

Sustainability & Globalization: Can Globalization be Sustained?

Dr. Shreekant G. Joag
St. John's University, New York
joags@stjohns.edu

ABSTRACT

During the second half of the 20th century, US leadership and efforts succeeded in convincing countries of the world to join in creating a global economy in which specialization combined with free trade would spread prosperity among all. To do this, the countries had to give up their traditional defensive goals of self-sufficiency to survive during times of hostilities and foreign aggressions. This change was helped by the relative world peace during these years when countries could look at one another not as adversaries but as partners. The interdependence so created, in turn, helped maintain and promote world peace.

However, the rise of new world superpowers, continuing spread of nuclear weapons and weapons delivery technologies, universal and all-pervasive use of information technology, and expansionist ambitions shown by regional and world powers has once again brought into focus the risks of such interdependence. Many leading proponents of free trade are reconsidering self-sufficiency in critical and vulnerable sectors of economy as a safer and wiser strategy. If this trend continues, it may not be long before globalization is seriously threatened, and along with it, all the good things it made possible.

This paper will trace the history of globalization, its benefits and challenges experienced by countries of the world and discuss its future sustainability as political postures and ambitions of nations evolve with their economic prosperity.

INTRODUCTION

During the second half of the 20th century, US leadership and efforts succeeded in convincing countries of the world to join in creating a global economy in which specialization combined with free trade would spread prosperity among all. To do this, the countries had to give up their traditional defensive goals of self-sufficiency to survive during times of hostilities and foreign aggressions. This change was helped by the relative world peace during these years when countries could look at one another not as adversaries but as partners. The interdependence so created, in turn, helped maintain and promote world peace.

Many hoped that this win-win situation would continue forever; and at least for a while, such hopes seemed to be realistic.

However, the rise of new world superpowers such as China and Russia, continuing spread of nuclear weapons and weapons delivery technologies to smaller countries, universal and all-pervasive use of information technology, and new expansionist ambitions shown by regional and world powers has once again brought into focus the risks involved in such interdependence.

Leading proponents of free trade including the U.S. are reexamining their dependence on outside sources in critical sectors of economy such as energy, defense, computer chips, food and so on as a dangerous vulnerability, and considering self-sufficiency as a safer and wiser strategy for the future. Europe too is actively pursuing alternatives to Russia for its future energy needs. The U.S. is concerned about its supply of computer chips and electronic goods. It will not take long for other countries of the world to lose faith in the free-trade doctrine and revert to the age-old policies of self-sufficiency in economic sectors that are critical to their survival.

This is clearly an important leap backwards from the happy, friendly world imagined under globalization. If this trend continues, it may not be long before globalization is seriously threatened, and along with it, all the good things it made possible. Is this then the beginning of the end of Globalization as we become used to and love?

This paper will trace the history of globalization, its benefits and challenges experienced by countries of the world and discuss globalization's future when political postures and ambitions of nations evolve with their economic prosperity.

WHAT IS GLOBALIZATION?

At its core, globalization is simply the integration of world economies. Such integration manifests itself in few visible outcomes that can be considered prime indicators of globalization. They are:

- World trade boom and increase in the share of trade in world GDP
- Decline in trade barriers among nations and
- Resultant falling commodity price gaps between exporting and importing trading centers

- Labor migration across nations
- Capital flows across nations

HISTORY OF GLOBALIZATION

Applying these tests, the history of world trade since Columbus and de Gama voyages over 5 centuries ago can be conceptualized in four distinct periods for globalization: two pro-global and two anti-global (Williamson 2002).

Period of Trade Boom despite Mercantilist Restrictions & lack of globalization (1492-1820)

The Voyages of Discovery and resultant transport productivity generated a transfer of technology, plants, animals and diseases. There was also a trade boom and an increase in the share of trade in world GDP (O'Rourke and Williamson 2002a).

However, there was no true globalization or integration of world economies and no accompanying decline in trade barriers which would have resulted in falling commodity price gaps, rising absolute living standards and increased per capita GDP. But these things did not happen (O'Rourke and Williamson 2002b). Also, labor migration and capital flows were negligible in this period.

It is believed that the trading monopoly markups, tariffs, nontariff restrictions, wars, and pirates combined to restrict trade and offset the productivity gains. The trade boom observed probably resulted from European income growth and would have been even greater had there been true globalization (O'Rourke and Williamson 2002a).

The First Century of True Globalization (1820-1913)

The 1820s mark the start of a true regime of globalization. In this decade, there was liberal dismantling of mercantilism, peace time recovery from the Napoleonic wars, world-wide transport revolution and resultant decline in transportation costs, and the launch of pax Britannica.

These developments resulted in integration of world commodity markets. The declining transport costs accounted for two-thirds of the integration of world commodity markets

over the century following 1820, and for all of world commodity market integration in the four decades after 1870 (Lindert and Williamson 2002a).

The anti global policy reaction in Europe after 1870 was not big enough to cause a return to previous levels of economic isolation.

European investors' belief in strong growth prospects overseas created integrated global capital markets. The integration levels of 1913 had not been reached again till year 2000 (Obstfeld and Taylor 2002).

Unrestrictive immigration policies and falling steerage costs resulted in soaring international migration (Hatton and Williamson 1998).

Period of Autarkic Retreat from Globalization (1913-1950)

Autarky or national economic self-sufficiency once again dominated the world politics after 1913. The globalized world started to fall apart and was completely dismantled between the wars.

The big pre-World War I productivity gains in transportation and communications did not evaporate after 1913. However, new policy barriers restricted the ability of poor populations to flee and severely reduced international migration.

Higher tariffs and other non-tariff barriers choked off the gains from trade.

Thus, barrier-ridden price gaps between Atlantic economy trading partners doubled, returning to 1870 levels (Lindert and Williamson 2002a: Table 1)

New disincentives reduced investment in the diffusion of new technologies

The share of foreign capital flows in GDP dropped from 3.3 to 1.2 percent (Obstfeld and Taylor 1998: p. 359).

In short, the interwar retreat from globalization was carried entirely by anti-global economic policies.

The Second Global Century (1950-2020)

Globalization resumed after World War II but has differed from pre-1914 globalization in several ways (Baldwin and Martin 1999). Factor migrations were low: the foreign-born are a smaller share of New World populations than they were in 1913. Capital exports

were a smaller percentage of GDP in the postwar United States than they were in prewar Britain. On the other hand, trade barriers are probably lower today.

Almost a century ago, Heckscher and Ohlin presented a proposition that factor (capital and labor) migrations and trade can act as substitutes of one another in creating economic integration. Perhaps, history of globalization provides the best evidence in support of that proposition. While in the first global century, globalization was driven more by factor migrations with little free trade, in the second global century, it was driven more by trade with much limited factor (capital and labor) migrations (Taylor and Williamson 1997).

These differences were due to the changed policies of one dominant nation, the U.S.A. It switched from a protectionist welcoming immigrants during the first global century to a free trader restricting immigration during the second global century.

Until the end of World War II, most countries operated on the defensive principles of economic self-sufficiency and protectionism to maintain their independence. After the World War II, United States realized that its strength and future prosperity

- depended not on isolation and self-sufficiency,
- but on free exchange of goods, services, and ideas with the rest of the world.

Therefore, during the second half of the 20th century, US played a leadership role in convincing the world country governments of the dangers of protectionism and the great promise of free trade.

With American influence and aid, Western Europe and Japan were the first to experience, realize, and enjoy the benefits of free trade. Subsequently, other countries such as Chile, Brazil, Mexico, Taiwan, Hong Kong, Singapore, and S. Korea adopted the free market system, and joined the ranks of the “newly industrialized countries (NICs).” Slowly, other countries either opted to or were forced to give up the historical goals of self-sufficiency, demolish their self-created protectionist barriers, and embrace the free-market system to bring home economic prosperity.

By the end of the 20th century, US leadership and efforts had succeeded in creating a global economy in which specialization combined with free trade is spreading prosperity among all small and big countries of the world.

Understanding Autarky and Protectionism

- Autarky/Self-sufficiency minimizes a country's vulnerability created by dependence on external supply sources
- Clearly, it is a defensive strategy based on suspicion of the rest of the world and keeps a country ready to face hostilities and war.
- However, self-sufficiency is also an inefficient economic model since every country cannot be the best at doing everything but must do it any way. Moreover, for many countries, the internal markets are too small to enjoy the economies of scale.
- Finally, the self-sufficiency made aggression attractive as there were few consequences to its own population.

Understanding Specialization and Free Trade

Leading economists have provided sound theoretical reasoning why specialization combined with free trade would benefit all countries of the world (Smith 1776; Ricardo 1817; and Ohlin 1967) as below:

- Specialization allows each country to do what it is best at [and make available its excess production to trade with the rest of the world to buy what it cannot efficiently produce]
- Free trade allows all producers to access the bigger world markets for its excess production and enjoy the economies of scale to bring down its production costs
- Free trade knocks down barriers and associated costs making trade most efficient and reliable
- Specialization combined with free trade creates interdependence among countries turning competitors into collaborators thereby making aggression less attractive and less likely
- However, interdependence also makes countries vulnerable to disruption of critical supply sources during hostilities

Thus, the second global century was the result of a de facto acceptance by most country governments, of the economists' assertion that specialization combined with free trade would pave the way to prosperity for all.

Why Revisit the Self-Sufficiency vs Free Trade Dilemma?

Thus, globalization is a proven path to world prosperity. Why then must we revisit the Self-Sufficiency vs Free Trade Dilemma which appeared to be resolved just a few years ago? Ukraine War and the changed political climate of the world.

Despite the sound economic reasons supporting it, what Globalization needs most is the political will for countries to trust one another enough to accept economic interdependence for the rich dividends of mutual prosperity. And that is what is threatened since the beginning of the Ukraine War!

On Feb 24, 2022, Russia invaded Ukraine. Under U.S. leadership, the Western world reacted with disbelief and with severe trade and financial sanctions, it waged an open economic war against Russia. It effectively kicked Russia out of the world economy, trade and financial system. It seriously started considering expelling Russia from the WTO. And it watches with anxiety what China will do about it.

However, this rethinking did not stop at Russia. The U.S. has begun serious reexamination of its free trade policies. The U.S. depends on Chinese imports for several critical industries and thus is vulnerable to any changes in the Chinese policies. If China chose to support Russia in this economic war, that will change the situation drastically for the worse. It will turn China from a partner/competitor to an open adversary for world dominance. After almost 70 years, the U.S. politicians are considering "Make in America," and "Buy American" as serious strategies for critical industries.

If this is the state of the U.S. politics, what lessons will other countries of the world draw from this? What will be the thinking in China, Europe, and the rest of the world.

Will the world go back to autarky / self-sufficiency and protectionism?

Following is the thinking of many leading economists and politicians:

The advance toward a truly global world has suffered a serious setback. However, the world has come too far and enjoyed globalization's prosperity too widely to make a complete 180 degree turn immediately. Most likely, the world may make a successful retreat to the era of closed trading blocs with free trade within and carefully controlled trade with other blocs. In short, history will probably repeat itself.

END

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