



opinion

By Johan Fourie



GLOBALISATION

What explains the rise of populism?

New research shows that the economic climate in a country appears to have a substantial impact on individuals' political sentiment. These findings could have important implications for South Africa.

Consider this thought experiment: Sibusiso and Thulani each own a firm that competes with the other. In each of the following scenarios, Sibusiso's firm outcompetes Thulani's. Which of the four do you consider unfair competition?

1. Sibusiso works hard, saves and invests his profits, and invents new techniques and products, while Thulani's products change little and he loses market share.
2. Sibusiso finds a higher quality input supplier in the US, improving his products. He therefore takes market share from Thulani.
3. Sibusiso outsources some services to Bangladesh, where workers work 12-hour shifts under hazardous conditions, earning very low wages.
4. Sibusiso brings Bangladeshi workers to SA under temporary contracts, and puts them to work earning less than the minimum wage.

From an economic perspective, each scenario has a similar result: there are winners and losers. But people generally react very differently to them. Most people are happy with scenario 1 and 2: even if someone loses (Thulani and his employees), this comes through what is perceived as fair competition from Sibusiso. Scenario 3 and 4 create problems: when Sibusiso "breaks" local laws (even though it may be legal in the foreign country), his competitive advantage, and by implication international trade, is viewed as unfair.

In a provocative new working paper by the National Bureau of Economic Research (NBER), Harvard University economist Dani Rodrik uses this example to argue that too-rapid globalisation – the increasing use of scenarios 3 and 4 – is the underlying cause for the rise of populism across the developed world. The "losers" from globalisation feel that foreigners – abroad or as immigrants in their own countries – have taken unfair advantage, stealing their jobs. They have chosen the politics of populism as a way to "punish" this rapidly globalising world.

Economists know that free trade creates winners and losers, and that the winners almost always gain more than what the losers lose. If the winners could perfectly compensate the losers, everyone would be better off from a free-trading world.

But Rodrik argues that such compensation is not always easy, and rarely happens. Aside from many European nations, where an extensive social safety net was institutionalised to support "losers", most countries failed to sufficiently compensate those that suffered the consequences of open borders.

Make no mistake: open borders resulted in massive global gains, notably for the poor of China and India. But in each country, as trade theory predicts, there were losers.

People think they're losing ground not because they had taken an unkind draw from the lottery of market competition, but because the rules were unfair and others were taking advantage of a rigged playing field, says Rodrik.

Many studies back this claim. In a 2016 paper, David Autor and co-authors show that the trade shock of China joining the World Trade Organization (WTO) aggravated political polarisation in the US: districts affected by the shock moved further to the right or left politically.

Analysing the Brexit vote, Italo Calionte and Piero Stanig show that regions with larger import penetration from China had a higher Leave vote share. They repeated the study for 15 European countries, showing that China's entry into the WTO had similar political consequences across Europe. In a 2017 working paper, Luigi Guiso and his co-authors use European survey data to draw even more precise conclusions: the more individuals are exposed to competition from imports and immigrants (therefore the higher their economic insecurity), the more they vote for populist parties.

Rodrik constructs a model to explain this populist rise on both the left and right. According to the model, there are three different groups in society: the elite, the majority, and the minority. The elite are separated from the rest of society by their wealth. The minority is separated by particular identity markers (ethnicity, religion, immigrant

status). Hence there are two cleavages: an ethno-national/cultural cleavage and an income/social class cleavage," says Rodrik. "What may look like a racist or xenophobic backlash may have its roots in economic anxieties and dislocations."

Populists who emphasise the identity cleavage target foreigners or minorities, producing right-wing populism. Those emphasising the income cleavage target the wealthy and large corporations, producing left-wing populism. The large numbers of immigrants into Western Europe has resulted in the rise of right-wing populists, for example, while Latin America, because of large disparities between rich and poor, has seen more left-wing populism. These findings have important implications for SA. We joined the WTO in 1995 and liberalised our complicated tariff schedule, opening our borders to foreign competition. There were many winners from

cheaper imports, notably consumers, but some firms and industries struggled, leading to job losses, often concentrated in certain regions.

SA rolled out an impressively comprehensive social safety net for a middle-income country, but it could not compensate all the losers, especially as the global financial crisis hit in 2007 and unemployment worsened. It's not entirely coincidental that the first large-scale xenophobic attacks on foreigners happened in 2008 (what Rodrik would call right-wing populism) and that the ANC shifted left with the election of Jacob Zuma as president in 2009.

Even if globalisation creates more winners than losers, the losers may feel that the system is rigged, and retaliate by voting for more populist parties. As SA stumbles into another recession, this may have profound consequences for the ANC's December elective conference – and national elections in 2019. ■ editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.



Pro-Brexit and anti-immigration activists gather on 31 March in London for a demonstration to celebrate Britain's exit from the EU.

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