

Is Globalization Dying or Just Having Growing Pains?

Bradford R. Frazier, Ph.D.

Belmont Abbey College
United States of America

Alan R. Belcher, Ph.D.

Ashford University
United States of America

CASE DESCRIPTION

The primary subject matter of this case concerns the future outlook for globalization in light of the rapid economic development of other emerging economies worldwide. Secondary issues examined are the historical impact of protectionist trade policy and a prediction of how the global trade landscape may develop in the future. The case has a difficulty level of three to four (juniors and seniors) and is appropriate for undergraduate classes in International Business or Global Management. The case is designed to be taught in two 50 minute class periods and is expected to require two to three hours of outside preparation by students.

CASE SYNOPSIS

Globalization has grown dramatically around the globe over the past 30 years. Today, countries that traditionally were manufacturing stalwarts find themselves unable to compete with China, India, and other developing countries due to comparatively inexpensive labor. Consumers worldwide show an insatiable thirst for cheap DVD players, computers, furniture, clothing, and other consumer goods. This shift has created booming economies for some developing countries at the cost of others. High labor cost and the rise of some protectionist policies only accelerate this phenomenon. Is globalization dying? It shows no sign of slowing; however, the landscape and position of many countries may change substantially in the future. This case study examines current literature and data on global trade and examines the shift in manufacturing economies around the globe.

Introduction

Dating back centuries, countries around the world traded with one another to obtain goods that they were unable to produce or procure themselves. The Silk Road, beginning around 200 B.C., allowed Asian-area countries to trade silk, spices, and other goods with Europe and other regions. Today, the Silk Road is still visible in trading patterns. Over the centuries, as shipping and other logistical technologies developed, goods were bought and sold around the globe. Historically, this international trade provided not only a variety of goods unavailable in domestic markets, it also resulted in significant economic growth of trading countries.

Is Globalization Dying or Alive and Well?

In 1999, Kofi Annan, former Secretary General of the United Nations declared, “Globalization is an irreversible process, not an option,” (Livesay, 2017, p. 3). More recently, in 2017, Chinese President Xi Jinping stated the following in Davos at the World Economic Forum Annual Meeting:

“Whether you like it or not, the global economy is the big ocean that you cannot escape from. Any attempt to cut off the flow of capital, technologies, products, industries and people between economies, and channel the waters in the ocean back into isolated lakes and creeks is simply not possible,” (Livesay, 2017, pp. 173-174).

The growth of globalization and international trade, however beneficial economically, has not been without opponents who point out some undeniably negative impacts on global trade. Branko Milanovic, a scholar of economics and inequality, stated that globalization created both “big winners and – at least in relative terms – substantial losers...Globalization might work, but it hasn’t worked for everyone,” (King, 2017, pp. 107-108). Indeed, much passionate debate has occurred on both sides with some suggesting that globalization cannot be stopped, while others argue that it is not a foregone conclusion. Other stakeholders laud the praises of international trade while others curse its hypocrisy.

Many believe that globalization is dead, or at the least, dying. Jacoby (2018) asserts that globalization is on “life support.” He states, “...globalization had a heart attack when the United Kingdom voted to exit the European Union (EU), and died when (the U.S.) withdrew from the Trans-Pacific Partnership (TPP) and the Paris climate accord,” (p.60). While King (2017) suggests that we have indeed reached the end of a globalization era, many others suggest that it is simply too deeply knitted into the fabric of the world to change.

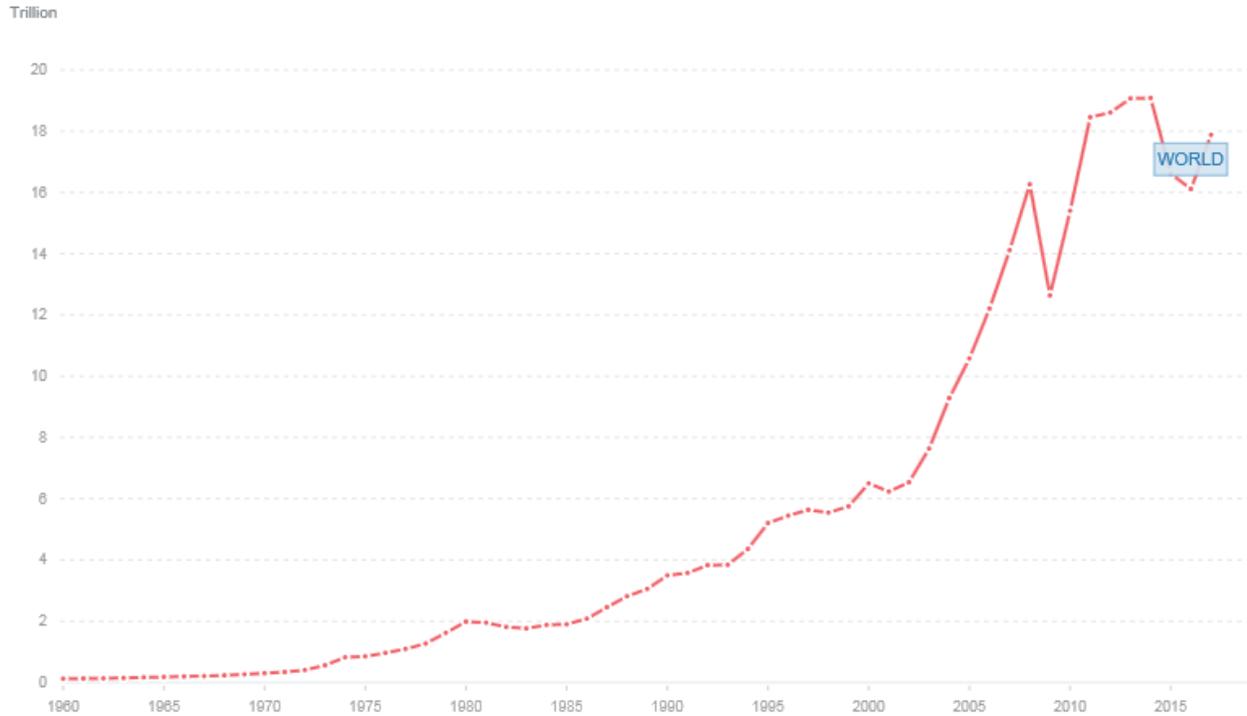
History demonstrates how pervasive globalization has become in the production of many goods and services. Glance at any common consumer items (a shirt, tie, cell phone, umbrella, etc.), and it will most likely reflect the “made in” statement indicates that the product was made somewhere other than one’s home country. Arguably, this demand for inexpensive consumer goods has driven globalization and resulted in supply chains spread across the globe. This expansion began to come into question after the 2008 worldwide financial crisis.

The devastating effects of the financial crisis caused many countries to reflect internally on the validity and value of global trade. For the first time in many decades, some political candidates around the world began to run on a platform of protectionism and nationalism. Many called for an end to globalization and a return to autarky or independence regarding trade. Aside from the implications on immigration, these isolationist opinions should be examined closely. Historical lessons gleaned from the adoption of populist ideas include unintended consequences.

Livesay (2017) indicates that this dramatic shift has occurred over a long time. He asserts there was no “shock” event that led to globalization. Rather, the growth accelerated in the 1970’s leading to diverse globalization today. He reminds readers that Smith’s theory of absolute advantage contributed greatly to the phenomenon, suggesting that countries specialize in what they can produce cheaper than any other country and trade this for other goods from other countries. Facing enormous competitive and price pressures, companies have increasingly expanded to take advantage of cheap labor abroad.

According to the World Bank (2018), the volume of global trade has continued to increase, despite the negative effect of the global recession in 2008. Figure 1 below shows that merchandise exports (in U.S. dollars) increased to pre-recession levels. This pattern suggests that global trade will continue on an upward trajectory in the future.

Figure 1: MERCHANDISE EXPORTS (Current US\$)



Note: Reprinted from <https://data.worldbank.org/indicator/TX.VAL.MRCH.CD.WT>

Fishman (2005) puts forth the argument of how China has grown quickly into a manufacturing heavyweight and has surged more dramatically than any other country in modern history. China has been able to displace manufacturing effectively from many countries due to huge factories and inexpensive labor. “China is winning because it can make what others did for less money,” (p. 13). The worldwide demand for inexpensive goods will continue to drive business to countries that can produce similar products for much less money.

Protectionism and Nationalism

Protectionist policy is nothing new. During the great depression, the United States adopted a protectionist stance of global trade. The Hawley-Smoot Act of 1930 is eerily similar to recent trade policies. And while the United States did rebound, the short-term effect on the economy was negative.

James (2001) writes, “In almost every country globalization almost immediately produced demands for protection from the effects of changes and crises coming from the outside,” (p. 13). He points out that protective tariffs in Europe were a direct response to the reduction of cost of freight shipping and the fall of grain prices in the 1870’s. Thus, today’s protectionist leanings are most likely a result of the population’s blaming globalization for their economic ills.

In this Focus Economics article, Rutgers University Assistant Professor of Finance and Economics Guarino (2018) recalls the words of the French economist Frederic Bastiat’s statement, “When goods do not cross borders, soldiers will. In his article, he describes the purposes of protectionism policy (protecting industry and jobs, national security, protection of consumers, and the infant industry argument), as well as the effects of protectionism (limited choice of products and services for consumers, infant industry may never mature, exchange rate controls resulting in inflation, and trade wars). He summarizes that while often used with the best of intentions, protectionism does more harm than good. He writes, “In sum, trade protection should be considered very carefully due to the dangerous repercussions it could have on a domestic economy and globally.”

Ryan (2017) echoes this sentiment with an example of the auto industry in the United States from 1981-1984. He explains that import quotas were imposed on Japanese cars which, initially, resulted in the savings of 22,000 U.S. auto manufacturing jobs. Later, however, the result was a 41% increase in the cost of new cars. Ultimately, this led to reduced demand for new cars and huge manufacturing jobs were lost as a result.

A common economic argument to consider is the theory of absolute advantage. This theory, put forth by economist Adam Smith, states that every nation has a product or service that it can produce/supply more efficiently than any other. Therefore, every nation should specialize and produce as much as possible of these products/services, and then trade the excess for goods that they cannot produce as efficiently (Hill 2015). Dinescu (2017) supports this position and suggests that it is the most prudent approach for global trade. He writes, "Globalization implies that the entire world is one market, an opportunity for all to trade in those areas in which they are more *efficient* (emphasis added) than others," (p. 32).

In practice, especially for small or poor countries, the practice of absolute advantage has significant economic potential implications in the form of bringing new jobs and incomes to these countries. This results in three outcomes: awareness of global issues which require solutions, helps improve human rights in countries that are lacking, and improvement in the international free flow of capital into areas that desperately need it (Dinescu, 2017).

In the United States, protectionist policy is also occurring with new tariffs on Chinese imports, the attempt to renegotiate and significantly change NAFTA, and a withdrawal from the Trans Pacific Partnership (TPP). Tankersley and Bradsher (2018) report that new tariffs have been levied on over \$200 billion of Chinese imports and will impact almost half of all of the goods imported from China annually. Ford Motor Company has indicated that the new tariffs levied against metal imports has already cost it more than \$1 billion in profits and lost sales in China (Ferris, 2018).

Unintended Consequences

According to Palmer, Dunford, and Gib (2009), those who undertake change initiatives, in any form, are wise to take a cautionary approach to avoid unintended consequences. They continue, "Unless one adopts a very mechanistic notion of the management of change...there are likely to be, in the context of most change programs, some unanticipated consequences," (p.367). These consequences can be actions that reinforce outcomes that the change seeks or counteracting outcomes that do not reinforce the change being pursued.

One of the most common unintended consequences that occurs in change management for business is escalation of commitment whereby an action or change is continually pursued, expending scarce resources, even when it is known that the initiative or project has no realistic chance of success (Palmer, Dunford, & Gib, 2009). With protectionist economic policy, and the ensuing trade wars, it becomes very likely that escalation of commitment will occur resulting in a pyrrhic victory that ultimately results in inflation and higher prices.

One of the most immediate consequences of protectionist economic policy, and often overlooked, is retaliation. The most predictable response from global trading partners is to simply respond to tariffs with tariffs of their own. This will result in higher consumer prices, increased inflation, and a reduction in available goods and services. While the United States, for example, is capable of producing oil and gas, it is much more economical to trade goods and services where there is an absolute advantage for oil and gas. The consumers, as a result, will enjoy lower fuel costs.

Another potential consequence is isolation from the world stage. The economic engine of world trade continues to run and seek efficiencies. With the current excess of inexpensive labor in various countries around the world, businesses will most likely continue to focus on cost controls. Attempts of protectionism may simply cause businesses to seek supply chains elsewhere, effectively passing by some countries that will not bend to economic pressures.

The inter-connectedness of globalization also carries risk. For example, the sub-prime lending bubble's burst which efficiently froze credit markets and annihilated the U.S. economy quickly spread around the globe like a virus. With so many large corporations dependent on distant countries for supply chain, a catastrophe or unexpected political unrest could significantly disrupt supply chains quickly around the globe.

Summary and Conclusions

Palmer, Dunford, and Gib (2009) suggest strategies to reduce the possibility of unintended consequences, which are quite applicable to international trade and economic policy. First, be cognizant of limitations of measurement. One common pitfall is premature measurement whereby success is declared after a short term change. Change is most effectively measured over time. Change often does not flow in a linear way.

While it is important to celebrate short term wins, do not declare victory too soon. This is critically important to trade policy. Often, policy makers, with the best intentions, see initial progress in policy and quickly move on to the next topic at hand. International trade policy, with its many and complicated aspects, is ripe for unintended consequences. As Livesay (2017) describes:

“Here is the coming conflict – between the political climate of populism and nationalism and the reality that companies see as they attempt to achieve some advantage in the global economy. One system is retreating behind strong borders while the other is attempting to work at the appropriate level whether that is within or between countries. And if the resolution of this tension is to have any stability it has to take on board the mistakes to the losers in the rise of globalization,” (p. 178).

It remains to be seen what the consequences and outcomes will be on the growing sentiment of nationalism and protectionism related to global trade. While most research and writings suggest an inability to completely reverse the trend, what is apparent is that the role the United States plays may no longer be the deciding factor. Other emerging nations will continue to play a larger part in the global trade picture.

Zakaria (2008) echoes this evaluation. While the United States has been seen as the leader of the world in trade and Foreign Direct Investment (FDI) since World War II, other countries now have large, growing economies that threaten to overtake the U.S. lead spot. He describes that this is not a decline of America, rather it is “the rise of everyone else,” (p. 1). Location economies and economies of scale continue to result in manufacturing jobs to continue to be done in countries with large, inexpensive labor pools. BRIC (Brazil, Russia, India, and China) nations continue to show incredible economic growth. While such dramatic growth in countries such as China and India may not be able to sustain such growth levels, their percentage of the world GDP continues to increase.

Is globalization dying? Most likely it is not. However, it is evolving and may well look much different than it has been in the past 50 years. Other countries will begin to take a larger role in global trade due to the benefit of large populations and cheap labor. It is critical that leaders around the world carefully consider the costs and benefits of the reduction in global trade to avert potential negative economic impacts.

WRITING ASSIGNMENTS AND ACTIVITIES WITH TEACHING NOTE FOR INSTRUCTORS USE IN THE CLASSROOM

Case Discussion Questions

1. The case provides examples of protectionism from history. What similarities and differences are apparent in the current examples of protectionism specific to the United States?
2. Discuss the potential unintended consequences of the tariff trade war currently going on between the U.S. and China.
3. Discuss the implications of reduction of regional economic integrating trading pacts on globalization.
4. Discuss the theory of absolute advantage related to the current state of globalization.
5. In your opinion, do you foresee the U.S. taking a smaller role in global trade in the future? Explain your position.
6. Discuss the pros and cons of tariffs for: a) an importer, b) an exporter, and c) the end consumer.
7. What options do countries have if their major industries are offshored or move to other locations?

Optional In Class Exercise

Divide the class into three groups: one pro international trade, one against international trade, and one observer/judge group. Have each group prepare statements discussing the pros or cons of global trade. Allow students time after opening remarks to prepare a rebuttal to the opposing team’s position. Allow this exercise to continue back and forth for a few rounds. The observer group will convene and render a decision on which team has provided the most compelling argument(s).

Clearly, there are strong opinions on both sides of this topic. Many constituencies have passionate opinions on globalization and global trade. Force placing students into one of two sides of this argument will often create some discomfort for the students who may find themselves arguing a position with which they personally do not agree. This debate in class always creates some spirited conversation. Students are able to understand and appreciate all the obvious and, often, the subtle peripheral consequences that occur as a result of global trade.

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