

# Is Economic Globalization Under Strain?

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## ABSTRACT

Globalization in a broader sense and economic globalization in a more restricted sense has been under strain for some years now. During this time, rising anti-globalization sentiments, the U.S.-China trade war, and the Covid-19 pandemic hit the world. The spread of the pandemic quickly from country to country with a span of only a few months has been facilitated by globalization itself (in terms of greater mobility of people through improved travel, tourism, and other forms of people movement). This article focuses on the current trend in globalization as it is being severely strained and tested by several events such as the rising nationalism, U.S.-China Trade war, Covid-19 pandemic, and several other stressors which are discussed in the paper. The paper concludes with the optimistic note that the Covid-19 pandemic may be controlled with the arrival of the vaccine, the world economy will recover, and the current strains on globalization lifted so that the progress to globalization will soon return to a somewhat normal path.

**KEYWORDS:** Globalization, COVID-19 Pandemic, U.S.-China Trade War, Global Economy.

## 1. INTRODUCTION

Globalization in a broader sense and economic globalization in a more restricted sense has been under strain for some years now. In his book, the Nobel Laureate economist Joseph Stiglitz (2002) became one of the strong critiques of the current global system and discussed some major flaws in the post-1989 globalization process. In addition to those fault-lines, there are additional stressors affecting the global system in recent years such as rising anti-immigration-anti-trade sentiments, the U.S.-China trade war, and the Covid-19 pandemic.

The spread of the pandemic quickly from country to country with a span of only a few months has contributed to and facilitated by globalization itself in terms of greater mobility of people through improved travel, tourism, and other forms of people movement (Islam, 2020; Morrison, 2020). Globalization that we know and understand has progressed with ups and down in history, progressing rapidly during sometimes and retreating other times. Given the above, the purpose of this article is to understand the current trend in globalization as it is being severely strained and tested by several events such as the rising nationalism, U.S.-China Trade war, Covid-19 pandemic, and several other stressors which are discussed in the paper. An important question facing societies and countries today is whether the current pace of globalization will continue or retreat in the face of these sources of tensions.

This article will be organized as follows: I will first discuss the concept, and trend in the current pace of globalization. Then I will discuss several critical stressors that are hindering the pace of globalization. The paper concludes with a discussion on the future path of globalization.

## 2. RECENT GLOBALIZATION: MEANING, PACE AND TREND

This section will be divided into several sub-sections as follows.

### 2.1. GLOBALIZATION DEFINED

Globalization is a very broad term, and it can be defined from various perspectives such as the economic aspects of globalization, political and strategic aspects of globalization, technological aspects of globalization, social aspects of globalization, and cultural aspects of globalization, among others. Following Gygli *et al.* (2019), Dreher (2006), Clark (2000), and Norris (2000), globalization can be defined as a "process of creating networks of connections among actors at intra- or multi-continental

distances, mediated through a variety of flows including people, information and ideas, capital, and goods. Globalization is a process that erodes national boundaries, integrates national economies, cultures, technologies, and governance, and produces complex relations of mutual interdependence.”

Based on the idea of Nye and Keohane (2000), Dreher (2006) distinguishes between three different dimensions of globalization: economic, social, and political. Economic globalization characterizes long-distance flows of goods, financial and capital flows as well as information and perceptions that accompany market transactions. Social globalization expresses the contacts between people in near and far lands in terms of contacts, the spread of ideas, information, images, and people. Political globalization characterizes the interactions between governments and the related transmission of government policies.

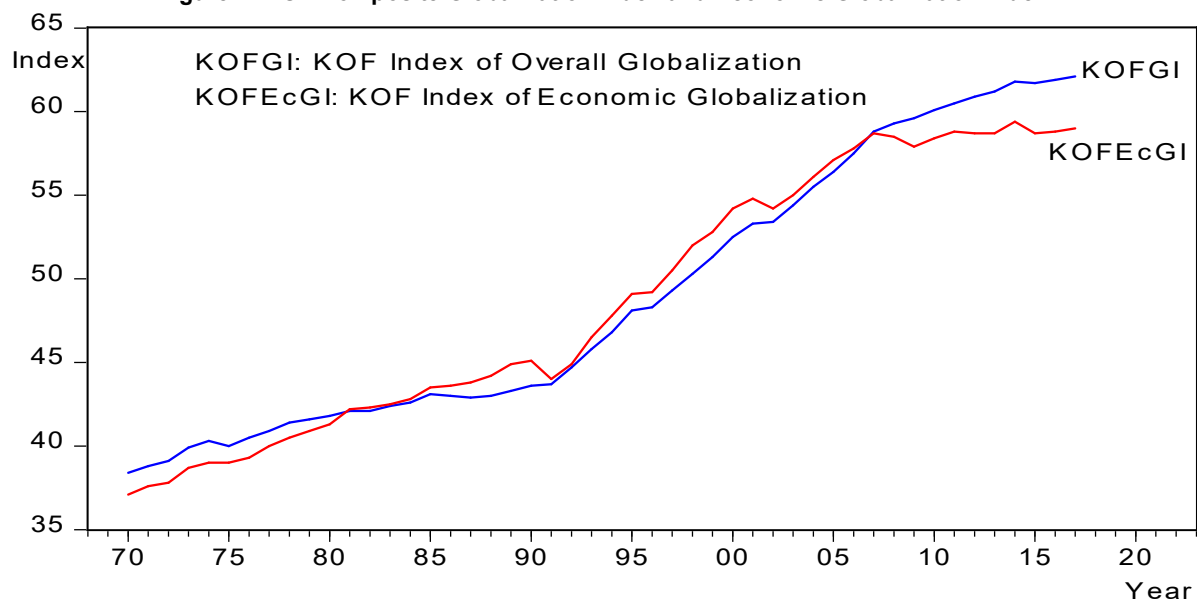
Focusing on economic globalization, it can also be defined from different perspectives such as trade globalization, financial globalization, and labor globalization. Nobel Laureate economist Joseph Stiglitz (2002) defines and summarizes the economic aspects of globalization that captures different aspects of economic globalization mentioned above as follows:

*“The closer integration of the countries and peoples of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders.”*

## 2.2. IS ECONOMIC GLOBALIZATION UNDER STRAIN?

Initiated by Dreher (2006) and then further extended by Gygli *et al.* (2019) developed an overall composite index of globalization (KOFGI) involving economic, political, social, and cultural aspects of globalization. They also developed several sub-categories of globalization representing some major components of the overall index such as economic aspects, political and social aspects, and cultural aspects of globalization. Chart 1 below displays both the overall globalization index (KOFGI) along with the economic aspects of globalization (KOFEcGI) since 1970 (Gygli *et al.*, 2019). Both curves indicate that the degree of globalization has been rising even during the Cold War period until 1989, but the trend has accelerated since that year. This chart also indicates that the economic aspects of globalization have stalled (remained flat) since around 2007-2009 even though the overall index continues its upward trajectory. In the next several sections, I will try to provide some discussion about why economic globalization is under strain.

**Figure 1: KOF Composite Globalization Index and Economic Globalization Index.**



## 2.3. WHAT ARE THE STRESSORS TO THE CURRENT PACE OF ECONOMIC GLOBALIZATION?

The main question in this article is whether the overall globalization or its economic counterpart is at a crossroads? Figure 1 displays that trend with a flattening curve since 2007. What could be possible reasons? Some possible reasons are discussed below.

Several recent but critical factors can be identified as stressing the current pace of globalization. These are discussed below.

The first major factor contributing to the strains on globalization came during the global economic and financial crisis

that began in 2007. In this year, the U.S. economy experienced a major home-grown mortgage crisis. This crisis soon became a full-blown economic crisis engulfing the entire U.S. economy. Due to globalization and global integration among nations, the U.S. crisis became very contagious and rapidly spread and engulfed most countries in the world (IMF, 2008; Ali *et al.*, 2011). As a direct result of this global crisis, which was also dubbed as the Great Recession (Wynne and Kersting, 2009; Islam *et al.*, 2011), foreign trade flows and global financial and investment flows dwindled sharply. Given that these are major components of the economic globalization index developed by Gygli *et al.* (2019), the economic globalization index KOFecGI recorded a decline as shown in Figure 1. Even though the U.S. economy and the global economy subsequently recovered from the crisis since 2009, the adverse effect on the index lingered on as the recovery was very slow and gradual in many major countries.

Since the weakness in the index is still lingering, additional factors might be in play in the post-Great Recession period. Then suddenly came the 9-11-2001 attack on mainland U.S. soil. This attack triggered a response from the U.S. and its allies that led to the Afghanistan War followed by the U.S.-led war in Iraq. These wars were accompanied by various national security restrictions that dampened the flow of trade, investment, labor, travel, tourism, among others that lead to further strains on the economic globalization front.

Although the two wars are winding down, restrictive security measures are still in place. Another factor came into the scene in the post-911 period. Since then, there has been a steady rise of nationalistic sentiments on both sides of the Atlantic focusing on restricting migration and labor movements. These sentiments and tendencies led to the rise of right-wing anti-trade-anti-immigration movements in different European countries including the U.S. This movement led to some more restrictions on travel, tourism, and migration flows due to increased protectionist stance by some European countries. One major manifestation of such sentiments against open migration within the EU led Britain, a major player in the EU, to move towards what is now known as the Brexit movement. These factors surely are weighing heavily on the process of economic globalization.

Beyond Europe, there were rising nationalistic sentiments on the other side of the Atlantic in North America, more so in the U.S. In the 2016 election, President Donald J. Trump got elected on the "America First" platform representing those rising sentiments. After assuming power, the President initiated several protectionist measures such as a Muslim travel ban against five Muslim majority countries, raising tariffs on imports of Aluminum and Steel products coming from countries that are allies (such as Mexico, Brazil, South Korea, France, India) as well as perceived adversaries (China, Russia).

More significantly, President Trump imposed high tariffs and other trade restrictions on imports from China in 2018 and thus initiated a trade war between the two countries. For a timeline of the trade war, please see Wong and Kopty (2020). China retaliated against the U.S. with similar measures. These tit-for-tat actions led to a full-blown trade war between the two largest and most important economies in the world. Doubling down on the ongoing trade war, President Trump designated China as a currency manipulator in 2019 raising tensions further with enormous economic and political implications for both countries as well as the global economy. Some implications of the trade war can be found in several articles published in a special issue of a journal recently edited by Iqbal (2020).

These actions have continued to hurt trade, financial transactions, travel, and tourism between these two countries. Given these are the two major economies and are linked with many other countries in the world in a globalized world with global supply chains and production networks, this trade war between the two economic powerhouses has affected directly and indirectly the economies of other countries. Thus, at the global level, the trade war has put additional strains on the already stressed economic globalization process.

On the heels of the U.S.-China trade war comes now the Covid-19 pandemic since 2019 that began in the city of Wuhan in the Hubei province of China. The rapidly spreading virus quickly engulfed the entire world with lightning speed. Within a few months, the virus spread to almost all countries in the world, infecting millions of people across the globe along with deaths already exceeding millions. In a more integrated and globalized world with more travel, tourism, and labor mobility, the phenomenon of globalization itself contributed hugely to the spread of this deadly virus (Islam, 2020; Morrison, 2020; Romer and Garber, 2020).

To control the spread of the virus, all countries began imposing severe health and mobility restrictions involving lockdowns, shut-downs, travel restrictions, and other mobility restrictions, among others. These restrictions directly and severely hurt travel, tourism, labor mobility, and migration, trade, and financial flows, among others, all contributing further to strain the globalization process (IMF, 2020; Islam, 2020). In addition, there have been further indirect dampening effects as the global supply chains and production networks got disrupted by the pandemic (Alon, 2020). Furthermore, additional dampening effect happened because some countries increased trade restrictions against exports of some critical products such as personal protective equipment (gloves, masks, sanitizers), certain medicines, and some medical equipment, thus putting more strains on the already highly strained globalization process (WTO, 2020).

#### **2.4. IS THERE A SILVER LINING?**

The previous discussion indicated that globalization, particularly economic globalization is under severe strain in recent years.

Some factors straining the globalization process has been discussed in this paper such as the rise of anti-trade-anti immigration sentiments across both sides of the Atlantic, the rise of Donald Trump to power in the U.S. and his America first anti-immigrant-anti-trade nationalistic strategies, and his initiation of the U.S.-China trade war, and the onset of the most recent Covid-19 pandemic.

Given this rather gloomy environment, the question is whether there is any silver lining to get the globalization process back on track and to make further progress. Several factors may give hope for a come-back scenario, some of which are discussed below.

One major hope might be coming from the recent announcement that some therapeutic medicines and some anti-virus vaccines have developed and are now being implemented. This is indeed a piece of great news for possible control of the virus. It gives good hope for the global economy to come back to some normalcy once a big part of the global population around the world is vaccinated. This may start happening in 2021. As life comes back to some normalcy (could be new normal), and as travel and mobility restrictions are eventually removed, trade, travel, tourism, labor mobility, and financial flows will likely increase, thus lifting economic globalization to a higher level.

The second major hope comes from the result of the U.S. election which defeated "America First" nationalist leader Donald Trump and elected a more mainstream incoming president Joe Biden to power in 2021. One may hope that this will reverse the Trump administration's health and economic policies towards more emphasis on containing the covid-19 virus, revive the U.S. economy, put the U.S.-China relations on a mutually beneficial non-trade warpath, and return to a more cooperative and multilateral footing at the global stage. These steps are likely to encourage more economic transactions and activities across the globe and thereby enhance the globalization process.

It is also hoped that with the incoming new Biden administration, U.S.-China relations might also improve through various goodwill measures taken by both sides to reduce tensions and start negotiations to reduce trade restrictions and possibly end the current trade war between the two major economic powerhouses. To the extent such developments happen, that will go a long way to increase all types of economic activities and flows between these two nations directly and indirectly among all other nations across the globe and thereby reduce the strains on economic globalization. In that scenario, globalization will likely come back to its normal path.

#### CONFLICT OF INTEREST

None.

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