

Pompeo Della Posta

The Economics of Globalization

An Introduction

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Imagine

Imagine there's no heaven,
it's easy if you try,
no hell below us,
above us only sky.
Imagine all the people,
living for today.

Imagine there's no countries,
it isn't hard to do,
nothing to kill or die for,
and no religion too.
Imagine all the people,
living life in peace.

You may say I'm a dreamer
but I'm not the only one
I hope some day you'll join us,
and the world will be as one.

Imagine no possessions,
I wonder if you can,
no need for greed or hunger,
a brotherhood of man.
Imagine all the people,
sharing all the world.

You may say I'm a dreamer ...

John Lennon

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Preface

This book is part of a long-standing project. I started dealing with the issue of globalization in 2007, when I co-edited a Springer-Italia book (written in Italian) titled *Effetti, Potenzialità e Limiti della Globalizzazione: una Visione Multidisciplinare*, where I also contributed with a chapter on economic globalization. Then, in 2008, I wrote a chapter on “Globalization, social standards and child labor”, still in Italian, in an edited volume, and in 2009 I co-edited the Palgrave-Macmillan book *Globalization, Development and Integration: a European Perspective*, where I also wrote the Chapter “Asymmetric globalization: theoretical principles and practical behaviors guiding markets liberalization”.

It is after the publication of that volume that I started working on a book on economic globalization. I hoped to complete it by the end of my sabbatical year, in 2010. Unfortunately, this was not the case, because, apart from the additional commitments that I took and projects that I started, the more I was reading articles and books and the more I was discovering issues and topics to add, so that inevitably its structure kept increasing and at some point I really felt overwhelmed by the material to be covered.

As a matter of fact, dealing with economic globalization means not only to define it; to discuss its origins; to go back to identify the previous historical phases characterizing it; to wonder what is the best periodization that could be made of it; and finally to analyze it through the lenses of the main markets characterizing it – goods and services, labor and capital, discussing also the hot topic of protectionism – or comparing the different approaches to globalization of the most important scholars in this field, as I do in this introductory book.

It also implies discussing world poverty and inequality; analyzing its effects on social and environmental standards both in developed and in less developed countries; evaluating the role played by the international economic organizations – IMF, WB, WTO – and by the United Nations (by looking for example at what the ‘Washington consensus’ implied, at the success or failure of the UN’s 2000 Millennium Development Goals and at the perspectives of the current Sustainable Development Goals defined by the 2030 Agenda); verifying the part taken by multinational

companies in determining the global value chain and, as a result, in shaping the world economy; highlighting the role of civil society, of non-governmental organizations and of stakeholders in trying to govern it; understanding the way the world integrates – whether through multilateralism or through regionalism – or the way it steps back, as it seems to be the case in the current phase.

The reference that I just made to the current situation, in which a retrenchment of globalization seems to be taking place, allows me to report a short anecdote, that I have already had the opportunity to write as a comment to the article “Marcello de Cecco, 1939-2016” written by Domenico Mario Nuti on his blogspot (“Transition”) on Monday, September 16, 2016, and available at the web address: <https://dmarionuti.blogspot.it/2016/09/>. In his article, prof. Nuti described the intellectual profile of the late Marcello de Cecco, that I also had the fortune to meet in my academic career (although shortly, given that he was leaving the EUI in Florence when I was starting my doctoral studies there). Nuti reported many brilliant anecdotes on the time prof. de Cecco spent in Cambridge, Siena, Florence and Rome, and I felt reporting an additional one, which is strictly related to globalization and to his ability to interpret it. Here it is: “I can only add a little story. I saw him maybe 3-4 years ago and, knowing that I was in the process of writing a book on globalization (that hasn’t come out yet...), the first thing he told me (with his well-known way of speaking) was: ‘Della Posta, hurry up with that book on globalization, because it is not going to last for long!’. I was a bit surprised then, but now I understand how clearly he could see things in advance...”.

Yes, Marcello de Cecco, by looking at globalization through the lenses of history, knew very well that it doesn’t respond to Mrs. Thatcher’s TI-NA (There-Is-No-Alternative) paradigm, and that like any other human phenomenon it could keep going for a short or for a long time, but it could also change direction at some point, as it had been the case at the beginning of the 20th century. He was able, therefore, ahead of many of us, to spot the first signs of a slowdown that is now appearing clearly in front of our eyes.

But let us go back to this book, on which I have kept working over the past years at regular intervals.

I have decided to publish the work that I have done so far first of all for the renewed attention that globalization is receiving in these days, given its current critical phase; and second because, considering the large amount of work that is still necessary to deal with all the aspects of globalization mentioned above (although many parts are already there), I wanted to make visible to the scientific community to which I belong the work done so far. But this has been only possible because the topics contained in this

book provide a natural and self-contained introduction to the study of the economics of globalization, since they lay down its foundations and provide the basic knowledge and insights one needs to have in order to address most of the controversies that it inevitably raises.

A lot more remains to be done, and I am looking forward to it.

Pompeo Della Posta

Calci, 5 January 2018

Acknowledgements

While I have large academic debts with the many professors and colleagues that I have had the chance to meet over the many years of my academic career and that I have already thanked elsewhere, here I should focus on the subset of them that has played a part in helping me to create the conditions for writing this book.

At the beginning of the year 2000s, for example, I was given by Giorgio Gallo and Fabio Tarini the opportunity to teach, together with Maria Laura Ruiz, an Economics course to the students enrolled in the interdisciplinary degree of 'Scienze per la Pace', offered by the University of Pisa. I started this experience giving a course on basic Micro/Macroeconomics, but only a couple of years later I started teaching a course on *Economic Globalization*, for which I started selecting and adapting the material that I had been teaching in my previous courses on *International Economics*, *International Monetary Economics*, but also *International Business* or, later on, *Development Economics* (that I have taught in China to the students of the Beijing Normal University).

For my first works on globalization in 2007 and 2008 I need to thank, among others, Anna Maria Rossi and Enza Pellegrin. The 2009 volume mentioned in the preface, that I co-edited with Amy Verdun and Milica Uvalic saw the participation of many colleagues (most of whom also took part in a quite interesting and, if I may say it, very successful interdisciplinary conference organized by the EUI Alumni at the European University Institute in Florence), including, among others, Annette Bongardt, Alessandro Cigno, Elisabetta Croci Angelini, Paul De Grauwe, Francesco Farina, Giovanni Federico, Giorgia Giovannetti, Francesca Martines, Domenico Mario Nuti, Philippe Schmitter, Susan Senior Nello, Teodoro Dario Togati, Francisco Torres, Alessandro Vercelli, Stefano Zamagni. Special thanks go to the latter for having written the foreword of that book, but I am equally grateful to all other participants.

A couple of preliminary versions of the chapters composing this book have also been presented at some of the conferences of the International Trade and Finance Association that I have attended almost regularly over the last 12 years. My sincere gratitude goes to the colleagues belonging to that association, and in particular to Sarah Bryant, Al Eckes, André

Fourçans, Jorge Gonzales, Joseph Pelzman, Scheherazade Rehman, Dominick Salvatore, Radu Vranceanu, Thierry Warin, and a very special thought goes to the late Mordecai 'Max' Kreinin, who has been one of the main driving forces of the association for many years and whose positive attitude, equilibrium and lucidity of analysis will be sorely missed. I learnt a lot from the discussions that I have had over these years with most of them although, of course, our views on the process of globalization did not always coincide.

Many thanks also to my Departmental colleagues in Pisa and to the members of the Associazione Italiana per lo Studio dei Sistemi Economici Comparati (AISSEC), where I have also presented some preliminary parts of the work composing this book.

I have had useful discussions about globalization also with Partha Sen, who gave some lectures on this topic here in Pisa many years ago and that I have had the privilege to meet regularly over the years, and with Biliang Hu, of Beijing Normal University, where I have been teaching from 2011 to 2015 different courses, including Development Economics, that helped me to focus more closely on some of the points to be developed in my book.

Thanks also to Giovanni Bernardi, Niccolò Galasso and Michele Gemelli for their help in updating some data, figures and references.

Introduction

The main objective of this book is to provide a general and introductory overview on economic globalization, a theme that is hotly debated for its many different implications.

In the volume I make any effort to provide both the arguments supporting it and those suggesting a more critical approach. Weighting those arguments, so as to reach one conclusion or the others, though, is a task that I leave to the reader.

In dealing with the issue of economic globalization, as in many others, unfortunately quite often we (economists) consider an ideal world in which things should work as our model – rather than reality – suggests, and if by any chance this is not the case we are tempted to conclude that the problem is in the real world, rather than in the model we use...

What precedes is in line with the observation made by the late Susan Strange, according to whom international economists in building up their models “ignored questions of power” (O’Brien and Williams, 2007, p. 27).

This is, just to provide an example, what also Joan Robinson meant in saying that “Portugal was dependent on British Naval support, and it was for this reason that she was obliged to accept conditions of trade which wiped out her production of textiles and inhibited industrial development, so as to make her more dependent than ever”, thereby concluding that “despite the abuse of mercantilism, free trade was also about the pursuit of national economic power” (Robinson, 1974, p. 1, quoted by Nanyar, 2007, p. 74).

The example of India is also self-evident: in the case of the textile industry, Britain first protected her domestic production when the textiles coming from India were cheaper and of a better quality, then liberalized trade after having gained supremacy thanks to the industrial revolution, but almost 100 years later, when India could challenge again the British production thanks to lower production costs, she imposed trade restrictions again and protected her textile industry with the Multifiber Agreement.

She also ‘imposed free trade’ – an absolute oxymoron! – on all countries that could be forced to accept her orders. But she couldn’t do so with the United States. Had that been the case – this is a paradox, of course – the chances are high that the US would still be a quite strong agriculture-

based economy, which is the sector on which initially that country enjoyed comparative advantages!

Similarly, it cannot be omitted the fact that over the last decades, at the height of the 'Washington consensus' paradigm, developed countries and the IMF did not manage to oblige China to accept capital liberalization. However, that did not prevent that country from experiencing anyway very high growth rates, and in fact refusing the inflow of short term capital allowed her to escape the dramatic financial and currency crisis that affected the Southeast Asian countries in 1997-98. But China was not the only country that followed her own way of development in those years: also India and Vietnam, among many others, followed '*dirigiste*' policies, not only controlling capital movements, but also adopting some appropriate industrial policies and promoting actively their exports (Shaikh, 2007b).

What this suggests, then, is that too often we economists not only ignore questions of power, but we also ignore the lessons of history: fundamental events like the opium wars, the British Navigation Act, or the protectionist policies followed by the US, in accordance to the position expressed by Alexander Hamilton, the creator of the dollar bill, or the protectionist policies theorized by Fredrick List and followed by Germany, thanks to which that country could lead the second industrial revolution, or the role played by the MITI in driving Japan's economic development, are rarely mentioned.

Apart from academic debates and historical interpretations, globalization irrupted in our lives around the end of the 1990s and critical positions, but also open opposition, at the time was coming only from a very limited section of society, namely from NGOs, from the so-called civil society and from anti-global (or counter-global or global justice) movements. The majority of the population was observing from a distance but disagreeing in the end with views that appeared as too extreme and radical (the dramatic events of those years, especially the riots in Seattle in 1999 and the violence in 2001 in Genoa culminated with, but not limited to, the death of a young protester, certainly contributed to separate the public opinion from those movements and groups). A few years later, however, the reasons that had been put forward by those movements, and the critiques against globalization reappeared again, this time nested within an either left-wing or right-wing populist mix. The global financial and economic crisis and the immigration crisis certainly contributed to move in this direction. The change might be seen as marked by rather symbolic events, like the decision of the UK to leave the EU (Brexit) and the election of the populist Donald Trump at the presidency of the US, but certainly, before then, also by the global financial crisis, whose negative effects on the economy have been reinforced by the euro area crisis that followed it. The result is that economic globalization in these days is

again highly debated and heavily criticized, as it was the case 15-20 years ago, but this time in a much more generalized way.

I believe that what precedes fully justifies the publication of a book on the economics of globalization. In fact, I would even move one step further, and I would claim that *The Economics of Globalization* – given the diverse issues it addresses and the many different aspects it touches upon – might well be and/or should be considered as a new academic discipline, borrowing concepts and insights from several other subjects and thereby providing a necessarily more complete and broader view on the world economy than the one provided, for example, by *International Economics* alone.

As a matter of fact, the *Economics of Globalization* looks at the global economy not only through the eyes of developed countries – which is what we could depict as doing *International Economics*, in its two components of *International Trade* and *International Monetary Economics* – but it also observes it through the eyes of developing countries – which is the approach taken by *Development Economics* instead. As we have discussed above, it deals with *Economic History*, trying to learn as much as possible from it, but it borrows also from *International Political Economy* and from the issues of international power and strategies characterizing it. And when dealing with multinational companies or foreign direct investments, it refers also to concepts and ideas derived from *International Business*.

A final point to stress is that it is often the case that economists, both in writing their academic articles and in writing articles for newspapers and magazines or books for a general non-academic and non-specialized audience, hide their beliefs and their (certainly legitimate) view of the world behind the screen of an hypothetically objective and uncontroversial economic theory, without acknowledging the many limitations that the theory has and with the justification that doing otherwise would risk to provide arguments to their opponents (“to give ammunition to the barbarians” as somebody said in referring to the critical aspects of globalization, that would have been preferable, then, to omit reporting...). But our commitment to scientific honesty should lead us to acknowledge openly the limitations of our conclusions, when that is the case, even if the risk is to open a *Pandora box* out of which anything could get out, as somebody else has also written. This is, after all, also the point made by Luigi Zingales (2015), when referring to the responsibilities that financial economists have with respect to the way finance has been applied in practice.

Given that too often the results that we obtain derive from models that, in order to be tractable, are based on assumptions that are very distant from reality, then, this also means that in those cases we are not allowed to draw any normative conclusions from them, nor we can claim, exhibiting an excessive self-esteem, to be able to explain everything with them.

Dani Rodrik writes this very well:

Economists are an arrogant bunch, with very little to be arrogant about... As social scientists, economists have neither the ability of physicists to fully explain the phenomena around us, nor the expertise of physicians to prescribe effective cures when things go wrong. We can be far more useful when we display greater self-awareness of our shortcomings (Rodrik, 2007, p. 6).

I have tried to exert such a humbleness in writing this book.

The Economics of Globalization - An Introduction is composed by 7 Chapters.

Chapter 1 defines economic globalization suggesting that there may be a broad meaning and a narrow meaning of it. The broad meaning is the one considered by economic historians and political scientists, while economists intend globalization in its narrow meaning.

In Chapter 2 the different phases of economic globalization (in its narrow meaning) are outlined. The first one goes from the last three decades of the 19th century to the bursting of World War I; the second – after the wars interlude – from the end of World War II to the end of the 1970s-beginning of the 1980s; and the third one goes from then until sometimes in the first decade of the year 2000s. The attack to the twin towers (or maybe even earlier, the fall of the Berlin Wall and of communism?), the global financial crisis, or even Brexit and the recent election of a populist and protectionist US president, Donald Trump, may well mark, however, the end of the third phase and the beginning of a fourth one, whose evolution is far from clear yet.

Chapter 3 deals with the economic theories behind the liberalization and globalization of goods and services markets, but it also addresses the critiques to this process, both from the point of view of developed and of developing countries.

Chapter 4 deals with the issue of protectionism, and, again, it looks at the arguments against it, but also at the arguments in favor of it, by taking the perspective of both developed and developing countries.

Chapter 5 deals with labor markets and immigration. The critical distinction between *labor* mobility and *people* mobility is made, to explain most of the problems that are associated with such a phenomenon.

Chapter 6 deals with international financial markets and their liberalization. Inevitably, it describes the process of both external and internal financial liberalization, leading on one hand to short term capital movements and on the other hand to the development of innovative financial instruments, like credit derivatives, that will play a relevant role in creating the conditions for the global financial crisis. Once more, the pros and the cons and the dual perspective developed/developing countries are followed.

Chapter 7, which is the last chapter of the book, provides a summary of the arguments in favor or against globalization through the work of four well-known economists who have contributed to shape our understanding of economic globalization, and considering also some more radical and critical views on globalization. I have focused on the work of Jagdish Bhagwati, Paul Krugman, Joseph Stiglitz and Dani Rodrik.

Many more aspects characterize economic globalization, as I have written in the preface. But I am confident that the material contained in this book already allows to make a good step towards an understanding of it, allowing at least to address the many open questions it leaves.

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