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A brief perspective on globalization

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Abstract. The purpose of this paper is to examine globalization from a variety of perspectives relevant to the present day and time. We first examine what is globalization in present day context, then we examine the importance of financial flows from globalization. We further examine into how digitization is taking place across the globe and the consequences that it brings. We also look at the consequences of globalization on the environment and finally we come to the discussion of the importance of globalization in present day times and especially in regards to the Covid-19 pandemic. Is prudence in terms of globalization a better path rather than irrational exuberance.? Is stability better than volatility?

Keywords. Globalization; Finance; Digitization; Environment; Sustainability; Covid-19; Public Health.

JEL. C52; L25; M14.

1. Introduction

According to Peterson Institute of International Economics, “Globalization is the word that is used to describe the growing interdependence of the world’s economies, cultures and populations, brought about by cross-border trade in goods and services, technology and flows of investment, people and information.” It is due to many centuries of technological progress, further advances in international cooperation and countries that the world is interconnected more than ever. The term globalization gained popularity after the world war and in the early 1990’s as cooperative arrangements shaped modern everyday life. The term globalization is also closely connected to international trade referring to the flows of investments among advanced economies. The wide ranging of impact of globalization can be very complex and at time very politically charges, much like major technological advances, globalization benefits society as a whole but can harm certain groups. Understanding the benefits and costs can pave the way for alleviating problems and realizing larger payoffs (Piie, 2020).

2. The history of globalization is driven by technology, transportation and international cooperation

Since ancient times, humans have had the urge to explore, produce and trade with distant places and this has been made possible by improvements

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in technology and transportation. Globalization took off in the 19th century, following centuries of European Colonization, the first wave was propelled by steamships, railroads and telegraph and break-through is economic cooperation. The trend crashed in World War I, followed by postwar protectionism, the Great Depression and World War II. After WWII the US led efforts to revive international trade and investment, starting a third wave.

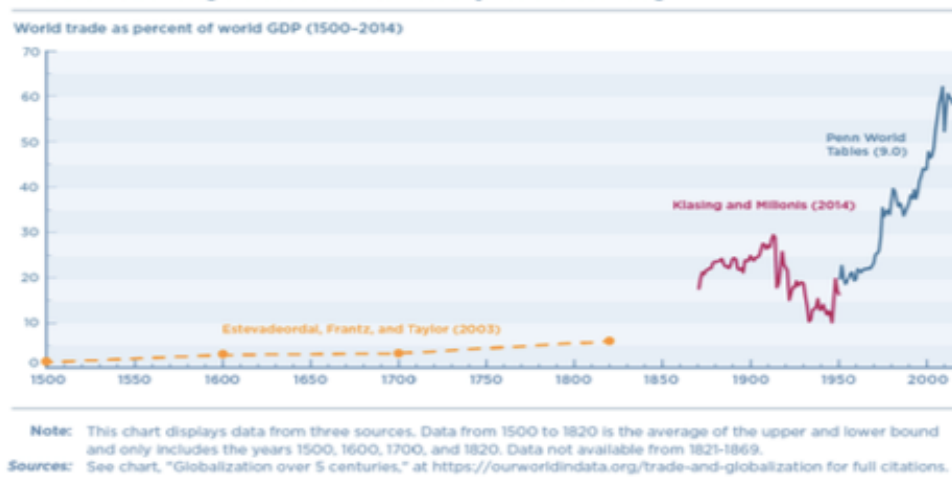


Figure 1. Trade has skyrocketed in the past century

3. Importance of international financial flows

Globalization not only facilitates trade but also facilitates global financial flows. Many countries have large international financial flows or investment consisting of assets and liabilities. This chart shows how yearly US transactions have grown over time as the global economy and financial system became increasingly integrated but dropped during times of crises and distrust.

Total US foreign Assets in 2016 were \$26 trillion, equal to 140 percent of US GDP. Total US liabilities to foreigners were \$34 trillion in 2016, or 185 percent of GDP (Piie, 2020).

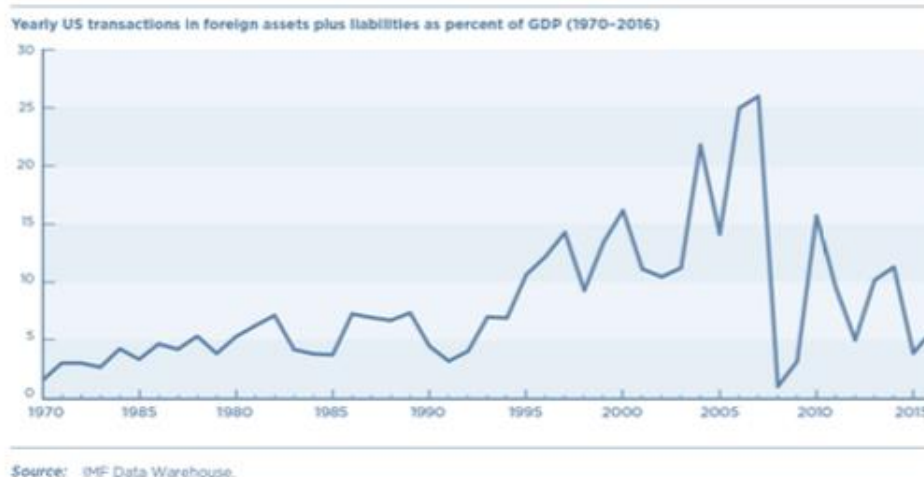


Figure 2. Globalization also encompasses the purchase and sale of financial investments

3. Globalization as a tool for prosperity and peace

After WWI the US took the initiative to build a global economic order governed by mutually accepted rules and overseen by multilateral institutions. Hence the idea was to create a better world with countries that wanted to cooperate with one another to promote prosperity and peace. Hence, free trade and the rule of law were mainstays of the system. To prevent economic disputes from escalating into larger conflicts the institutions established included the following (Piie, 2020).

3.1. Effects of globalization

More Goods at lower prices: Encourages each country to specialize in what it produces best using the least number of resources, known as comparative advantage.

Scaled up business: Larger markets enable companies to reach more customers and get a higher return on fixed costs of doing business.

Better Quality and Variety: Competition from abroad drives US firms to improve their products, Consumers have better products and more choices as a result.

Innovation: Expanded trade spurs technological innovation and the communication of ideas.

Job Churn: Globalization supports new job opportunities but also contributes to job displacement.

Decline in Gap between Rich and Poor Globally but Wider Inequality within the United States

Globalization Has Displaced Some Workers While Supporting High Skill Jobs, US Manufacturing has lost out in state such as Michigan, Tennessee, although automation allows for greater manufacturing with fewer workers required. Service industry participation has increased significantly (Piie, 2020).

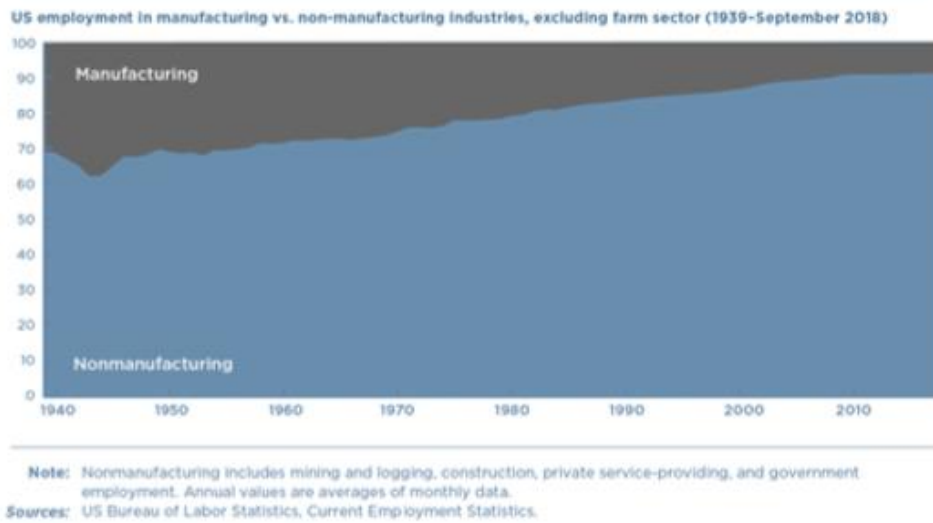


Figure 3. *Since World War II, American jobs have increasingly been in service-providing industries instead of manufacturing*

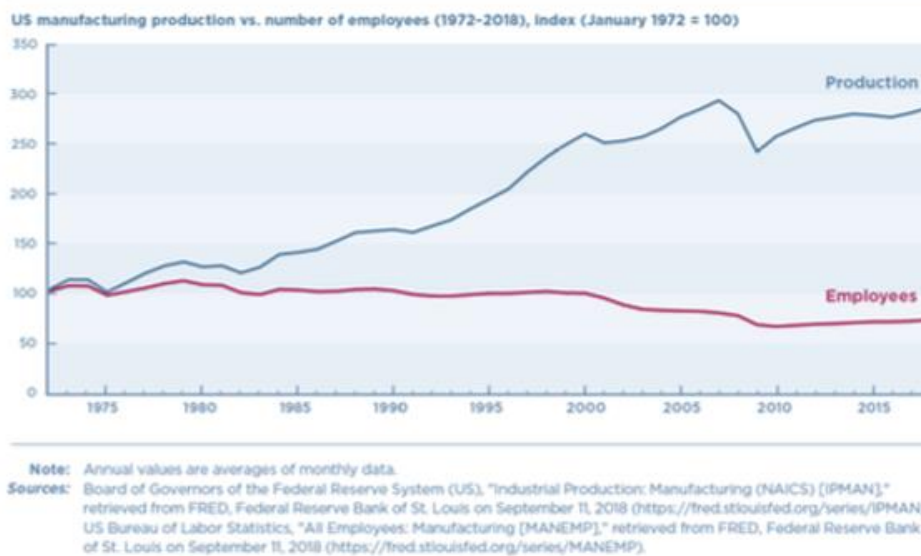


Figure 4. *US manufacturing production keeps growing but with fewer employees needed*

3.2. Why support globalization if it displaces jobs?

The Pro's outweigh the Cons and economists take a holistic view of the whole economy, since the overall payoff is much greater economist support open global market rather than closing it.



Figure 5. Between 1950 and 2016 trade expansion

- Globalization is like Technological progress; both disrupts some livelihoods while enlarging the economic pie and opening up new and better -paying job opportunities.
- Protectionism helps select groups but at a high cost for everyone else.
- The US must keep open markets to stay competitively globally.
- Operating within a rules-based system allows for peaceful conflict resolution.

3.3. Sustaining policies through policy actions

- Invest in better and more inclusive education to prepare people for tomorrows economy.
- Give all displaced workers sufficient financial and administrative support to find new jobs and some compensation for lost income.
- Address growing income inequality through the tax system and spending programs
- Make sure the health-care system does not impede workers from finding new jobs or cause significant financial hardship
- Use free-trade agreement to improve the competitiveness of US business increase total trade and boost overall economic growth.
- Work within the WTO and various free trade agreements to settle disputes, ensure fairness, protect intellectual property and investment rights and promote reciprocity and growth. Improve the rules of the system rather than abandoning the rules.
- Coordinate with allies to confront trade abuses (Piie, 2020).

4. Globalization, and finance

As mentioned earlier Globalization has led to large amounts of International Financial Flows. At the same time this benefit is also associated

with inequality and hence the recent backlash to globalization. Hence, a review of the debate of inequality and financial globalization, reveals that different types of flows have different distributional impacts. Hence, the overall impact depends on the composition of capital flows, their interaction and on broader economic and institutional conditions. A comprehensive set of policies that includes macroeconomic, financial, labor and product-market specific is important for facilitating wider sharing of benefits of financial globalization (Eichengree, *et al.*, 2020).

There is a certain contrast between trade liberalization and financial liberalization. Standard logic seems to suggest that trade liberalization will have opposing effects on distribution in high- and low-income countries. The Stolper-Samuelson Theorem predicts that trade opening will increase demands for the services and therefore the relative income of a country's abundant factors of production, those used intensively in the exportable sector. In high-income countries, these abundant factors are well-compensated capital and skills labor, in low-income countries they are less skills-labor. It follows that that the impact of trade liberalization on inequality will vary with economic development: income inequality will increase in high-income countries, as the well compensated become even better compensated and fall in low-income economies, where opening disproportionately benefits low-wage workers (Eichengree, *et al.*, 2020).

A theorem in international economics Mundell (1957) suggest that trade flows and capital flows have the same distributional effects. Yet this does not appear to be the case in practice. Recent calculations suggest that inequality has risen in both developing countries and advanced countries, and they show that different kinds of capital flows can have different effects and that those effects are context specific. Even though when financial globalization supports economic growth it can be unequalizing, depending on situation and circumstances. Hence, it is desirable that the increase in the pie be widely shared something that is by no means guaranteed. It is important therefore to couple international financial liberalization with other social and economic policies that help to level the distributional playing field. (Eichengree, *et al.*, 2020).

Distributional impacts also depend on initial conditions. Relevant conditions include the level of human capital, the depth of financial markets and the strength of institutional policies. Hence, Higher level of educational attainment, stronger creditor rights and more effective rule of law in countries on the receiving end of capital flows can help to reap benefits in terms of growth.

Furthermore, different financial flows have different distributional implications.

FDI: The distributional effects of inward FDI will depend on its sectoral composition on the variation in labor intensity and skills across sectors. The adverse impact is greater when FDI flows into sectors characterized by strong complementary between capital and skill. A better educated workforce will facilitate a wider sharing of these benefits. Outward FDI

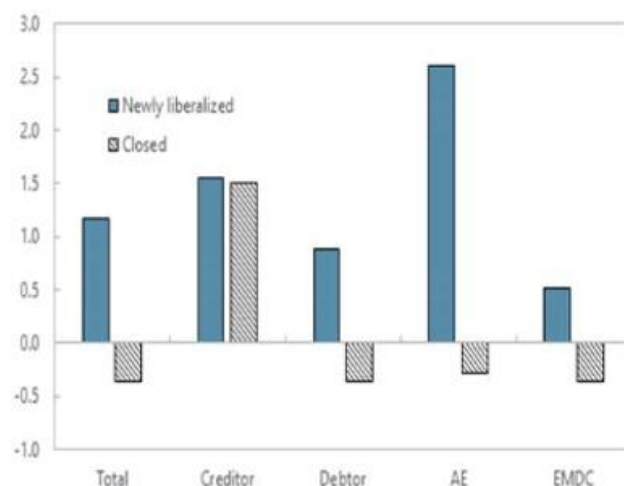
which is sourced mainly from high-income countries and now increasingly from ille income countries such as China tend to be associated with a decline in the demand for less-skilled labor in the source country.

Portfolio Financial Capital Flows: These may impact inequality through several channels, including by accentuating macroeconomic volatility, which disproportionately hurts the poor. On the other hand capital inflows can reduce inequality insofar as they help to deepen and develop the financial sector and in so doing boost inclusion and entrepreneurial opportunity for the poor.

Remittances: The impact of remittances on inequality through their direct effects on income. Remittances accrue to increasingly to lower-income households over time.

Official Development Assistance: official flows have the potential to reduce inequality where institutions are sufficiently strong. Although this activity may induce rent seeking.

Change in the Gini index after capital account liberalization (per cent), 1970-2015



Sources: Chinn-Ito (2006), SWIID 8.1, Lane and Milesi-Ferretti (2018), and authors' calculations.

Notes: The figure shows the median change in the average market Gini index during the 10-year periods before and after capital account liberalization. Newly liberalized countries correspond to those liberalizing their capital account according to the methodology described in Figure 1. Closed countries are those with Chinn-Ito Index that is below the lowest value of the index at the time of capital account liberalization across episodes and those that do not liberalize their capital account over the following 10 years. Creditor (debtor) countries are those with positive (negative) average net foreign assets over the next 10 years. The sample includes 173 countries where a total of 135 episodes were identified (of which data were available for 111 episodes).

Figure 6. Financial globalization and inequality

5. Globalization and digitization

As discussed earlier the future of work is undoubtedly one of the toughest challenges faced by many researchers and managers all over the world. The new era in digital globalization and smart digitization the trends in robotization and artificial intelligence have changed the labor market. Due to accelerated technology many companies are ready to adopt digital solution, stationary robot and drones with significant consequences over the declining jobs. The new human-machine frontier will determine a different

outlook work in a jobless society where many roles stand to become automated, while human’s role in these processes is minimized. Hence, according to current trends and technological advances the impact of artificial intelligence on the future of work will be significant. In this paper we try to analyze and clarify the issues in question in terms of smart digitization, cognitive automation, human-machine frontier and changing employment types. The trend shows an increase in automation and computerization and in the future many artisan jobs will be lost to office automation. The reasons behind this may be increase in productivity, cost reduction, due to innovation and accelerating change (Eichengree, *et al.*, 2020).

The Current trend of labor market is changing as a result of three simultaneous important shifts

1. A demographic shift, including an aging population, especially in Europe
2. The Economic Shift of digital globalization, that creates digital platforms and changes the economics of doing business across borders.
3. A technological shift, driven by the Internet including artificial intelligence, big data and cloud computing.

Current technologies will impact jobs all over the world but some industries could be more impacted than others.

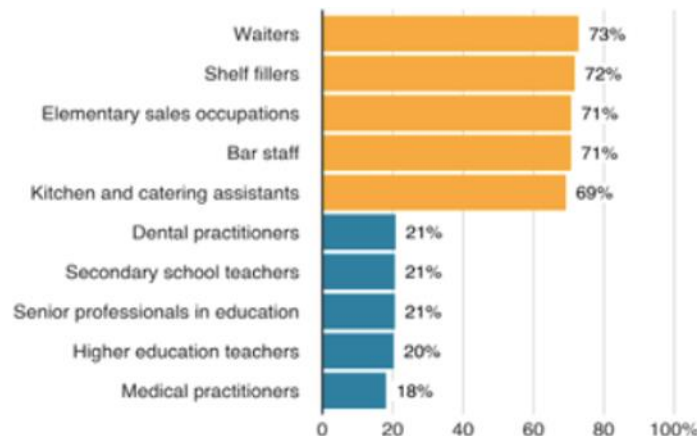


Figure 7. Highest and lowest probability

Table 1. New jobs and new skills required on the job market in 2019 (%)

Data analysts	25
General and operational managers	21
Computer specialists	20
Digital marketing specialists	18
Big data specialists	13
Other	3

Sources: Market Research; our survey among 2,500 individuals conducted July-August 2020.

Table 2. Work tasks performed by employees in 2019 (%)

Decision-making	51
Coordinating, developing, advising	21
Communicating and interacting	17
Administering	9
Others	2

Sources: Market Research; our survey among 2,500 individuals conducted July-August 2020.

Table 3. The new human-machine collaboration estimated up to 2022 (%)

Information and data processing	45
Performing complex and technical activities	30
Performing physical and manual work	20
Others	5

Sources: Market Research; our survey among 2,500 individuals conducted July-August 2020..

6. Globalization and the environment

The climate changes as a result of human activity such as agriculture, construction, fossil fuel burning, solid waste generation, mining etc, these activities are cause harm not only to human life but also to the environment because they emit anthropogenic greenhouse gases. As human activities are inevitable because they are necessary to achieve economic growth and they in turn ultimately cause damage to the environment. Since the industrial revolution these emissions have risen considerably largely as a result of economic and population growth. These environmental concerns have raised concerns, among countries, and many have engaged in the collaborative efforts which have led to the establishment of international treaties such as the United Nations Framework Convention on Climate Change (UNFCCC), Kyoto Protocol and the Paris Agreement (Evans, Opuko, & Ibrahim, 2020).

Hence, these treaties emphasize the need to reduce the atmospheric concentration of anthropogenic emission in order to safeguard the global eco-system from climate change impacts such as rising global temperatures, sea levels, floods wildfires etc. Empirical studies on the factors responsible for environmental degradation have taken center stage aa global discussions. This is because finding innovating ways of reducing climate change impacts is first conditioned on the determination of the precise facts influencing environmental degradation. A groundbreaking insight by Grossman and Kruger suggest the relationship between environmental degradation. It led to the development of the Kuznets curve (EKC) hypothesis which argues that at the early stage of development a rise in income level results in environmental degradation. However, when the income level rises to a certain point further increase in income lowers environmental degradation. The EKC hypothesis suggests an area of research that considers the impact of globalization on environmental degradation. The advocates are of the opinion that higher levels of globalization reduce environmental degradation because it encourages stringent environmental regulations on firms. The critics of globalization claim that globalization degrades the environment. Globalization damages the environment because it causes

rapid depletion of resources. As a result of expansion in production activities which often accompanies further globalization the environment is likely to be faced with harder. This is because of the increase in demand for energy is often associated with production expansion (Evans, Opuko, & Ibrahim, 2020).

Hence, data is constructed from a sample of 27 industrialized countries over the 1991-201 period. The findings and policy implications state that industrialized countries though majority of them greatly globalized should seek to globalize more as generally globalization is found to reduce environmental degradation. In light of this the industrialized countries should boost policies resources conditions and institutions that facilitate flows and activities between them and other countries. Increase in trade and financial opened with other countries should be given greater priority.

Table 7
Economic globalization and environmental degradation (excluding G-7 countries).

	Overall		De facto		De jure	
Constant	0.679 (0.922)	0.015 (0.998)	2.804 (0.686)	-7.687 (0.507)	-0.236 (0.972)	-7.449 (0.457)
lnP	-0.251 (0.623)	-0.135 (0.777)	-0.309 (0.565)	0.317 (0.649)	-0.222 (0.640)	0.160 (0.809)
lnA	0.801*** (0.001)	0.765*** (0.000)	0.452** (0.023)	0.630*** (0.003)	0.819*** (0.000)	0.696*** (0.009)
lnT	-0.138 (0.122)	-0.116 (0.259)	-0.154 (0.128)	-0.134 (0.166)	-0.155* (0.099)	-0.142 (0.178)
lnEG	-0.513*** (0.001)	-0.252* (0.060)	-0.205 (0.180)	-0.105 (0.525)	-0.271*** (0.001)	-0.301 (0.167)
CDP	0.603*** (0.001)	0.440*** (0.001)	0.657*** (0.000)	0.527*** (0.001)	0.627** (0.014)	0.687*** (0.000)
Trend	No	Yes	No	Yes	No	Yes
Wald χ^2	0.000***	0.002***	0.047**	0.025**	0.000***	0.030**
Root mean squared error	0.081	0.079	0.081	0.078	0.086	0.080
No. of groups (countries)	20	20	20	20	20	20

Notes: Values in brackets are p-values and ***, ** and * indicate p-value does not exceed 0.01, 0.05 and 0.1, respectively. CDP denotes common dynamic process and p-value is reported for Wald χ^2 .

Table 8
Social globalization and environmental degradation (excluding G-7 countries).

	Overall		De facto		De jure	
Constant	-10.995 (0.200)	-17.178 (0.105)	-3.481 (0.669)	-17.424 (0.185)	-4.563 (0.473)	-18.106* (0.079)
lnP	0.403 (0.464)	0.869 (0.225)	-0.237 (0.678)	0.729 (0.381)	0.118 (0.800)	0.957 (0.168)
lnA	0.877*** (0.000)	0.777*** (0.001)	0.614*** (0.000)	0.696*** (0.001)	0.738*** (0.001)	0.868*** (0.000)
lnT	-0.046 (0.465)	-0.059 (0.383)	-0.020 (0.745)	-0.011 (0.915)	-0.109 (0.162)	-0.128 (0.113)
lnSG	-0.412 (0.263)	-0.324 (0.399)	0.402 (0.312)	0.325 (0.532)	-0.620** (0.016)	-0.604*** (0.000)
CDP	0.763*** (0.000)	0.694*** (0.002)	0.753*** (0.000)	0.619*** (0.002)	0.740*** (0.000)	0.698*** (0.001)
Trend	No	Yes	No	Yes	No	Yes
Wald χ^2	0.001***	0.008***	0.000***	0.016**	0.001***	0.000***
Root mean squared error	0.082	0.079	0.073	0.079	0.083	0.081
No. of groups (countries)	20	20	20	20	20	20

Notes: Values in brackets are p-values and ***, ** and * indicate p-value does not exceed 0.01, 0.05 and 0.1, respectively. CDP denotes common dynamic process and p-value is reported for Wald χ^2 .

Table 9
Political globalization and environmental degradation (excluding G-7 countries).

	Overall		De facto		De jure	
Constant	-5.031 (0.446)	-20.699* (0.086)	-9.966 (0.208)	-17.520 (0.183)	-8.434 (0.243)	-15.359 (0.142)
lnP	0.075 (0.870)	0.789 (0.241)	0.226 (0.689)	0.570 (0.555)	0.212 (0.658)	0.551 (0.394)
lnA	0.723*** (0.000)	0.731*** (0.002)	0.743*** (0.000)	0.820*** (0.000)	0.729*** (0.000)	0.644*** (0.002)
lnT	-0.162* (0.052)	-0.091 (0.292)	-0.167** (0.024)	-0.106 (0.238)	-0.168 (0.045)	-0.128 (0.150)
lnPG	-0.317 (0.222)	0.024 (0.923)	0.306 (0.230)	0.297 (0.285)	-0.191 (0.354)	-0.120 (0.503)
CDP	0.731*** (0.000)	0.605*** (0.000)	0.687*** (0.001)	0.605*** (0.001)	0.691*** (0.000)	0.631*** (0.001)
Trend	No	Yes	No	Yes	No	Yes
Wald χ^2	0.000***	0.014**	0.000***	0.003***	0.000***	0.014**
Root mean squared error	0.084	0.081	0.086	0.082	0.083	0.079
No. of groups (countries)	20	20	20	20	20	20

Notes: Values in brackets are p-values and ***, ** and * indicate p-value does not exceed 0.01, 0.05 and 0.1, respectively. CDP denotes common dynamic process and p-value is reported for Wald χ^2 .

7. Globalization and Covid 19

The Covid-19 epidemic struck the world in throes of globalization with exceptional speed and severity. Globalization contributed to the rapid spread of this modern-day plague to all corners of the world. Hence, the global order of internationalization was not able to cope up with the rapid spread of the disease. Although it can be said that the rapid response in delivering vaccines through-out the world also came through cooperation. The lack of anticipation of the possible occurrence of such an event combined with the break-down of market mechanisms for some of the most essential

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products needed to fight the disease left many governments unsure as to how to respond and make strategic choices. Hence, the solution came down to a lock down, and this solution which stand stilled the economies of these countries and disrupted global value chains is likely to be followed by sever years of economic depression that will dwarf the cost of the 2008 finance and economic crises. Hence, this disease has led us to reconsider some of the implicit assumption underlying the design of the economic sets and to think about some of the dilemmas and tradeoffs that we face during a stressful period. Hence, the lesson learnt could help us deal with future Black Swans (OECD, 2020).

Human Rights and the Response to the Health Crises: Countries (such as China, Viet Nam) where individual freedom is limited seem to be better able to take adequate measure to limit the spread of the virus than elsewhere. Some advanced countries such as UK and US seem to have shown at least at the very beginning more hesitation about the confinement measure and we have therefore witnessed a greater tendency for the virus to spread.

Scientific Methodology and the precautionary principle: There is a question about the respective merits of scientific methodology and the precautionary principle to inform public policy making. This question is not new in EU but the crises offer a new illustration of the dilemma. The question that is asked is whether in a crisis we have the time to follow the correct methodology. French Government and President Trump have felt an irrepressible urge to side with their citizens against scientists (OECD, 2020).

The Economic Costs of Public Health Strategies: There is a question as to whether there can be a trade-ff between public health strategy and economic strategy used to overcome the crises and if there is such a trade-off what policy prescription should be followed. The idea that maybe a trade-off comes from the fact that confinement policies (destines to minimize the number of deaths from COVID-19 and adopted in a number of countries) lessen the impact of the epidemic interms of the number of people infected but decrease economic output and therefore the severity of the economic crises because citizens are prevented either from going to work or for continuing to work if their jobs are not suitable for working from (OECD, 2020).

Globalization, Global Supply Chain and National Sovereignty: The benefits of economic globalization have been much discussed over the past twenty years. One view is that the decline in trade and foreign investment obstacles and the development of new communications technologies have allowed an international reallocation of resources through a restructuring of production processes which has benefited developed countries by allowing them to secure consumption needs at a lower cost and allowed developing countries to benefit from economic opportunities thanks to the development of export-oriented activities (OECD, 2020).

Privacy, digital technologies and public health: There are interesting questions about Data and digital policy. As the Financial Times reported on "The Coronavirus crisis is forcing the EU to redraw its digital strategy. The

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previous calls for EU data sovereignty shows its imitation at a time when to anticipate the expected path of the epidemic and to find a vaccine we are very dependent on getting the largest possible pooling of data and when to get this pooling of data, we need the cooperation from non-EU countries like China.

What Future for Competition law and policy? There are a number of questions concerning if and how the role of competition law and competition policy should be redefined in a time of deep economic crises. A discussion on the goals achievement and failures of competition law enforcement and competition policy has begun a few years ago.

8. Conclusion

The above discussion presents five important factors regarding the implications of globalization. As we know that in the past twenty years or so there has been a backlash against globalization. Hence, there is much new evidence that is coming into play and externalities that need to be corrected. Overall, the data still points towards significant advantages from globalization.

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