

## How to achieve the future of globalization

By Marco Cenci

### *Introduction*

*The purpose of this essay is to try to depict how we should actually organize as human beings in order to allow globalization to have a positive future.*

*The essay is mainly about an article - **“Globalization Isn’t Dying, It’s Just Evolving”** by Shawn Donnan and Lauren Leatherby, July 2019; “ – which frames how globalization is supposed to survive and continue expanding as an evolving process. Other hints from **“Global Inequality: A New Approach for the Age of Globalization”**, by Branko Milanovic, April 2016 and from **“How should we think about winners and losers of globalization?”** by Nicholas Lamp, December 2018 (revised in September 2019) will contribute to express my thoughts about this topic.*

Before speaking of what will be the future of globalization, I want to introduce the concept referring to the first article (\*2). The author defines globalization as a “not new” concept. According to him the spreading of the first religions (Christianism, Hebraism and Islam) could be seen as primordial globalizing events (\*2). Generally speaking, the definition is not restricting in this sense, since any process showing interaction and integration among companies, economies, people and governments all over the world can be considered as a globalization fact. For sure the first diffusions of religions, the first empires and the first big migrations in the “ancient” world can be considered globalizing acts since they required unifying or subjecting people and countries to somebody else’s rules, culture, language etc.

I think that globalization in this sense has always played a key role in depicting the world as we are used to know. The inner desire of the human being of surviving (constantly looking for better conditions of life), expanding, discovering and “knowing more” brought people to move, clash and mix.

During the Middle Age this process continued with ups and downs, but the discovery of Americas, the more central role of China in global trade (due to demand of silver) and the discovery of new trade paths brought new steam power for this process to grow. Colonization process started to shape the world as we know exactly in this period, contributing in creating “winners and losers” since centuries ago.

Finally, in modern times, this process has continued expanding, even if in some cases it had to slow down or even to stop (e.g. the two world wars). The latest watershed moment was marked by the diffusion of Internet to an increasing number of people who are nowadays much more interconnected and have unthinkable opportunities if compared with some decades ago. In this sense globalization has really accelerated, but the future is uncertain. Will it stop or will it continue? If so, in which scenario?

Statistics on international shipping volumes since the economic crisis of 2008 may suggest that globalization, in terms of trade, is stagnant. Lots of critics think that globalization will sooner or

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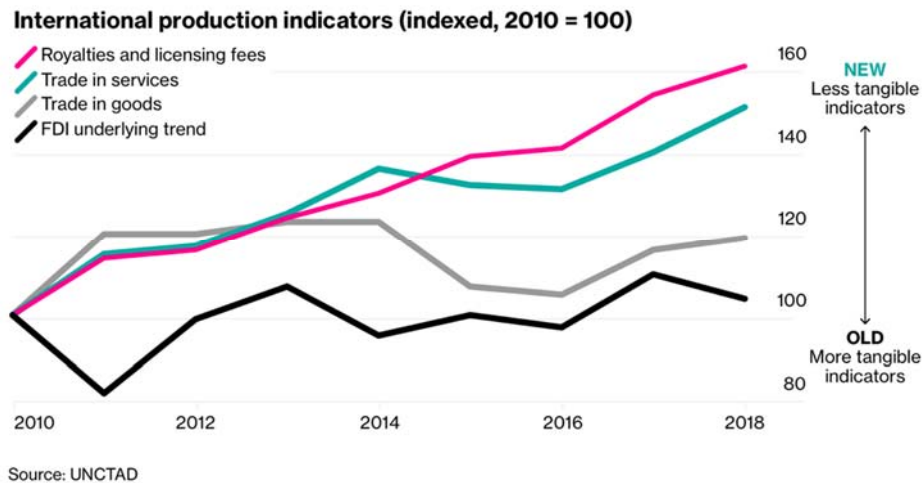
\*2 **“Globalization Isn’t Dying, It’s Just Evolving”** by Shawn Donnan and Lauren Leatherby, July 2019

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later have a stop or face a strong reduction in size, but Donnan and Leatherby (\*2) are not of the same opinion.

They refer to this phenomenon as an evolving process. Starting from the analysis of trade between countries, the authors in this article point out that globalization is nowadays not measurable anymore with classic instruments like numbers of containers of goods exported. Plus, most of what is produced nowadays lacks of tangible features, reducing the trade amount records regarding concrete goods: *“As economies mature, we’re selling the rights to produce something to someone in another country rather than shipping it to that country. Those changes also mean less physical trade in good”* (\*2)



This has been observed even way before Trump and China started the tit-for-tat barriers increase: *“since the 2008 financial crisis we’ve seen a decline in the ratio between the growth in trade flows and that of global output. Until the crisis trade regularly grew at twice the rate of the global economy. Now it grows roughly in line, or even slightly more slowly than global GDP.”* \*2

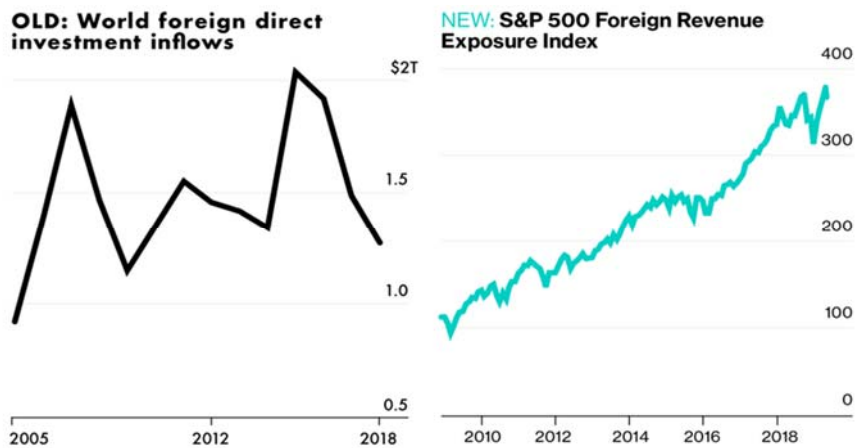
Another important classical instrument is the foreign direct investment index which has been decreasing since 2008, allowing people to think that, since less investment is done, less globalized will be the world in future. But if we actually look to another interesting datum, the profit of companies from abroad investment, we detect that this one has been exponentially increasing within the (approx.) same time period. The possibility of taxing global profits of multinationals is one of the point (along with labor rights issues) addressed by N.Lamp(\*4) in order to flatten inequalities and redistribution of wealth. I totally agree about this, as I will later on explain.

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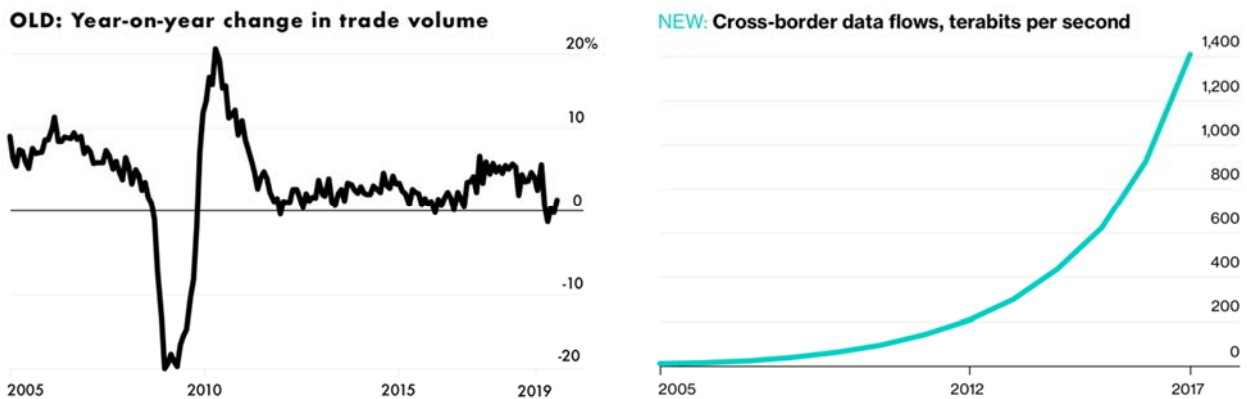
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Sources: UNCTAD, Bloomberg data

Overall, authors argue that the new “goods” which must be measured and taken into consideration when seizing international trade are data, as shown by the following graph. Those must be considered the real new measure of globalization. As interconnection permits more profit from abroad (as shown above), it simplifies the sending of physical goods using online storage or download and incentivizes the “within-borders” production to export in a second phase. Data trade are therefore actually underlying how much we trade nowadays and how much we are interconnected. Just to provide an idea of how this is relevant in measuring exchanges of things or ideas, they explain that years ago a musical CD would have been shipped to another country (and being recorded as an export of physical good), while nowadays it is traded through online downloads. All what concerns this data exchange is not shown when we look at trade data using traditional units of measurement. (\*2)

*“We are entering a new era in which data is the new shipping container.” (\*2)*



Sources: CPB world trade monitor, McKinsey Global Institute

The two authors signal also that the principle, according to which we should look at nowadays traded good in a more reliable way, is the TiVA (Trade in Value Added). This way of measuring shows the real amount of value which each country is providing (shrinking the current over-counted values) highlighting at the same time how assembling products is today a global process.

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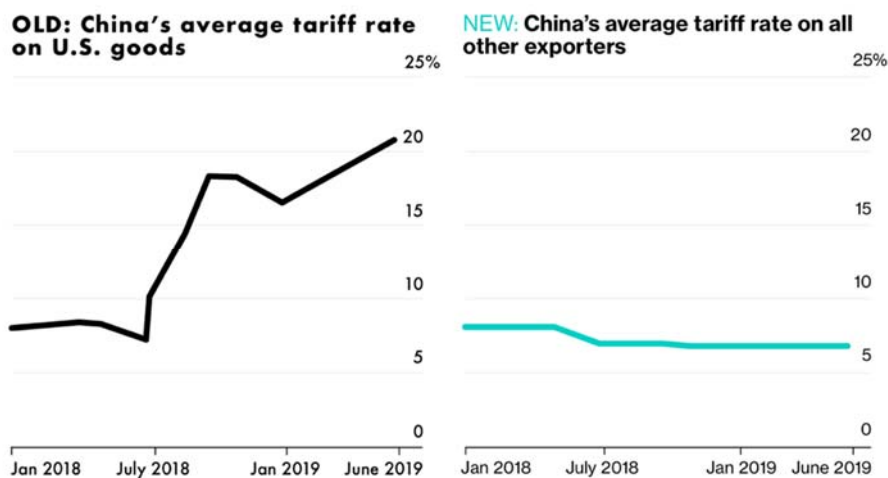
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The availability of these kind of data takes time (the most recent available ones dates back 2015) and are sensible to be incorrectly measured due to the complexity of origins that nowadays goods entail.

To support the idea that currently international trade is going faster and faster they also bring several different examples like China-EU trade tariffs or Japan-EU new agreements. They forecast that in future instead of witnessing to a slowdown in international trade, a more likely scenario will be the one of a trade between big economic influent spheres. US, China, EU and Japan will be the 4 main player with the first one which will probably be overtaken by the other 3 if the war on trade with China will continue (even if big US companies are currently still interested in trading with China leaving room for future possible take-backs). It is shown in fact that even if trade tariffs were increased under Trump’s presidency by both parties, other agreements with the rest of the world were settled by the Asian giant.

*“The European Union and other major economies have been securing trade agreements that lower tariffs and other barriers. A European pact with Japan went into effect earlier this year. One with Canada took force last year. Japan and 10 other Pacific economies have gone ahead with the Trans-Pacific Partnership negotiated by the Obama administration despite Trump pulling out of that on his first full working day in office. In Africa, countries are going ahead with a continental free trade agreement.”\*2*



Source: Peterson Institute for International Economics

All of this shows how classic measures of trade like FDI and cargo volumes are not currently the best way to represent the nowadays trade trends among countries which are moving to a ever-more intricated system of data transfer and towards a particular kind of trade ruled more and more by big economic players.

The article goes on mentioning the importance of the innovation and systems which have seen an incredible increase in China and the entrance of more players leading to subsequent loss of power by traditional rulers. (\*2)

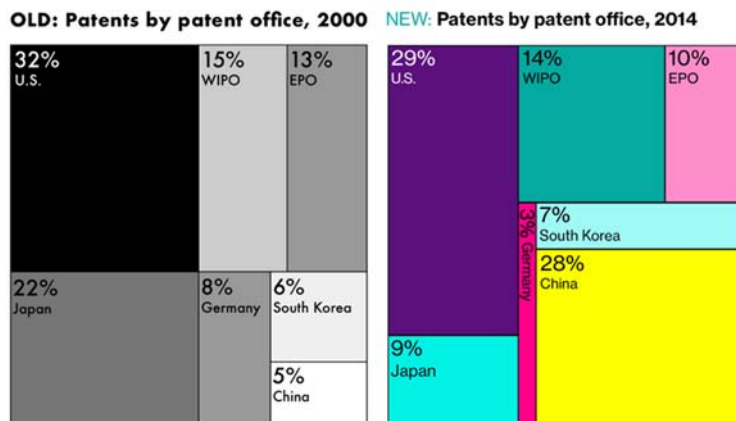
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In particular, the topic of innovation and patenting is underlined by another author, Nicholas Lamp, who in his article supports the idea that through that and investment protection, the economic advantageous positions of countries like US are still preserved. (\*4) But things will not always be like that since changes leading to a more equilibrated redistribution of rights of property and therefore of subsequent profits will happen. Donnan and Leatherby show in their article how the situation has dramatically changed since the beginning of XXI century.



Note: EPO is the European

Patent Office. WIPO is the World Intellectual Property Organization; data show filings under the international Patent Cooperation Treaty, which applies to 154 countries including the U.S. and China. Figures may not add up to 100% due to rounding.

Sources: Questel Orbit Intelligence and Fampat Database, March 2018, via the World Intellectual Property Organization

Movement of people is, in the end, the last topic which is addressed. Despite the fact that even if 90% of people settle where they were born (\*2), we witness to an evolution of the movement which, like fashion, is increasingly focused on rapidity. The robust tourism numbers, as the cost of transportation declines, allows hundreds of millions of individuals to travel and contribute to the world economy. Between the last two decades we saw an increase in middle-income's share of travelers especially from the developing countries who have been introduced to this new fast way of interconnecting people among countries.

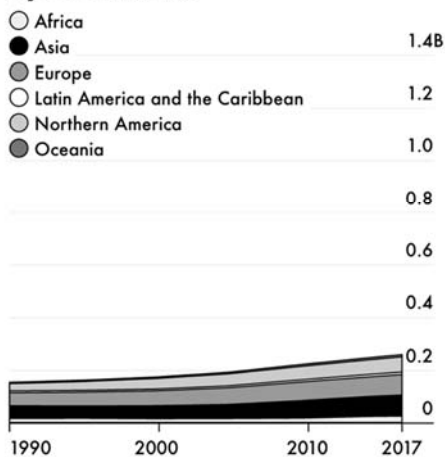
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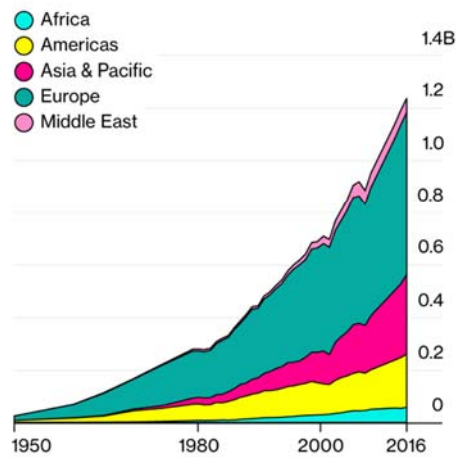
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### OLD: International migrants by destination



### NEW: Tourist arrivals by destination



Sources: United Nations Population Division, United Nations World Tourism Organization

While on one hand I value this article really practical and useful in clarifying the future of the globalization phenomenon, on the other one I think that it is slightly incorrect addressing to the future of such a broad topic relying only on (mostly) the economic and trade points of views. For sure these two will be probably the most important drivers of the process to come but I repute at least other 3 topics as important as the above-mentioned ones: inequality, environment and human beings.

It is undoubted that globalization contributed to create some winners and some losers but inequalities between and within countries are really impressive if we look at current data; on the top of that, the future is predicting an ever-divergent direction of inequalities in future. All of this is discussed by Branko Milanovic (\*3) who suggests rethinking the Kuznet's curve as a series of waves involving therefore ups and downs and agreeing also with the idea that during the past, in periods of great divergence, the big influent levelers were famine, death and wars which are not supposed to happen so frequently in the "recent and current world". The presence of the so called poverty-trap and the raising in the capital's share of national income in the US (where the capital concentration is really high) suggest that a very big part part of the current world will be driven to divergence if capitalism and globalization will mutually reinforce with no further intervention. (\*3) In addition, individuals with high capital incomes, that is, earnings generated from interest payments, stock dividends, property rents and royalties, often are also top wage earners. (\*3) To sum up, inequality is a deadly serious problem and, if not properly managed, will contribute to influence globalization in the opposite direction to the one supposed by Donnan and Leatherby.

The second big problem will be the environment. Without going too much into detail, it is clear to everybody that this model of progress is not sustainable with the current knowledge and system and this, even more than inequality, either will press the break to the globalization process or it will completely disrupt the way the system will be organized. In any case, severe new elements will interest and modify the globalization phenomenon.

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In the end a cultural reflection, which has nothing to do with graphs and projection, but I think it is relevant since so far humans are those who “created” and fostered globalization and for years to come they will be the ruler of that.

I think that cultural problems due the clash of different cultures, since they are being forced to live in a system which is not prepared to host too many “foreigners” and to manage them, are just the prelude to upcoming new tensions amongst people. The current rise of extreme right-wing parties in the western world and the increasing number of protests worldwide are a clear example of that.

Internet , from its part, heavily contributed in shaping all of this in the last decade, giving us the illusion of being more connected (or at least this truly happened until the big change in the *Google* settings disrupted it all starting to learn from humans and making predictions) , but is actually allowing us just to connect all of our “bubbles“, in which we live and mirror ourselves daily. The way we see the world, our beliefs, interests and future expectations are constituents of these bubbles created by *Google* (through our web searches) which, thanks to their “transparency”, provide us the illusion to be free, hiding the fact that their surfaces are becoming thicker day by day. Of course Internet was and is a fundamental tool to us for countless reasons but when we start observing that it is actually influencing our votes and choosing who is going to rule us, we should stop and think about how manipulated we are. And the future is not expected to step-back in this sense. This phenomenon can only be dammed, but not eradicated. Investments and progresses in IT in order to reach the final goal of “substituting humans” are underlying this issue.

For this three, according to me, important reasons the future of globalization is not so well defined and prudence is required when we hypothesize about its shape to be.

Generally speaking, I think that nation states thought as they are, are heritage from a centurial past in which people weren’t so connected and interdependent as in the modern world. Their shape and sovereignty should be at least re-discussed in order to arrange something better for the planet. Of course this is something “impossible “ or anyway the hypothesis of seeing all of the countries in the world united under one flag is too far away in the future.

As a consequence, I conceive that an organization system which could be defined as “enlighted communism” would be more reasonable.

With this term I don’t refer to any dictatorship whatsoever, but I am simply suggesting that given the presence of an enormous amount of inequalities (and human population increasing along); given the clash amongst countries which are mainly driven by economic and social reasons and given that environmental problems need solutions as fast as possible, I repute that a global parliament/committee with a “super partes” decisional and fiscal power regarding global issues should be created. Nation states cannot neglect the urgency of these issues anymore. This parliament should be democratically elected and it should operate in an economical perspective (allowing to redistribute wealth more equally and to really help under-develop and developing countries), take strong environmental decisions and also provide “fair”(discussions about what fair means will be for sure addressed) labor rights for everybody to prevent companies outsourcing decisions for labor exploitation reasons. I see this way as the unique path to follow in order to really change something and to allow globalization to spread effectively and equally among countries. Somebody should steer it. It is clear that nation states are the active subjects which should need to step-back for this process to happen (maintaining their national sovereignty

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though) in order to create something bigger and really better for the planet. Propaganda amongst citizens, from its part, should be really effective in order to converge masses opinions. This implies of course that more developed countries should slow down even more than what they are doing now, in order to allow others to close the gap. Environmentally, clear and irreversible decisions should be taken in order to save mankind and to allow others to enjoy what we can enjoy nowadays. A particular mention regarding the Rodrick's trilemma should be done. In the case of this global parliament to be established, in fact, we will keep Democracy (since the representatives will be democratically elected), Nation States (since the countries will continue to have their sovereignty) and Globalization (since if steered in this way, it will continue to expand providing more positive and redistributed results). Of course, the first two parts of the trilemma will see their power slightly "reduced" (more or less in equal portions) but still considerable in order to serve a superior political entity.

This, I think, is what we should do in order to invert the trend, but since this idea is still fairly complicated to achieve, approaching steps should be taken.

In order of importance, the environmental issues and the possibility for governments to participate and regulate more the markets will be the most urgent actions to be taken. In this I agree with N. Lamp (as I stated above) in the eventuality of taxing and regulating more global incoming profits of big companies in a fairer way since they are the main drivers, decision makers and enjoyers of globalization. In order to prevent a dystopic future in which companies will be as strong as government and even more politically influent, firm regulations should be applied and the entire process should be more controlled nationally and as a consequence, at a global level. Plus, governments should also charge (and control) big multinationals to be active advocates of environmental issues. All of the process, once that nation states will have more control, will be directed by those latter in order to constitute this international "super partes" parliament/committee. After having addressed the environmental, wealth redistribution and labor rights topics will have to move to other relevant issues as the spreading of education and new regulations about immigration flows to allow globalization to fully flourish.

The main idea underlying here is that as divided as we are and with such little control on international markets, we cannot expect globalization to regulate and evolve properly by itself. That's why I suggest an initial centralization of power by nation states with the subsequent step aside action entrusting somebody else able to rule over every country (for what concerns global issues) as the most needed and reasonable solution resulting from the urgency of the situation in which we currently live.

To conclude, in this case, if we want to see it from the point of view of the trilemma between free markets, rights and freedom and social protection, we definitely see more tension between the last two to the disadvantage of the free markets which will be more sacrificed.

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