

Challenge of Globalization – Essay – Alix Maufrais

Subject: Is economic globalization irreversible?

In the last publication of the book of F. Lenglet, The end of the globalization, he predicted the gradual decline of the free trade and the return to a form of “reasonable protectionism”. Thus, we can ask us the question with him of the reversibility of the process of globalization, reversibility which seemed previously unrealistic.

Globalization is a complex phenomenon. We can define it as a process of an increasing interdependence of the national economies and the constitution of a global economic space more and more integrated. Although it is a multidimensional phenomenon, at the same time politic, social, economic and cultural, we will focus here on its economic dimension, mostly relative to the flow of the production factors (labour and capital), to the financial flows, and to the flow of goods and services. If it is well-known as a recent phenomenon, we can, however, say that globalization has been in the long dynamic of the capitalism and consider that with S.Berger (Our first globalization: lesson of a forgotten failure, 2003) the 19th century mark the first phase of the modern globalization increasing the commercial interconnection between occidental nations. The second phase of globalization, more recently, took place in the end of the 70’s with the increase of the movement of international liberalisation of the exchanges, with the flow of capital. The extend of the phenomenon and its dynamic since the 80’s let think to an irreversible process, whose impacts would be permanents, whose dynamic would not be called into question. The crises of 2008, through its effects on the economic and social structures of the nations, has nevertheless opened the way to questioning this process of globalization and the rise of the protectionist populism. However, if the national States keep in last instance their sovereignty and so can, in theory, withdraw from the globalization process, the question to know if a withdraw, one-sided or organised, would be today realist, without entail the collapse of the concerned economies is today wondering. How could be envisaged a decline of the globalization, how could be implemented its eventual reversibility in a world where dominate what K.Ohmae characterised the “interlinked economy”?

First we will underline that the process of globalization might seem really too much advanced to be questioned. However, secondly we will show that the history of globalization is not a linear history and that it seems that today it is going to its own contradictions. More than a decline, on the end we will need to analyse a form of reconfiguration of the globalization.

Globalization is a key element that structures the economies. First, we will develop about the flows of globalization and their centrality in the contemporaries' economies. Then, we will show that the consequences of a decline of globalization would have a negative effect.

Since the 19th century the economic and financial international flows have stopped to rise. This growth has been supported by a large part of the free-trade institutionalisation and the numerous bilateral commercial agreements, then multilateral. The extent of these institutional networks seems make unthinkable any decline of globalization today. Indeed, we can see that there was an institutionalisation of the free-trade with a succession of different agreements, first bilateral, then multilaterals. At first, the Eden Treaty which was a treaty signed between Great Britain and France in 1786, which was more favourable for the British than the French economy. Then there was the Cobden-Chevalier Treaty of 1860, between France and the United Kingdom, which represents the first modern trade agreement. It permitted to reduce French duties on most British manufactured goods and to reduce British duties on French wines and brandy, so it developed the economic exchanges between both countries. After, the General Agreement on Tariffs and Trade (GATT) was signed in 1947 by twenty-three nations in Geneva. It was a legal agreement between countries that had for goal to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas. In 1994, the World Trade Organization (WTO) was signed by 124 nations to replace the GATT, it is an intergovernmental organization that regulates international trade. This movement of the multiple agreements for the development of free trade can be paralleled with the theory of Polanyi which argued that the emergence of market-based societies in modern Europe was not inevitable but historically contingent and his theories became the foundation for the economic democracy movement. In fact, between 2005 and 2015 the WTO estimates that the flow of goods has increased of more than 50%, moving from 11.000 billions to 17.000 billions of dollars. At the same time, the flow of commercial services increased even more fast, moving from 2.000 billions to around 5.000 billions of dollars. The globalization of the economies was also seen with a bigger importance of the multinational firms in the national economies. These ones are now one of the pillars of the employment in the occidental and developing countries, whatsoever by direct recruiting or by their network of subcontractors. Indeed, according to O'Brien, Robert, Marc William (2016) and Steger, Manfred (2013), there is a longer view of the globalization process, and during the period 5 of hyperglobalization, initiated around 1980, there is the origin of a fully globalized economic system which is based on multinational firms. The multinational corporation (MNC) employ more than 4% of the global population. In the

specific case of France, it's around one employee over two who work today for the multinational corporation, and this proportion reached even two or three in this industrial sector. The intra-firms represent more than one over three of the international exchanges.

Globalization seems have been one of the driver of growth in the developed countries and of the catch-up cause of the developing economies during the second mid of the 20's. Therefore, un decline of the globalization for a nation would cost a lot to it in terms of potential growth, so that no national economies seem to have an interest in acting for the reversibility of the globalization. According to Krugman, with the effect of dimension, competition and diversification, go out of the globalization would mean to give up the advantages of the globalization. Moreover, Sachs and Warner (1995) shown that with the opening of the globalization has been a key element of the growth of numerous countries (3,5 points of the average annual growth between 1970 and 1995). More globally, a retreat of globalization would constitute a double shock of the offer and of the demand for the national economies. In 2016, France exported more than 670 billion commercial goods and services, so around one third of its Gross domestic product (GDP). Furthermore, around two third of the French debt are held by foreign investors. Hence, globalization seems irreversible because it permits a gain of economic surplus and so an increase in well-being for economic agents. Its theoretical virtues make globalization a process that every economic leader would a priori wish to protect. Thus, the return to a form of protectionism would conduct to a loss of surplus for the consumer.

Globalization is a non-linear phenomenon and today is limited. First we will show that even the history of globalization illustrates its reversibility. And then, we will develop about the modern limits of globalization.

A quick look on the history of the international trade permits to outline some phases of folds of the globalization. The empirical study of the international business relations seems thus certified the thesis of a process of globalization that would be possibly reversible. We can remind that the 19th century has illustrated the reversible of the character of the globalization. Then, it's necessary to use a vision during the time of the globalization with S.Berger (2003) or P.Bairoch (1994). Generally, the periods of economic crisis usually result in a nationalist retreat. For instance, with the Méline (1892) tariffs or the Smooth-Hawley Tariff (1930). Between 1929 and 1932 the value of the world trade accused a drop of 60%. The current period, after the crisis of 2007-2008 and its consequences over the national economies, is no exception to the rule. There is in this beginning of the twenty first century a rise of protectionist tensions and a contradiction of the world trade. For instance, the hijinks of the president Trump during

its presidential campaign show the increase of populism in Europe too (with the National Front in France at the second turn of the presidential, and the Brexit), and there is a tendency of the reject of the population of a liberalism too exacerbated. In fact, Trump uses the shifting baseline syndrome, saying chocking things on the social networks, like for example on Twitter post when he wrote *“The concept of global warming was created by and for the Chinese in order to make U.S. manufacturing non-competitive”*. Moreover, the global exports have dropped of more than 40% between 2008 and 2009, so around more than in 1929. After 2010, we observed a recovery of foreign trade, and after between 2015 and 2016 we assisted again according to the WTO to a low of the global exchanges.

Nowadays, it is against these physical limits that globalization seems to block. The Globalization and global division of labour has reached such a high level of fragmentation that a deepening is difficult to envisage. Above all, the globalization in its developed form faces a set of environmental and social boundaries which force the apparition of a “unglobalization” movement. The fragmentation of the value chain is reaching its limits. The multiplication of the offshoring has generated the important costs of coordination and some companies do not hesitate today to delocalise. The research of a non-price competitiveness is putting in question the traditional dynamics of the globalization. The “made in national” becomes a marketing argument, and is particularly helped by some politics, like in France with A. Montebourg wearing a traditional French shirt and defending the made in France. So we can even talk about a movement of “unglobalization” like E.Todd and J.Sapir (2011) explained. For example, the company specialized in the ski equipment, named Rossignol, has preferred to relocalise its activities in France after a first movement of delocalisation. Beyond its physical boundaries, globalization is also facing an increasingly challenge of its virtues. Hence, the liberal dogma is more and more criticized while unequal distribution of the benefits of globalization is growing clear. In fact, the globalization has pervert effects too. It has provoked the rise of the inequalities. Indeed, first Nacho Álvarez with the political trilemma shows that it’s not possible to satisfy in the peripheral countries of the Eurozone at the same time the three following demands: the demands by the people, the demands by national elites and the international financial demand. Moreover, in a book Frank, Robert L (2007), show that the globalization has conducted to a new country, the Richistan: *“(In the US) The rich weren’t just getting richer; they were becoming financial foreigners, creating their own country within a country, their own society within a society, and their economy within an economy? They were creating Richistan”*. So globalization has exploited people in developing countries, caused massive disruptions to their lives and produced few benefits in return.

Current and future changes in globalization. First, we will see that there is a refocusing of the globalization in the countries of the South. Then we will challenge the governance of globalization.

While occidental countries are historically the central actors of globalization, the last two decades have been marked by a growth of the role of the southern countries. If globalization has reached its limits in northern countries, its potential expansion in developing countries remains major. Hence, we can notice a double movement for the economies of the countries of the South: at the same time a focus on the national demand, which has gained in solvability thanks to the catching up allowed by the globalization, and a progressive conversion to the sectors with a non-price competitiveness. For a long time, these countries were considered as a workshop for the developed countries, but now the emerging countries tend to become the new centre of the globalization and are more and more attracting. We can demonstrate it with some figures, first emerging countries represent more than 50% of the foreign investment directions and 28% of the outflow of capitals today when in 2003 they represented only 10% of the outflow of capitals. Moreover, 70% of these capitals are for the countries of the South. In 2010 these emerging countries represented 45% of the global trade. It is in the light of this catch-up phenomenon that it is possible to explain the new oppositions of some populations in the occidental countries with the globalization. The upgrading of the production of the emergent leads to rise the structural difficulties of the developed economies. That's why we can assist to the rise of a form of protectionism of the "ageing industries", has showed Kaldor in 1970, to maintain some "preferences of structure" (Weiller, 1982). Even some innovating sectors use the protectionism to protect themselves of the competitors, in the beginning, to be enough efficient to be able to enter into the competitive economy, has List illustrated with its theory of the educative protectionism which consists for a country to first use the protectionism to develop its economy, its country and companies, in order to be able to be competitive compared to the other already developed countries, so the country will abandon the protectionism when he will be ready to compete. For instance, we can point out that today the developing economies represent 43% of the world merchandise exports and 41% of the importations of these. While, in the beginning of the 2000's, they represented respectively 30 and 28%. So in 2010, for the first time of the history of globalization, the exchanges South-South became more important than the North-South exchanges.

In order to ensure the irreversibility of the globalization, then it involves of rethink its organisation and is governance. This includes the establishment of a globalization more

inclusive, requiring a reform of its institutions and organisations. Rodrick (2011), with its trilemma illustrates the inevitable clash between politics and hyperglobalization. He shows that it is impossible to have at the same time hyperglobalization, democracy and national self-determination. So when there is a conflict between the needs of people and the needs of the international traders and investors, the state will privilege the last ones. So to have a more democratic country, it's crucial to limit the globalization. But the main question is to know how introduce more democracy in a process of globalization that became illegitimate vis-à-vis of the popular sovereignties. Hence, the options are to restrict democracy, limit globalization or globalize democracy. In fact, the protestations against the free-trade agreements Transatlantic Trade and Investment Partnership (TTIP) and Comprehensive Economic and Trade Agreement (CETA) have illustrated the wish of the populations to have a globalization more regulated and of their refusal to overliberalism. In front of the relative decline of hyper-globalization, now it is more around regional logic than global logic that the phenomenon of globalization seems to get organized. Then we can think the regional commercial agreements are the future of globalization. They conduce to a "trade diversion" but also to a "trade creation" (Viner, 1950). For the previous general director of the GATT, A.Dunkel, we can say that the regionalisation and globalization appear like "*both sides of the same piece*". Hence, the countries of the European Union do around two third of their external trade between themselves. For the countries of the ASEAN, this intra-zone trade represents one quarter of the total exchanges (while 15% fifty years ago).

To conclude, we can say that like every economic phenomenon, globalization depends on the societal changes and the social and political structures in which it can be inserted. Consequently, despite its increasing spread to the different segments of our societies, it is not an immutable phenomenon but an evolutionary process, that will change of form and even of nature. There is no doubt that our national economies are nowadays dependant of the global economy. However, this dependence does not necessarily mean that globalization is an irreversible process. The historical analysis of the economic facts and the observation of the current boundaries of globalization has permitted us to show its potential reversibility. Today the issue appears more to be the one of the modern mutations and to come the one of the globalization than its eventual reversibility.

In a press box of January 2017, in particular published in the newspaper *Le Monde*, the Prime Minister of the Wallon Region P. Magnette stated that "*Europe has to invent a new*

globalization". So the issue is to know if the regional unions like the European Union have today the necessary meaningful and capacity to think and impose a new form of globalization which would permit to overcome the contradictions of the one that we have had until now.