# REVERSAL OF GLOBALIZATION: A CAUSAL PERSPECTIVE

*UtkarshAgrawal*[1]

Globalization is a widely researched and debated topic. However, it is largely explained in terms of its impact rather than it's cause. The causal perspective to globalization, more specifically economic globalization, approaches it as a scientific phenomenon analyzing the three main necessary but not sufficient causes of globalization namely communication, international transportation, capital flow and international trade. Reversibility of globalization is finally reduced to reversibility of one of the said causes and economic globalization is revealed to be reversible phenomenon. Thereafter, arguments are made for such reversal with respect to increasing volatility, greater imbalance and higher income inequality.

There are two aspects that need to be dealt with regard to the reversal of globalization: the possibility of reversal of globalization and whether such reversal is desirable. To answer the first part, one needs to draw onto a specific definition of globalization rather than relying on the broad and vague meaning of the term. Therefore the scope of globalization must be restricted. After restricting the scope, the paper goes on to explore the necessary causes behind globalization and the impact of the reversal of these causes as reversal of globalization.

To determine whether globalization should be reversed would ideally require a cost benefit analysis. However, there have been some obvious benefits of globalization. Global competitiveness has lead to innovation and hence increased the overall efficiency of the system. Further, the advent of the Internet and social networking allows individuals to have a greater impact on the world by providing platform which facilitating exchange of ideas. Therefore, instead of a cost-benefit analysis, to simplify the exercise the paper enumerates some of the systemic adverse impacts of globalization and analyses the need for reversal with respect to those impacts.

[1]Second Year, B.A./ B. Sc. LL.B (Hons) ,West Bengal National University of Judicial Sciences (NUJS).

The paper addresses the reversal of globalization from a completely new perspective. Instead of drawing from the three mainstream view of International Political Economy: Hyperglobalists, Transformationalists and Skeptics, Part I of the paper maps an entirely different perspective to globalization by listing conditions which were necessary for the same and analyzing them. Part II considers the possibility of reversal is then considered in reference to these conditions. Part III chalks out some of the adverse impacts of globalization. Part IV analyzes these impacts to determine the requirement of the reversal of globalization.

## I. Introduction

Globalization is a multifaceted concept. It encompasses a wide array of relations ranging from economic to political to cultural. This has allowed scholars from various fields to define different aspects of globalization, which pertain to their own fields.

Martin Albrow, a sociologist, defined globalization as "processes by which the peoples of the world are incorporated into a single world society."[2]Globalization is also defined as the cultural integration of regional identities and the subsequent emergence of a new identity accelerated by the technological integration brought forward by the expansion of worldwide media and the increased interconnectivity after the emergence of Internet and subsequently social networking.[3] The economic aspect of globalization is evident in the definition put forward by Gilpin (2001): "The integration of the world economy".

Since it is not possible to limit the concept of globalization to one particular field like Economics or Politics or Sociology, globalization is an interdisciplinary study and cannot be limited to any one of the fields. Any attempt to define globalization will be thus be vague in its scope. For example Kenichi Ohmae defined globalization as the

[2]Martin Albrow, "Introduction", In M. Albrow And E. King (Eds.), *Globalization, Knowledge And Society 8* (1990) In R. J. Holton*, Globalization And The Nation-State 15* (1998)
[3]Fredric Jameson, "Notes On Globalization As A Philosophical Issue", In F. Jameson And M. Miyoshi (Eds.), *The Cultures Of Globalization* (1998), In VilashiniCooppan, "World Literature And Global Theory: Comparative Literature For The New Millennium", *Symploke*, Vol. 9, Issue 1-2, 2001, Pp. 15-43, P. 16.

process that ultimately leads to existence of a "borderless world"[4] without individual nation-states. While the definition might be broadly correct, it gives no insight as to what all activities might be included in the definition.

Globalization is, therefore, in essence "a rubric for varied phenomena"[5].

Therefore if we were to consider the question on reversal of globalization, it would require us to limit globalization to just one of its aspects. For the purpose of this paper, we shall only consider only the economic (and the relevant political) aspects of globalization.

Following Gilpin's definition, economic globalization would be defined all activities that contribute to the dilution of the identity of the nation states, like the institution of common currency in Eurozone, emergence of an integrated world economy. This definition much like Ohmae's definition does not provide insight intoactivitiesthat we should consider as an indicator of globalization.Economic Globalization must thus be defined in terms of certain specific indicators.These indicators, which best denote a globalized economy, are the necessarycauses of economic globalization.

## II. Necessary Causes of Economic Globalization:

### Communication

Globalization envisages a 'borderless world'. One of the prerequisites of such a world is efficient communication. Communication allows for exchange of ideas and interaction. Fastand efficient communication can reduce the lag in long distance exchange and facilitate increased social, cultural and economicinteraction.Increased interaction in turn leads to increased integration, which is the primary goal of

---

[4]Ohmae (1990) In Brown, Chris And Ainley, Kristen, *Understanding International Relations* 177 (2009)

[5]James H. Mittelman, "How Does Globalization Really Work", In J. H. Mittelman (Ed.), *Globalization: Critical Reflections 2* (1996) In I. Clark, *Globalization And International Relations Theory 35* (1999)

globalization.Communication is necessary but not sufficient in bringing about globalization.

The invention of a global telegraph network played the central role in bringing about the first wave of globalization.[6]Communication satellites played a similar role in the second waves and Internet in the third wave.[7]The advent of Internet for example has allowed the banking sector to execute transactions across national boundaries with increasing ease and made them truly global institutions. It is thus impossible to imagine the efficient workings of complex financialinstitutions, in place today, without the aid of modern communication and technology.

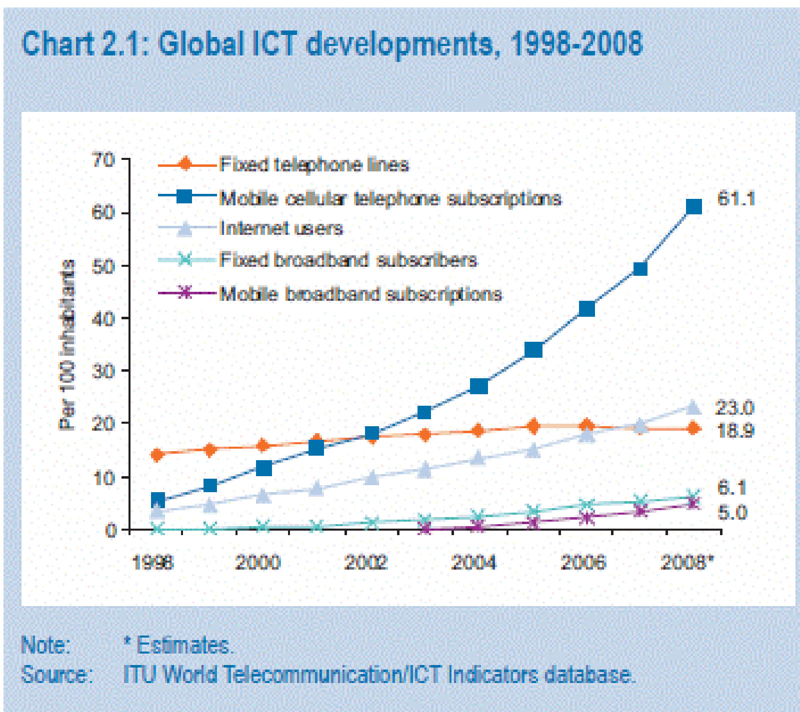



**Figure 1.1**

Figure 1.1 shows a substantial rise use of both cellular and Internet users globallywhich has led to an increasingly globalized and interconnected system from 1998 to 2008.

---

[6] Roland Wenzlhuemer, Connecting The Nineteenth-Century World: The Telegraph And Globalization (2012)

[7]Anders Johnson 2008, *The Three Waves Of Globalisation– Nordregio*Viewed 25 June 2014 <Http://Www.Nordregio.Se/En/Metameny/About-Nordregio/Journal-Of-Nordregio/2008/Journal-Of-Nordregio-No-1-2008/The-Three-Waves-Of-Globalisation/>

## International Transportation

The extremely high and unreliable transportation during before the growth of shipping industry limited the viability of international trade. Advancements in the shipping industry coupled with the construction of Suez Canal and Panama Canal had a significant impact on the growth of international trade.[8]

The standardization of containers, or containerization, in the 1970s[9] has further allowed countries to automate the large parts of the process of international transportation. This has significantly cut down the time and cost required. This dramatic increase in efficiency of international transportation has not only increased global trade but also revolutionized global production. Corporations need no longer limit manufacturing processes to the country of its origin and can shift it to developing countries to enjoy lower labor and taxation costs while accessing global markets.The introduction of air travel has further catalyzed this outsourcing of production by introduction of commercial air travel for passengers, which has reduced the travel time from a few days to a matter of few hours.

Therefore transportation has also lead to development of Multi National Corporations (MNCs), which are the most prominent feature of globalization.

[8] Jean-Paul Rodrigue, *Transportation And Globalization*, Viewed 25 June 2014 < Http://People.Hofstra.Edu/Jean-Paul_Rodrigue/Downloads/Transportation%20and%20globalization.Pdf>

[9] World Shipping Council, *Industry Globalization* Viewed 25 June 2014 < Http://Www.Worldshipping.Org/About-The-Industry/History-Of-Containerization/Industry-Globalization>


**Figure 2.1**

Figure 2.1 shows rise in world trade after containerization, which drastically reduced transportation costs in the 1970s.

### Capital Flow and International Trade

In earlier times, a nation's demand had to be satisfied by its own production and choice of consumption was limited to the variety of that production. However, the growth in world trade,allowed nations to limit production to certain specific commodities and import from the rest of the world (which also substantially increased the choice of consumption). The trade arrangements increasedthe interdependence of nation-states on each other. For example, United States of America, today, is highly dependent on goods exported from China for consumption purposes. This integration of global market is an important indicator of globalization. As the world has become an increasing globalized one, there has been a corresponding increase in world trade.Figure 2.1(above) presents the increase in world trade from the second wave of globalization to the third wave.

Another important component of financial globalization is the capital flow.The integration of global financial markets and the ease of international transactions in the financial channels like banking allow for easy flow of capital between different countries (economies). However, a nation's economy must be open to capital flow. Neoliberalism, closely associated with globalization, entails liberalization, deregulation, free trade and opening of economy.

Having an open economy, allows a country to access capital from international investors or institutions both in the form of Foreign Direct Investments (FDIs) like MNCs establishing manufacturing plants and in Foreign Indirect Investments (FIIs) like portfolio investments. Therefore, there has been an increasing flow in capital across the nations corresponding to increasing globalization.

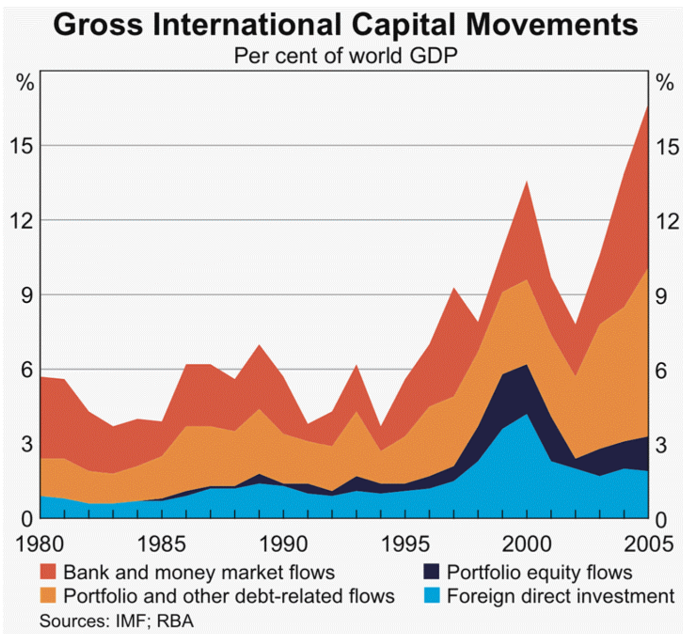



**Figure 3.1**

The advent of the Internet in the 1990s and the third wave of globalization, the international capital movement increased from 6% of the world GDP to 15% of the world GDP. (Figure 3.1)

## III. Can Globalization be reversed?

The poster-boys of economic globalization today are developments of Global Value Chain (GVC), the institution of global regulatory bodies like the WTO and emergence of integrated global markets. These developments can all be traced back to the causes highlighted above. The development of Global Value Chains (GVCs), for example, was only possible cause of the existence of a highly efficient transportation system.While without interdependence cause of increasing global trade, there would be no requirement of an institution like the WTO. Further, the integration of economic markets by means of international capital flow would not have been possible without capital account liberalization.Therefore, economic globalization may be defined as a combined effect of developments in communication and transportation, with growing international trade and substantial international capital flow.Since all there are necessary conditions for globalization, to bring about reversal economic globalization, one would be required toreverse **at least one** of these causes of globalization.Therefore, each one of the causes must be individually considered.

First, the reversal of the development of communication. It is hard to imagine that the world be willing to disregard the technological advancements in the field of communication and go back to primitive means of communication by hand-delivered mail. Moreover, even with the intervention of the state, it is unlikely that the state would shift from a instantaneous mode of communication to an unreliable and inefficient mode of communication. Since efficient communication has been a result of innovation rather than state policy, it is, for all partial purposes, irreversible. However, the state still might be able to partially curtail communication with regulating access to channels of communication like China has with the Internet. Therefore, while the state may reduce and regulate free content available over channels of communication, it cannot completely reverse global communication without resorting to totalitarian regime (which has its own problems in modern times when internationally democracy is promoted).

Second, the reversal development of transportation.Even developments in transportation were a result of innovation. The overall efficiency of the transport system has drastically increased. Therefore, practically, a nation will have to adopt the modern means of transportation. Even this part of the process of globalization does not depend upon policies of the Government and hence is irreversible. However, while the innovation is irreversible, an increase in crude oil prices and subsequent change in transportation costs might make it unviable to pursue global markets. So much so that corporations would then prefer to minimize transportation costs over labour expenses therefore putting an end to GVCs.

Third, the reversal of international trade and capital flow. The two causes listed above namely development of communication and transportation, were essential to the process of globalization and are beyond the control of the state. However, international trade and capital flow are heavily dependent on the policy aspect of the state. A nation-state can today impose capital controls and tariff barriers to regulate both international trade and capital flow. Therefore, in theory, with change in the state's policies, globalization can be reversed.

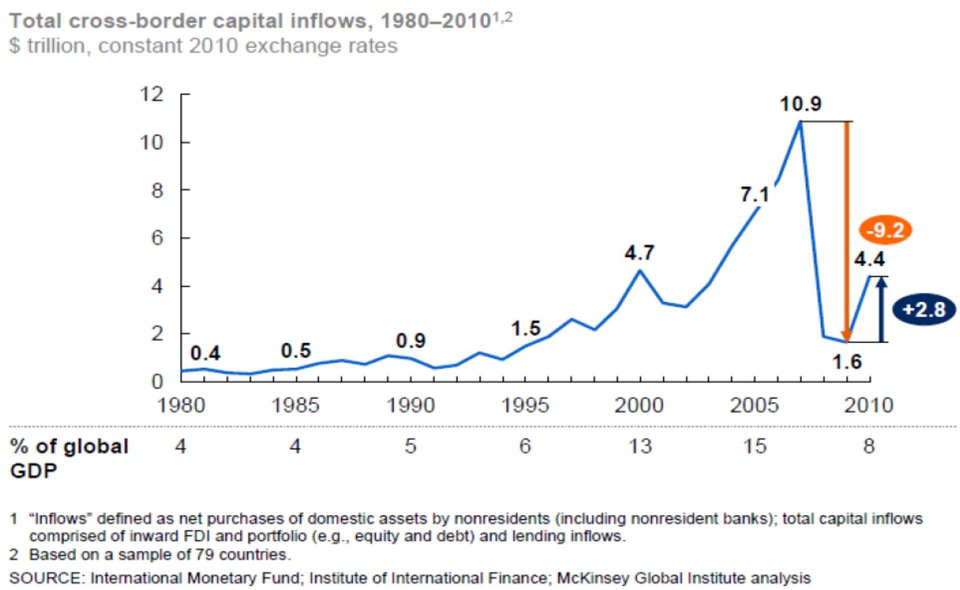



**Figure 4.1**

While it is unlikely that cultural and social globalization will ever be reversed, the idea of reversal of economic globalization is not unimaginable. Primarily cause it is dependent on the economic policies of nations and international cooperation, which can easily be modified with change in circumstances. Secondly, globalization came about cause of certain innovations made it viable to access global markets from any region in the world. However, any external factors, like the price of crude oil, which substantially increases the cost of the access to global market can reverse the entire process like making it unviable for MNCs to shift production. Thirdly, the absence of a strong global regulatory body allows nations to follow their own interests over global cooperation and once the hegemony of America ends, nations would be unwilling to make certain compromises necessary to foster international cooperation. For example more countries will devise a policy like that of the Federal Reserve subsequent to the global financial crisis of 2008 which led to a huge fall in international capital flow, which is one of the most important indicators of globalization. (Figure 4.1) Therefore, economic globalization can be reversed not just by state intervention but by any external factors that might affect even one of its causes listed above.

## IV. Adverse Impacts of Globalization

### Unbalanced Economy

Before the concept of globalization, a nation had an isolated economy and therefore development entailed both increase in consumption and increase in production. However, free trade and exposure to global market made it possible for a nation to simply develop its production capabilities and export goods, which were seen as a mechanism of revenue generation, far exceeding its consumption in the nation.

Due to mishandling of the1997Asian financial crisis by the IMF, Asian countries began to mistrust foreign capital as a source of finance. In order to not to rely on foreign borrowing in the future, which was the cause of the 1997 crisis, these countries began streamlining its export industry to generate trade surpluses. Generating trade surpluses allowed the economies to maintain extremely high growth rates and maintain very high reserves of foreign reserve currency thus eliminating the need for foreign borrowing. This allowed East Asian nations to develop very quickly.

However, focus on maintaining very high growth rate made these economies concentrate only on the export to foreign markets for its revenue without developing the domestic market. Therefore, these countries were left with under-developed domestic markets with very low consumption. [10] Further, only the infrastructure pertaining to export was properly developed and other infrastructures were neglected.

Initially, while these export-based economies were small, the world could accommodate their surplus goods. However, as the economies grew, it became increasing difficult to create significant demand for their goods. Export dependent countries like Japan, China, Germany, Singapore, Thailand and Taiwan have thus become heavily dependent on the rest of the world for creating demand for their goods and services (since their domestic demand is low).

Further, the trade surplus generated byexports is invested into the sophisticated financial systems of developed countries like USA or UK. These surpluses, available in the form of cheap credit, lead toa debt-fuelled consumption of the same exported goods much like the petrodollar recycling.A consequence of the cheap credit and debt-fuelled consumption is increasingbubbles in asset prices in developed nations, which eventually lead to a recession much like the Global Financial Recession of 2008.Moreover, since these countries are entirely dependent on their exports, they cannot stimulate a recovery from the crisis and rely on the rest of the world to recreate demand for recovery.[11]

Therefore, globalization has lead to an extremely unbalanced global economy.

---

[10] Raghuram G. Rajan, Fault Lines: How Hidden Fractures Still Threaten The World Economy (2011) 104

[11] Raghuram G. Rajan, Fault Lines: How Hidden Fractures Still Threaten The World Economy (2011) 104

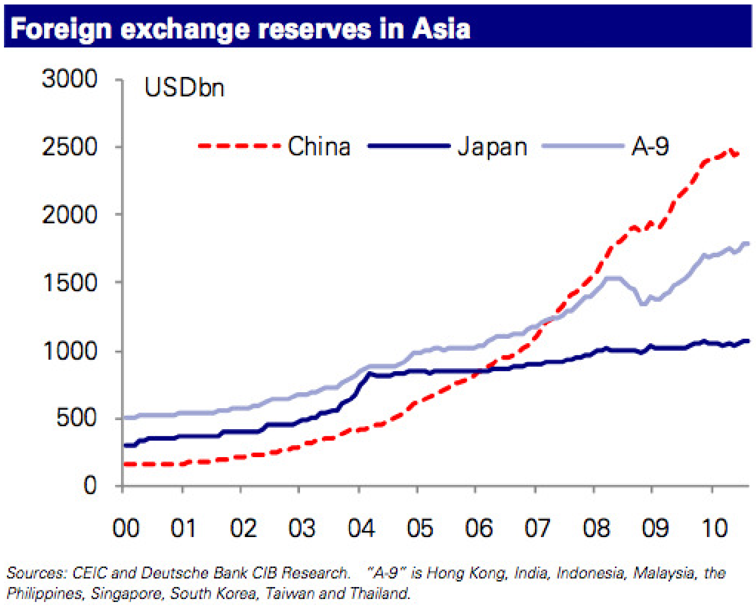



Figure 5.1

There is a marked increased the amount of foreign exchange reserves accumulated by the Asian economies since the 1997 crisis (Figure 5.1). This is primarily due to high trade surpluses by very high exports.

## VOLATILITY IN INTEGRATED GLOBAL FINANCIAL ECONOMY

Over the years, global financial economy has become increasing integrated. Today, a policy change in any country in the world is bound to have repercussion throughout the globe albeit with varying intensity. However, if there is a change in the policy of a powerful economy like the US, there will be significant spillover effects in the global economy. This volatility is cause of many factors out of which one of the most important is the international capital flow. Despite being privy to the spillover effect of its policies, a nation frequently acts from selfish interest without proper regard to the impact on world economy. The lack of a powerful global regulatory body further aggravates the problem, as it allows the country to take arbitrary policy decisions.

The United States Federal Reserve, after the 2008 financial crisis, followed a policy of Quantitative Easing (QE). QE allowed the Federal Reserve to introduce liquidity into the market creating additional currency. It also cut down federal interest rates to near zero in order to resuscitate the financial market. As the liquidity in the markets increased, capital began to flow from US to other developing countries like India, Turkey in search of better returns. This in turn led to an appreciation in the respective currencies of the countries. However, as US markets showed signs of recovering, the Federal Reserves began tapering QE (June, 2013) and increasing interest rates. The volatile international capital began to flow back into US markets from the developing countries. This led to sudden depreciation in the currencies of developing countries, which was followed by very high inflation in consumer products. After the announcement of tapering in June 2010, Indian National Rupee (INR) suddenly devalued by over 10%. (Figure 6.1) Since developing countries are export-oriented economies, the change in valuation of their currency has a significant impact on the exports and therefore the overall development.

The measure of Federal Reserve, in pursuing its own selfish interest, was largely focused on reviving the US economy and was unconcerned about the impact on developing nations. Globalization has led to an integrated economy however, there has been no equivalent development of common regulations and hence countries are left to follow their own policies, which have made the global economy extremely volatile.


USD v INR

Source: Bloomberg <http://www.bloomberg.com/quote/USDINR:CUR/chart>

Figure 6.1

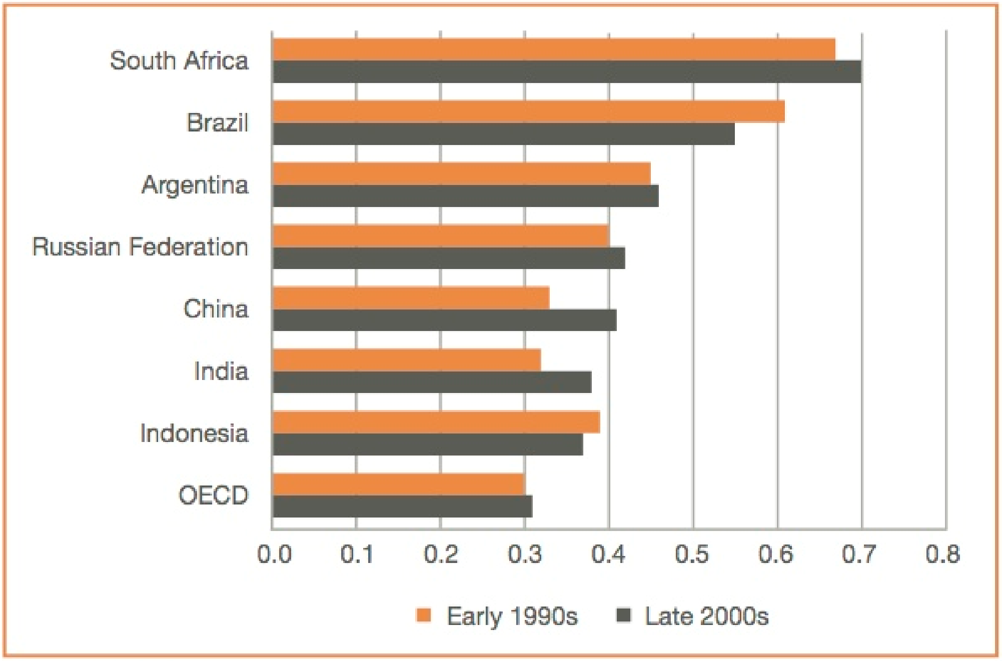
**Income Inequality**

The decrease in transportation costs and reduction in tariff barriers allowed MNCs to access the unskilled labour capital in developing countries like India and Bangladesh. Thus a demand is created for unskilled labour, which are generally at the bottom of the income distribution, in the labour intensive industries setup by these MNCs. This helps reduced not just poverty but also inequality. Therefore, globalization is believed to have reduced poverty in emerging countries. However, according to Figure 7.1, which denotes the Gini Coefficient (a measure of inequality), the levels of inequality have increased in the third wave of globalization.

While, initially globalization might have helped decrease inequality, it now has the opposite effect with increasing income inequality. The third wave of globalization is a result of the advancements in technology and have invented more efficient manner of production characterized by automation of processes. This has reduced the demand for unskilled labour and has replaced it with a demand, for highly skilled labour to manage the technology being used. Highly skilled labour is paid much higher wages,as its supply is much lower (especially in developing countries) than that of unskilled labour. [12]

Therefore, globalization has led to growing inequality in the emerging countries.

[12]Will Straw And Alex Glennie, January 2012, *The Third Wave Of Globalization*, Institute for Public Policy Research (IPPR), London.




Source: OECD 2011b
Notes: Figures for the early 1990s generally refer to 1993, whereas figures for the late 2000s generally refer to 2008.

Figure 7.1

## V. Should Globalization be reversed?

Globalization has ushered into a new era. It has not just impacted us economically, but also socially in various ways. If we consider all the aspects of globalization – economic, political and social, it would be difficult to imagine the reversal of globalization without irreparable harm to even an individual. However, since this paper is limited to Economic Globalization, rather international capital flow and free trade (causes which can be reversed by policy changes), it is possible to envisage substantial amount of reversal. Therefore, there is a need to analyze the aforementioned problems associated with this phenomenon.

First, imbalanced economy of export-oriented countries.Global Trade, while allowing a nation to maintain its trade reserve as positive or negative, gave rise to a new global entity that need to have the sum total of imports and exports across the globe as zero. Since, the global entity comprised of individual nations, if one nation was to have high positive trade surplus, another nation must equivalently have negative trade reserve. Therefore, individual export based economies grew at the cost of economies which ran huge trade deficits due to high consumption.It is however, an unsustainable model of growth, which favours few nations at the cost of many and unless, the world economy is more balanced, it will be plagued by volatility. However, while imbalance economy may lead to dire consequences in the future, it can be resolved by certain measures that discourage overdependence on exports for growth. One such measure might be to induce limitation in the quantity of import for a particular good from a specific country. Therefore, as an imbalance economy in not an unsolvable problem, it is not a sufficient enough reason to bring about the reversal of globalization.

Second, volatility in global markets. The main reason for volatility in global markets is the unrestricted flow of international capital. For example, the huge amount of capital that flows in and out of an emerging country in short terms adversely affects the economy of the country. The lack of a coordinated national economic and monetary policy is also an important cause of volatility. However, this problem only requires a strong regulatory body for coordination of national monetary and financial policies (like capital control regulations for emerging countries) to minimized adverse spill over effects of individual policies. Even the US Federal Reserve can assume the role by being more inclusive and taking in account the global impact of its policies. Therefore, even volatility in global market does not require a step as extreme as the reversal of globalization.

Third, growing inequality. Inequality is in itself not an issue. It is the problems associated with the inequality that are undesirable. High levels of inequality lead to extremely disproportionate consumption at the top income levels and thus reduce the resources available to the lowest income level. This leads to increased competition for the resources available to the rest, which in turn leads to social unrest (which may aggravate into class conflict as predicted by Marx). Even inequality does not require reversal and can be tackled with progressive taxation and welfare reforms by the state.

## VI. Conclusion

Globalization is a diverse concept. The scope of economic globalization itself is extremely wide and vague. Thus, it is not possible to calculate the degree of globalization and must therefore be measure in terms of suitable indicators that are the necessary causes of globalization. Since the causes are necessary causes of globalization, the reversal of anyone of these causes would mean reversal of globalization. Two of the four causes namely global trade and international capital, can be reversed by national policy decisions. Therefore, the process of globalization can be reversed. The possibility of reversal is not limited to individual national policies and may also be a result of market forces such as increase in the price of crude oil, which will in turn increase transportation costs.

The question as to whether globalization should actually be reversed requires a lot more analysis. However, for the sake of simplicity, the paper has enumerated and analyzed the systemic problems: Increasing Inequality, Volatility, and Imbalanced economy. All these adverse systemic consequences of globalization demand immediate and serious attention. However, there are alternate means to deal with the same and there is no need to resort to a step as drastic as the reversal of globalization. While certain steps to deal with the problems like regulation of capital control may to some extent be construed as reversal of globalization, it is not the same as complete reversal of globalization and the basic change in the economic structure of the nations brought about by globalization need not be reversed.

## VII. BIBLIOGRAPHY

Martin Albrow, "Introduction", In M. AlbrowAnd E. King (Eds.), *Globalization, Knowledge And Society 8* (1990) In R. J. Holton*, Globalization And The Nation-State 15* (1998)

Fredric Jameson, "Notes On Globalization As A Philosophical Issue", In F. Jameson And M. Miyoshi (Eds.), *The Cultures Of Globalization* (1998), In VilashiniCooppan, "World Literature And Global Theory: Comparative Literature For The New

Millennium", *Symploke*, Vol. 9, Issue 1-2, 2001, Pp. 15-43, P. 16.
Ohmae (1990) In Brown, Chris AndAinley, Kristen, *Understanding International Relations* 177 (2009)

James H. Mittelman, "How Does Globalization Really Work", In J. H. Mittelman (Ed.), *Globalization: Critical Reflections 2* (1996) In I. Clark, *Globalization And International Relations Theory 35* (1999)

Roland Wenzlhuemer, Connecting The Nineteenth-Century World: The Telegraph And Globalization (2012)

Anders Johnson 2008, *The Three Waves Of Globalisation– Nordregio*Viewed 25 June 2014 Http://Www.Nordregio.Se/En/Metameny/About-Nordregio/Journal-Of-Nordregio/2008/Journal-Of-Nordregio-No-1-2008/The-Three-Waves-Of-Globalisation/

Jean-Paul Rodrigue, *Transportation And Globalization*, Viewed 25 June 2014 < Http://People.Hofstra.Edu/Jean-Paul_Rodrigue/Downloads/Transportation%20and%20globalization.Pdf

World Shipping Council, *Industry Globalization* Viewed 25 June 2014 <Http://Www.Worldshipping.Org/About-The-Industry/History-Of-Containerization/Industry-Globalization>

Raghuram G. Rajan, Fault Lines: How Hidden Fractures Still Threaten The World Economy (2011) 104

Will Straw And Alex Glennie, January 2012, *The Third Wave Of Globalization*, Institute for Public Policy Research (IPPR), London.