effect of economic globalization whose importance we should not underestimate. **Figure 15** depicts, once more, the KOF measure of economic globalization, and combines it with the KOF measure of *interpersonal* globalization, which reflects such things as international travel and tourism activities, international migration, but also the intensity of international student exchanges. As we see, economic and cultural globalization are highly correlated. If we cut back on international economic transactions, international exchange in other domains of life would also suffer. Our horizons would become narrow, our mindsets restrained, our lives boring, our world more dangerous. As I said at the beginning, globalization is more than just an economic phenomenon. Economic transactions are both driving and driven other ways through which people reach out to each other. As a consequence, the breakdown of globalization would have costs that go beyond the pure loss in material prosperity. Reminding people of this should reinvigorate the support for globalization – especially among those who have no reason to be disappointed and frustrated. As you surely agree with me, such a spirit is more important these days than ever, and I hope that we'll manage to preserve the level of international exchange and cooperation that we have achieved in the past decades.

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