

THE END OF GLOBALISATION?

A BRIEF REVIEW

INTRODUCTION TO GLOBALISATION

Globalisation is an umbrella term for a multitude of economic and social reforms that have touched the whole world in recent decades and changed how we live forever. One of the official definitions of globalisation, from Investopedia, states that, "Globalisation is the spread of products, technology, information and jobs across national borders and cultures." [1] Another definition of globalisation, by the Organisation for Economic Co-operation and Development, states that "the term globalisation is generally used to describe an increasing internationalisation of markets for goods and services, the means of production, financial systems, competition, corporations, technology and industries." [2] Put in plain English, the term globalisation means a change in the way that normal business is conducted to reflect a more connected global society. Regarding the first definition from Investopedia, products and technology are being sold worldwide by the same companies, which is a development as a result of globalisation- Apple Inc. for example sells models of its flagship iPhone device all over the world, from New Zealand, to Vietnam, to Denmark, [3] with operations in 25 countries and regions; [4] another example would be the Ford Motor Company which operates plants in Argentina, Brazil, China, Germany, India, Russia, the USA, Venezuela and South Africa just to name a few countries [5] while the Ford Focus is the American company's biggest seller in Europe with 400,000 being sold annually. [6] Regarding the second definition by the OECD, globalisation leads to the global interconnectedness of individual markets to an extent. Where markets are connected in such a way, businesses are given the ability to go global and reach a far larger audience- and so are their competitors- permanently altering the economic landscape in the market with foreign knowhow and cheap resources abroad being

used to cut costs and spur on business activity. Globalisation has a fundamental impact on the average citizen- especially for those in developed countries.

Suppose, for the sake of argument, that you purchase an item of clothing from Next on the internet while using a phone made by Huawei. Next's supply chains begin with subcontracted textile factories in locations such as Bangladesh, Cambodia and China where clothing is produced to meet demand from Next. [7] Clothes are then shipped to distribution warehouses around England (assuming that the reader is living in England) in bulk to places such as Yorkshire and Doncaster, [8] before your clothing is dispatched and delivered to you. Your Huawei phone is made up of many electronic components- many of which come from China [9], where the cost of labour and raw materials is among the world's lowest. [10] So, in summary, you in England have purchased clothing originating from East and South-east Asia and a mobile phone originating from a multitude of components in China.

Two key ideas which globalisation propagates are absolute and comparative advantage, which countries are able to 'possess' over another country when producing an item. A country with absolute advantage in production can produce a product at a lower cost than another country is able to. A country with absolute advantage in production of, say, smartphones could produce more smartphones using the same amount of metals than another country could. [16] Comparative advantage is a slightly more complicated idea. It is the ability of a country to produce something at a lower opportunity cost than its trading partners, even when there is an absolute advantage against their favour. [17] Say for instance that two countries, France and Chile,

produce smartphones and paper and trade these among each other. One country can either produce more smartphones at the expense of the amount of paper, or vice versa. Observe the below table for comparisons of production efficiencies between both countries:

Production per unit of material	Smartphones	Paper
Chile	2	4
France	6	10

Figure A

In Figure A, it is shown that France can produce 6 smartphones with 1 unit of material. Alternatively, it could create 10 pieces of paper from this same material. On the other hand, Chile could use 1 unit of material to produce either 2 smartphones or 4 pieces of paper. We can conclude from this that France has the absolute advantage over Chile both smartphones and paper. Next, the opportunity cost of producing one smartphone versus one piece of paper is shown.

Opportunity cost	Smartphone	Paper
Chile	2	0.5
France	1.7	0.6

Figure B

Looking at the opportunity cost in Figure B, comparative advantage can be observed. For making 1 smartphone, Chile must give up 2 pieces of paper while France must give up 1.7 pieces of paper; this gives France the comparative advantage in smartphone production. On the other hand for paper, Chile must give up 0.5 smartphones to make a piece of paper while France must give up 0.6, giving Chile the comparative advantage in weapon production- despite France's absolute advantage.

Upon observation of these results, it is clear why globalisation brings benefits to developed and developing countries alike; this is because both countries get to produce what they are comparatively better at than the other country, meaning that relative efficiency is at its highest in both countries.

HISTORY OF GLOBALISATION AND PROTECTIONISM

Many scholars point to the years 1492 and 1498, with the discovery of the New World and its subsequent colonisation, as those which kick started this worldwide phenomenon. This is because of the significance of colonisation; European colonizers of the New World paved the way for new trade relations with settlements across what is now the Americas, allowing for one of the earliest recorded instances of internationalisation of trade. On the other hand, many other scholars believed that there was no globalisation whatsoever in the world economy until the early 1800s; they claimed that there was no evidence of a globally integrated world before the 1490s while there is a wealth of evidence to support the idea that a globalisation explosion occurred in the 1820s. While the 16th century did mark a turning point in the history of trade and humanity, there was certainly no globalisation as seen on a level today, or even 200 years ago, observed in that period. [11]

Before the so-called globalisation 'bang' in the 1820s, [11] protectionism in Europe was rife. In England, there were several very old statutes from the 15th century which banned the importation of a number of items, namely tennis balls and copper rings; in the 16th century, this was updated to include bits, daggers, and pins among other items. [12]

England and France, as well as the Netherlands and Spain, were constantly at war in the 17th and 18th centuries. One profession in particular which was affected by this was the fish trade; war made it even more risky and insurance overheads rose dramatically, putting many fishers out of business. [13] At the end of the 17th century, the government needed money to finance these drawn out wars- this led to the creation of a new tariff structure designed not for economic reasons but as a tool to generate revenue. As a result, duties on imports were practically quadrupled in the years to 1704. [12] Assuming that the opinion held by many scholars that there was no globalisation up to the 1800s is objectively correct, this would have had vast implications for those in Europe at the time. One such example of this would be that foods and drinks that we take for granted now would not be available to those in 16th to 18th century Europe; coffee is grown in South

and Central America, the Caribbean, Africa and Asia and so the average person would not have access to this, while 70% of the world's chocolate is grown in West Africa which meant that chocolate was a luxury that only the wealthy could afford. [14][15] Furthermore, as most if not all items were produced domestically instead of imported because of restrictions and exorbitant tariffs, the ideas of absolute and comparative advantage would not have been put into use in this period. As a result of this, every European country had to settle for producing its own version of every item with their own comparative production inefficiencies, meaning every country was worse off as a result.

Skipping to the late 1990s, just less than a decade after the invention of the World Wide Web, the internet began to take off. With a technology revolution on a scale never seen before, investor confidence boomed. Investors were ready and willing to invest in any dot-com enterprise, meaning that venture capital was easy to raise for these companies. [18] This was only the start of what would be a very large bubble. Between 1995 and 2000, the Nasdaq stock index rose by 400%, reaching a price-earnings ratio of 200 which dwarfed many others at the time. [19] However, with stock bubbles, what rises must also come down; by 2002, at the end of the downturn of the stock market, \$5 trillion in market capitalisation of stocks had been lost since the peak [20] and many early e-commerce sites had shut down owing to the burst.



Shown above is the NASDAQ Composite Index, which spiked in the late 1990s and then crashed due to the

dot-com bubble. This index is a clear indicator of when the bubble occurred and when it bursted. [21]

IS GLOBALISATION DOOMED TO FAIL?

Up until now, the extent to which we are globalised has only been growing. This is easily discernible by looking at the revenues of the world's biggest international corporations. Amazon, for example, generated \$280.5 billion in revenue for the year 2019, compared to \$107 billion 4 years prior [22]. This is a clear sign that we as consumers have a still-growing appetite for globally-sourced items, as Amazon's revenues have steadily grown by 162% in 5 years. Another company which has enormously benefited from globalisation is Apple inc; although its revenue growth has been much less steady than that of Amazon, its revenue has increased by 13% from \$235 billion in 2015 to \$267.7 billion in 2019. [23]

One of the places where many multinational companies opt to source their products from is China, also known as the factory of the world. By sourcing their products from China, international companies save money for a multitude of reasons. Firstly, there is a wealth of cheap labour available to be exploited in China- as one of the world's most populated countries, by law of supply and demand, wages stay low. Secondly, compliance of many laws that are followed in the West governing child labour, involuntary labour, health and safety and pollution is rare in China. Some Chinese factories even have policies dictating that employees only receive one pay per year, disincentivizing them from leaving before they earn their pay. Moreover, China has been accused of artificially depressing the value of its Yuan, making its exports cheaper and hence more attractive. [10] Up until 2016, there has been little evidence suggesting that China is becoming an unattractive location for multinationals, as costs have stayed low and there was little change.

As of 2016, this changed. With Trump voted into office in the USA, accusing China of unfair trading practices and vowing to protect US industry from cheap Chinese competition, his administration imposed tariffs on \$360 billion of Chinese goods, with China retaliating with

tariffs on \$110 billion of American goods. [24] Forbes has reported that US companies are leaving China as a result of the trade war; while many originally sourced from China to save on costs and access an abundance of suppliers, the tariffs imposed by the Trump administration have both increased costs and threatened to disrupt supply chains, which has prompted an exodus from the country. [25]

Furthermore, with international companies placing increasing focus on morality of decision-making, there is an elephant in the room regarding China's labour force which companies are finding increasingly hard to ignore- the issue of oppressed Uighur muslims in Xinjiang autonomous region, China. A coalition of 180 human rights groups has said that many of the world's biggest fashion brands are complicit in forced labour and human rights violations perpetrated on millions of ethnic Uighurs. Dubbed the 'largest internment of an ethnic and religious minority since the second world war', a massive prison system of internment camps and factories houses 1.8 million ethnic Uighurs, Turks and Muslims from which many leading companies continue to source cotton. Just recently, China has come under increased pressure after a video surfaced of what appeared to be shackled and blindfolded Uighur prisoners being loaded onto trains- business leaders can take from that what they want, but to the many this is only all too reminiscent of happenings 80 years ago. [26][27]

However, trade lost from China isn't going back home in most cases. Instead, it's being redirected to other East Asian countries- most notably Vietnam. According to the Vietnam Briefing, its advantages include an efficient and stable governing structure, regulatory and cultural familiarity to businesses used to doing business with China, low wages similar to China and proximity to other supply chains. [28] This makes it a very attractive alternative for US businesses wishing to make a compromise but still save on costs.



As seen in the above graph, trade between Vietnam and the USA has exponentially increased between 2015 and 2019, most notably in exports from Vietnam to the USA. This is a significant observation because it suggests that more trade is being drawn away from China into other East Asian countries, changing the power dynamic in the region. [29]

The biggest issue that has yet to be covered is the Coronavirus pandemic which took the world by storm, acting as a sort of ‘reset button’ for the entirety of our world trade over the course of months in lockdown. When the World Health Organisation declared the situation a global health emergency, this caused a substantial negative impact on the growth of the world economy. Many businesses, including cinemas, restaurants, hotels and shops have been forced to close and are now particularly vulnerable to commercial losses. [30] The International Monetary Fund has stated that global growth is projected at -4.9% for 2020, compared to the plus 3.2% forecast for 2019 in July of

that year. [31] This shows that Coronavirus has pushed back world trade to an extremely large extent- enough to depress the entirety of the world economy by about 5%- which will definitely set back business activity with China as well as with the rest of the world.

The Coronavirus pandemic has also brought to light some psychological effects which have been observed in societies, written about by the BBC; the most notable of which is a supposed fear of outsiders, with heightened distrust and suspicion of others. [32] This could very well play into public opinion regarding economic matters as participants in studies were said to have more conservative views when reminded of the existence of the virus. This could increase the popularity of protectionist measures among an increasingly-conservative population which would inevitably lead to a globalisation backtrack. However, more research is needed into this topic before any conclusive judgements can be made about its effects on human psychology.

FINAL WORDS

It is of the producer’s opinion that globalisation is set to continue as an economic force long into the future. While there has been a rise in protectionism now, there appears to be a cyclical trend in which there are good times and bad times for globalisation- it was championed in the 1950s as the reconstruction of a global economy [33] while it was reviled in the 1990s along with the rise of corporatism. [34] The bad times that we are in now come as a result of radical trade policy and souring of attitudes towards China, and have been exacerbated by the Coronavirus pandemic. Comparing globalisation to the dot-com bubble of the late 1990s, a trade bubble bursting is unlikely to have a cascading impact on all of world trade to an extent where globalisation reverts to medieval-style uber-protectionism; which is an unrealistic view to hold. Therefore, to answer the question, ‘The end of globalisation?’, not by any means.

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