

Is Globalization Revitalizing or Recentering?

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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, post-pandemic. 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.

This case is a follow-up to Frazier and Belcher's work in 2020 titled, "Is Globalization Dying." Some of the information is repeated for context, but much has changed on the world stage in the past year.

CASE SYNOPSIS

Globalization has grown dramatically for some decades. Today, countries that traditionally were manufacturing stalwarts find themselves unable to compete with China, India, and other developing countries due to comparatively inexpensive labor. Coupled with a worldwide thirst for cheap DVD players, computers, furniture, clothing, and other consumer goods, the shift has created booming economies for some developing countries at the cost of others. Issues of labor costs and trade policies only accelerate this phenomenon. Since the corona virus pandemic, COVID-19, of 2020-2021, and as economies around the world are beginning to rebound, the impact that China has on the rest of the world continues to play a big role. However, this impact goes beyond economics.

Introduction

For centuries, civilizations around the world have traded with one another to obtain goods that they were unable to produce 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. Coming out of a world-wide economic downturn due to COVID-19, China was first to rebound economically. But, China is also moving its influence into areas other than economics, particularly with Russia, North Korea, and Iran.

Is Globalization Alive and Well? Is it Changing?

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.

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.

In its effort to combat the effects of the pandemic, China worked to eradicate the transmission of the virus within its borders. First, they ramped up public health work. Following what it learned from SARS nearly 20 years ago, China quarantined much of the province that includes Wuhan, but then even as early as April 2020, they were beginning to open up. They acted quickly in working to stop the spread, allowing the country to be the first major economy to begin opening businesses and getting back to export and import of goods (LaMonica, 2020).

Shortly after the pandemic hit, people in many Chinese cities were told to stay at home and venture out only to get food or medical help. Compared to many western countries, this was a severe form of lockdown. Well over 700 million people, roughly half of China’s population, were confined to their homes, according to The New York Times. Only two months after the lockdowns began, the number of new cases there dropped to around a couple of dozen per day, down from thousands per day at the peak. “These extreme limitations on population movement have been quite successful,” says Michael Osterholm, an infectious-disease scientist at the University of Minnesota in Minneapolis. In a report released later, the World Health Organization (WHO) congratulated China on a “unique and unprecedented public health response [that] reversed the escalating cases,” (Cyranski, 2020).

While much of us in the US had escalating numbers through all of 2020, China was experiencing a re-opening of its cities and its economy. With pressure, internal and external, to deal with unemployment and all its results, both China and the US have been trying to re-open economic activity. Interestingly, though, while China was the origin of the virus, it was the first to shut down and the first to re-open. The US has lagged behind with combatting the effects of the shutdown, following a series of failed re-openings. At the same time, citizens of China have continued to exercise caution, reducing non-essential activities. It is also the case that China has had the world’s most advanced e-commerce network. China had just under one billion internet users compared to just over 300 million in the US. Likewise, nearly 10 times the number of consumers in China used mobile payment apps compared to the US, in 2020. These numbers show that China was better positioned to adapt to higher levels of e-commerce and consequently to move to a different yet robust economy in 2020 and beyond (Li & Jian, 2020).

China has shown itself to be willing to sacrifice its economy to prevent a resurgence in infections. In an interview on US National Public Radio, Feng Chucheng, a partner at research firm Plenum, commented that countries can’t have economic growth and containment at the same time. He also noted that, in China, the central bank has made it easier to lend and extend loans. Rent has been cut around the country and the country’s leaders are discussing whether to have a stimulus package. Unlike in the US, though, there is not a lot of infrastructure to be built as there was 20 years ago. China has been through this before with other infections and have spent time building an economy that may be more likely to rebound easily (Feng, 2020).

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).

Changing Global Landscape

In recent months, China has been re-positioning itself on the world stage. According to the Asia Society Executive Vice President, Jamie Metzl, “China will likely be unwilling to even pay lip service to the concerns expressed by their American counterparts. The Americans, on the other hand, have come to expect that little progress will be made in these forums in light of China’s increasing confidence and the relatively lower priority being placed on the issue of human rights within the increasingly complex U.S.-China relationship,” (Asia Society, 2021). Following other comments and actions by the US, China has accused the US of grandstanding, pointing out the US’s own issues with human rights (Toosi, 2021). In other areas, the US government has placed sanctions on China and members of its ruling party, increasing tensions between the two countries. Perhaps as a result or perhaps independently, China has been strengthening ties with North Korea, Russia, and Iran. These states view the US as adversaries and are working to subvert US interests around the world (Bosco, 2020).

At the first official conversation between the Biden administration and officials from China, it was evident that China considers the US to be working against the national interests of China. At the close of the meeting, Chinese Foreign Minister Wang Yi was headed to Teheran to meet his counterpart there. It now appears that China, Iran, North Korea and Russia are aligning their interests.

Concurrently, the agreement known as the Joint Comprehensive Plan of Action, which offered relief of sanctions to Iran as it complied with curbing its nuclear program, and was excited by the previous administration, was seen to be at an important crossroads, in the belief of the Chinese (O'Connor, 2021).

In early 2020, Qassem Soleimani, an Iranian military commander, was killed following attacks on US forces in Iraq. This event raised the possibility of additional political and economic instability in the Middle East, a problem for China. As China is currently the biggest purchaser of oil from the region, their infrastructure has been relying on imports particularly from Saudi Arabia and Iraq. China is also the largest single buyer of Iranian oil, although imports have fallen some in recent months. While the killing of Soleimani may pose economic problems for China, North Korea may see it as more of a military problem, perhaps a sign from the US of its desire for regime change (Chandran, 2020).

Perhaps it is the case that North Korea's continued firing of ballistic missiles may signal that Kim Jong Un wishes to build the nation's economy not by gaining concessions from the United States but by deepening ties with China. From the point of view of Chinese President Xi Jinping, North Korea could be a bargaining chip in negotiations with the United States. One source from the diplomatic corps in Beijing said that Biden may be more determined to keep North Korea from firing missiles. And this may have caused Kim to realize that discussions with the Biden administration would be difficult. More recently, China and North Korea seem to have cemented their cooperation to resist political pressure from the new U.S. administration (Tachikawa, 2021).

At the same time, the UK reports that goods imported from China rose 66% from the start of 2018 to \$24bn in the first quarter of this year, the Office for National Statistics said. Imports from Germany fell to \$17.75bn in the same period. So, as of the first quarter of 2021, China has replaced Germany as the largest trading partner with the UK. The change came as trade with the European Union was disrupted by Brexit and the pandemic boosted demand for Chinese goods. (BBC News, 2021).

Chinese President Xi Jinping comments that his number one goal is to provide what the citizens of China need to prosper. What he has not said is that his country has an image problem in many parts of the world. A Pew Research report from 2020 found that of 14 countries surveyed from around the world, each one had a negative view of China (Westcott & Gan, 2021).

Summary and Conclusions

Globalization was already changing prior to the COVID-19 pandemic. Protectionism and nationalism were increasing rapidly around the globe in developed countries, and China continued its march to becoming a manufacturing superpower. Many wondered if the pandemic would reset or shift some of these trends. Some of the key issues discussed at the G-7 Summit held in June 2021 demonstrated China was on most of the members' minds as the member countries discussed many issues surrounding China, which continues to flex its economic muscles in the global economy. It is clear that China isn't going away, and it will continue its path forward without bowing to the United States or other developed nations. Faulconbridge and Holland (2021) stated, "The re-emergence of China as a leading global power is considered to be one of the most significant geopolitical events of recent times, alongside the 1991 fall of the Soviet Union that ended the Cold War." It is clear that globalization and the role of developed countries are changing. Globalization is alive and well, however it is now recentering with new key players beginning to show their influence.

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

Case Discussion Questions

1. Why do you think that China is aligning economically with small, developing countries like Iran? What is their planned benefit to dealing with such controversial allies?
2. China continues to be criticized for its human rights record. Why has the global community not held it accountable for such violations? How has it continued to become the "go-to" manufacturing hub in the face of such accusations?
3. Discuss the implications of China's economic strategy in dealing with the COVID-19 outbreak. Compare and contrast its response to the United States' response.

4. Where does the United States sit in this new, revitalizing globalized economy? Explain.
5. What are the benefits and costs to the major economies of the world to a new, recentered globalization network?

Optional In-Class Exercise

The G-7 Nations held their summit in June 2021 to discuss a myriad of global issues. A key and common theme was China and the global economy. It was clear from the discussions that the member nations have concerns over China and the threat it may pose to globalization and peace. While no concrete actions were agreed upon, it is clear that the world is watching with much interest as to what China will do next.

You have been asked to prepare a dossier examining all the geopolitical issues regarding China that may impact the G-7 nations in the immediate future. You are to prepare a brief presentation outlining the key issues that you and your team feel are a threat to the global economy, and recommended steps to combat these. You will be giving a 15-minute PowerPoint presentation to the Ambassadors of the G-7 nations for their consideration of your recommendations.

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