

Universitat Rovira i Virgili



Challenges of Globalization

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“The Economic Lenses of Globalization: Right or Wrong?”

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1 Introduction to Globalization

Globalization is an often-used word to describe what is happening in our world and society, however it is a word that can describe a plethora of things. But what exactly is meant when someone talks about globalization? How can we describe this phenomenon often called “globalization”? Merriam-Webster defines globalization as “the development of an increasingly integrated global economy especially by free trade, free flow of capital, and the tapping of cheaper foreign labor markets”. This definition is a commonly accepted definition for globalization, however, is this definition the most accurate definition? The majority of talk about globalization is centered on looking at the phenomenon through an economic perspective. This assumption is supported by Merriam-Webster definition of the word. However, the process of globalization can be understood and analyzed through many other lenses, for example, socially, politically, technologically and environmentally. Each one of these lenses shows us a different perspective on how to interpret the phenomenon of globalization.

When looking at globalization from an economic point of view, there are major economic indicators that are utilized to analyze globalization. It is common for people to look at Foreign Direct Investment (FDI) or at the total trade volume as a percent of GDP. This indicator would show how dependent a specific country is on other countries by engaging in international trade. We could also evaluate the trade agreements that countries employ to encourage trade.

The other perspectives of globalization such as socially, politically, etc., also have indicators to explain and analyze globalization. However, they can be rather subjective and hard to interpret. Looking at globalization through these lenses can often be difficult as they struggle to provide concrete and empirical data to explain globalization.

2 Economic Viewpoint of Globalization

2.1 Reasons for Exponential Growth of Globalization

As was mentioned in the previous section, the most common viewpoint of globalization is through the lenses of economics. One major economic event that could be considered the start of modern-day globalization is the industrial revolution during the eighteenth and nineteenth centuries. The industrial revolution that occurred during these centuries significantly increased the productivity of firms which led to more production and the ability to have a surplus of products. This surplus of goods allowed companies to look into the idea of trading more goods and thus gave way to more trading. In addition to an increase in productivity, the industrial revolution also significantly reduced transportation cost and this was instrumental in seeing an increase on trading as it was now easy to send your product to other countries.

Trade and globalization would increase even more during the late nineteenth and early twentieth centuries. During this time period many technological inventions were created that helped increase international trade amongst countries. It started to become apparent that globalization was being defined by economic measurements.

Then there are even arguments that the “fourth” industrial revolution is driving globalization 4.0 (World Economic Forum). This so called “fourth” industrial revolution is more technologically based and how individuals are able to freely and easily communicate around the world more efficiently. Although it is often thought that globalization has been steadily increasing since the first industrial revolution, the figure below shows how globalization has seen increases and decreases over the course of the centuries.

Figure 1:

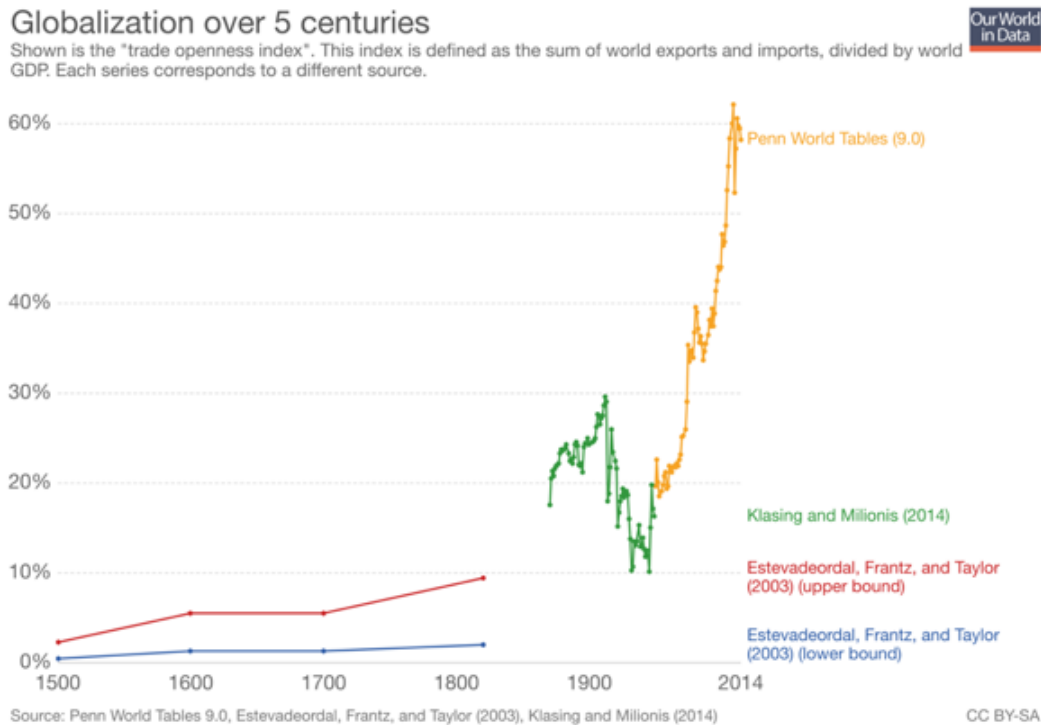
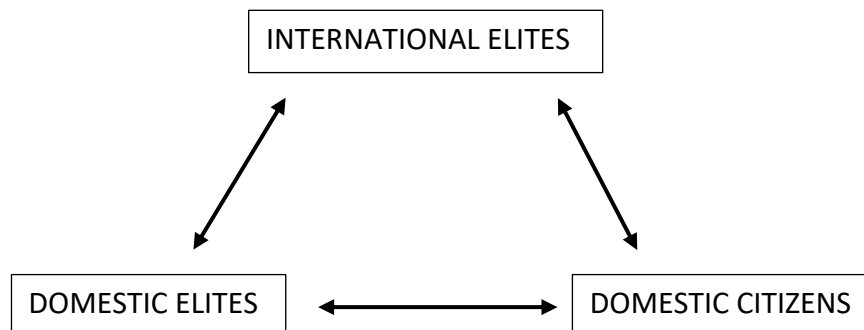


Figure 1 above, shows the “trade openness index” as a way to measure the globalization over the course of five centuries. Once again, the method of choice is an economic measurement and it demonstrates how within the past one hundred years, “globalization” (at least in this definition) has exponentially grown in comparison to previous four centuries. The causes for this exponential growth most certainly can be said to be the rapid development of technology and how much countries have decided to engage in their comparative advantages. For example, within the past few decades, China has continuously flexed their comparative advantage of low wage workers and inexpensive manufacturing, thus becoming the dominating manufacturing force in the world. For instance, in 1990, China represented about 3 percent of the world's manufacturing and by just 2015, their share was up to around 25 percent of the world's manufacturing (The Economist). This is just one example of how a country's economic involvement is used to describe its globalization. Now that we understand how we measure globalization, the question becomes, who reaps the economic benefits?

2.2 Nacho Álvarez's Trilemma

Now that we can understand how globalization is viewed, we must turn our attention to whom obtains the benefits thus set forth by our own economical definition of globalization. The political will trilemma from Nacho Álvarez can give us a good insight into the expectations and benefits of globalization. This trilemma is one that was developed from Rodrik's Trilemma and adapted to understand those players who have expectations to be met. Álvarez's trilemma can be understood by first looking at the players. In his trilemma, he considers there to be three main players that a political system must take into account when expanding and globalizing. Figure 2 below demonstrates how these players interact:

Figure 2 Political Will Trilemma



In this trilemma we see three main players, the domestic citizens, the domestic elites, and international elites. Each of these players receive benefits from globalizations. For example, as globalization begins to happen, firms are able to produce products cheaper through offshoring and as a result, prices usually lower and this presents itself as a benefit to the local consumer or domestic citizen. On the contrary, the domestic elites gain from globalization because they are able to increase profits through lower production costs. Moreover, the international elites serve to gain benefits from globalization the ability to invest in other countries and increase their profits. As well as export international goods to a foreign market.

The trilemma begins to happen, because while all three players stand to benefit from globalization, not all three can benefit at the same time. As for with most economic things, there are unintended consequences. For instance, a political system could stand to meet the expectations of the domestic elites and domestics, but this would usually result in some sort of protectionism policy. On the contrary, a political system could choose to meet the expectations of the domestic elites and international elites, thus giving the short end of the stick to the domestic citizens. This could be seen as increasing globalism because as more international products are imported, those individuals who work domestically in that imported product will be hurt. As usually an imported good can be cheaper thus damaging the domestic market. And finally, the vice versa is possible, a political system chooses to meet the expectations of the domestic citizens as well as the international elites.

While this trilemma can provide us insight into how globalization is affecting our societies, I ask the question, why only look at the benefits from an economic standpoint?

2.3 Issues with Globalization Perspectives

In this section, I dive into why we are content with looking at globalization through economic lens and why some consider economics as only one aspect of globalization. To begin with, globalization is an extremely complex phenomenon. It is not something that one person can define through words, empirical data, or through other measures. It is something so comprehensive that I believe it cannot be fully understood by us humans. As with anything that we do not understand, we turn to science. This is where the issue lies with globalization.

Your typical science cannot explain the occurrence globalization, that is, physics, chemistry, biology, etc. do not provide us with sufficient answers on what causes globalization or how we can predict it. These sciences do not work because ultimately globalization is a **social** phenomenon. Therefore, it makes sense that we should analyze

globalization through **social sciences**. Social sciences being referred to as economics, history, political science, psychology, and sociology. It would be appropriate to analyze globalization through any of these sciences, nonetheless there is still one major concern with these sciences. Unlike physical sciences, the models given by the social sciences significantly lack support, therefore making it very challenging to explain globalization. One key aspect of globalization is that humans are the ones who make decisions that led to globalization or protectionism. Humans are even more complex than globalization and when it comes to decision making and how the brain works, we can confidently say that we know almost nothing.

Consequently, the issue with looking at globalization through a social science is that social sciences lack supported theories and explanations. If supported models could be produced through psychology, sociology, or political science, it might make more sense to analyze globalization through these perspectives, but as it is right now, economics may be the best that we have to offer.

2.4 Alternative Solutions

Economics without a doubt gives us the best insight into globalization, but are there alternative solutions? I say that economics is our best solution right now because while, almost all of the social sciences lack supported theories and models, economic models have been tested and tried the most. That is, for the majority of the past couple centuries, economics and economic models have been chief to all other social sciences. Therefore, it is logical to continue with this field as the primary way to analyze and interpret globalization.

But just as the world around us is changing with globalization, we too must look into ways to better explain those changes by taking the old sciences and attempting to converge them to allow us to better understand our surroundings. One such attempt, albeit maybe not the most successful, is the field of Behavioral Economics. Behavioral

Economics can be defined as a field of science that blends insights of psychology with traditional economics. As I said previously, this may not be the best approach to understanding globalization, but I do believe ultimately that it is a right step towards such. All in all, for globalization, there is not one simple approach, like traditional economics attempts to tell us, but finding a way to blend traditional economic models with the way the brain works and how individuals interact, we may be able to give a better meaning and understanding to globalization.

3 Concluding Remarks

In conclusion, globalization is most certainly one of the most talked about and studied subjects, especially as we experience exponential globalization, that is through our economic explanation. Yet the way in which we analyze and understand globalization has some setbacks. Currently, globalization is viewed as an economic phenomenon, but I argue that economics only gives a small glimpse into the effects of globalization on our societies.

Handicapped by the lack of proof for models and theories for social sciences, we are left with economics as the chief explanation of globalization, but I believe some people are taking the right steps to explain social phenomenon's better, for example the field of Behavioral Economics. Still, this field has its multitude of issues and problems to solved. However, all in all, I think there is a better way to us to define globalization besides its economic effects.

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