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Article

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THE EVOLUTION OF ECONOMIC GLOBALIZATION DURING THE CURRENT GLOBAL CRISIS

Sabina Tuca*

Abstract: *The current economic crisis constitutes a serious test for the process of globalization. The purpose of this study is to analyze the influence of the current global crisis on economic globalization. To assess the impact of the current crisis on economic globalization, this paper examines the KOF Index of Globalization, before and during the crisis. The findings generally support the idea that economic globalization has been, in fact, weakened, after the onset of the current crisis. However, there is evidence that suggest that economic globalization has resumed the upward trend that characterized it before the crisis. Despite the fact the global crisis has shaken the process of globalization, we cannot talk of an end of globalization, as some predictions have indicated.*

Keywords: current global crisis; economic globalization; deglobalization

JEL Classification: F60; F69; O57

INTRODUCTION

Globalization is a reality of the contemporary world. Globalization has different consequences on businesses worldwide. Although states around the world have tried to remain as independent as possible, without a doubt there is no aspect of human life not affected by globalization. Therefore, globalization manifests in the political, cultural, scientific, technological and environmental field, but ultimately and most importantly, in the economic field.

According to the International Monetary Fund (2013) economic globalization is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through the movement of goods, services, and capital across borders.

With the onset of the current global crisis, globalization has been brought to discussion regarding the impact of the crisis on globalization. The current global crisis began with a financial crisis that originated in the United States. Depending on the nature and strength of the U.S. economic ties with other countries, the crisis has spread faster or later at a global level. As a result, most countries faced economic downturns.

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Globalization has experienced a huge increase over time. However, the economic crisis that began in the summer of 2007 in the USA has shaken the trust in globalization worldwide. Even though Hirst and Thompson (2002) agreed that the world was close to the limits of feasible globalization since 2002, real threats to globalization started to appear with the current crisis.

Both the globalization and the global crisis are topics of great interest and actuality. The economic literature abounds in publications on these two subjects. This paper aims to emphasize the evolution of globalization and especially economic globalization, during the current global crisis. Consequently, the study tries to answer the following question: Has the current global crisis slowed down the process of economic globalization?

1.THE IMPACT OF THE GLOBAL CRISIS ON GLOBALIZATION – A LITERATURE REVIEW

The global financial and economic crisis has had a devastating impact on the world economy and also on globalization. With regard to the influence of the current global crisis on the process of globalization, there are many points of view, in the economic literature. Also, it has been discussed in what way globalization has been affected and why.

According to Wade (2009), the globalization consensus has been, indeed, weakened, due to the lack of certainty that followed the crisis. The fact that in the early years of the crisis, governments' priority was related to their national interests at the expense of international interests, proves that the economic crisis has led to a tide of globalization.

However, although, after the onset of the economic crisis, states have been making a comeback in finance and even in some of the productive sectors, Wade (2009) argues that this comeback was limited because firstly neoliberal norms and institutions have been hardwired into economies around the world in the past several decades, and secondly an alternative set of principles has not emerged as the core of a new consensus, leaving free market principles and international economic integration as the default position.

A direct consequence of the economic crisis was the declining of the trade and FDIs worldwide. In this context, some studies used the term deglobalization defined as the reversal of globalization. Nevertheless, Wynne and Kersting (2009) point out that concerns about deglobalization are in many ways overblown, taking into consideration that as long as trade growth is a necessary but not sufficient

condition for globalization, declining trade is likewise a necessary but not sufficient condition for deglobalization.

At the same time, Karunaratne (2011) highlights that the dynamic process of economic globalization and deglobalization has been occurring in “waves” over the past 250 years. Therefore the recent global crisis spread rapidly across the globe, turned a global economy that was booming and promoting policies of globalization into a slump where deglobalization policies surfaces to the policy centre stage. Moreover, this paradoxical shift from promoting globalization to policies that promote deglobalization as the global economy plunges from booms to slumps is manifest in the conventional macroeconomic models that explain trade, cross-border capital flows, technology transfer and labour flows.

On the other hand, the fact that economic globalization has weakened with the crisis, doesn't imply that the world is witnessing an end to globalization. It is obvious that as long as countries are uneven in their endowment of various types of resources and technologies, they are different in their abilities and potentials to produce different types of goods and resources, and as long as demands for certain goods in individual countries exceed their ability to produce those goods, at least at reasonable prices, economic dependence among nations will remain, thus, globalization will persist (Hosseini, 2011, p. 74). Of course, as domestic economies have seen ups and downs and fluctuating cycles, there should be expected ups and downs and cyclical fluctuations in the degree of globalization and interdependence and integration among different economies.

As a matter of a fact, Moshirian (2011) believes that the current economic crisis has meant an increase in international integration at a global level. According to him, the crisis gave a boost to the globalization process, calling into question the concepts of global ownership, global leadership, global institutions, globally integrated financial system and global financial framework. Also, he argues that the process of globalization continues, taking forms and characteristics induced by global phenomena today.

2. THE EVOLUTION OF THE INDEX OF GLOBALIZATION BEFORE AND DURING THE CURRENT GLOBAL CRISIS

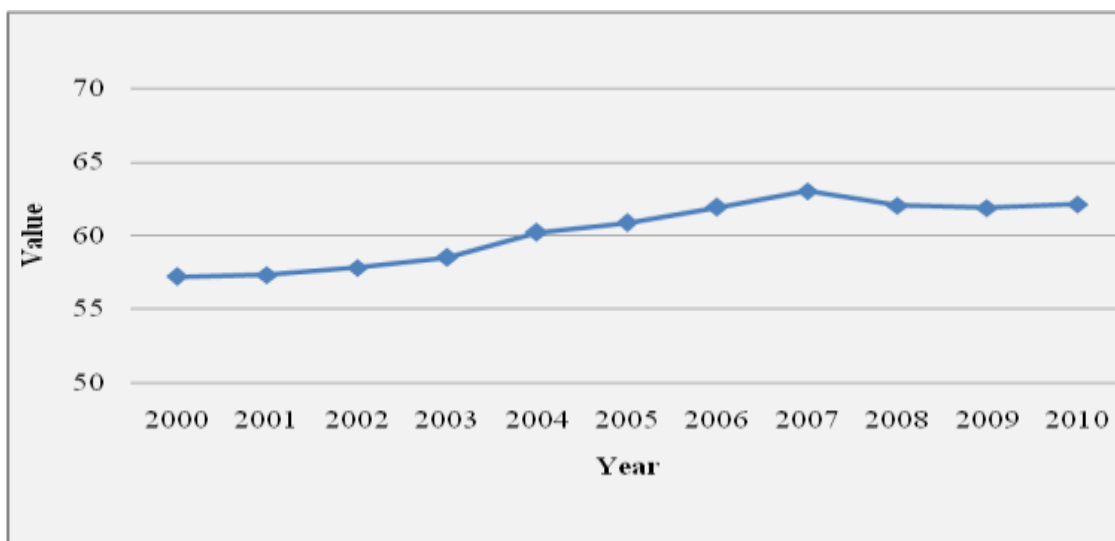
In order to see whether economic globalization has been weakened by the current global crisis, in this study we will analyze the KOF Index of Globalization, focusing on the Economic Index of

Globalization. The KOF Index of Globalization measures the economic, social and political dimensions of globalization. With regard to the economic globalization, this is measured by the actual flows of trade, foreign direct investment and portfolio investment, as well as the restrictions applying to these flows.

2.1. The evolution of economic globalization worldwide

To determine the consequences of the financial and economic crisis on globalization, the analysis will be based on the most recent raw data, available until 2010.

Figure 1 - KOF Index of Economic Globalization worldwide, 2000- 2010



Source: KOF database

As we can see from figure 1, the crisis is clearly visible in the results of the current KOF Index of Economic Globalization. The figure reveals that globalization followed an upward trend since the year 2000 and prior this year. Taking into consideration that the global economic crisis started in mid of 2007, figure 1 shows a fall in the degree of economic globalization worldwide, starting with this year. The globalization index continued to decrease until 2009. Nevertheless, it is obvious that economic globalization didn't experience a large decrease after the onset of the crisis. In fact, the Index of Economic Globalization has dropped with only 1.5% in 2008, compared to 2007.

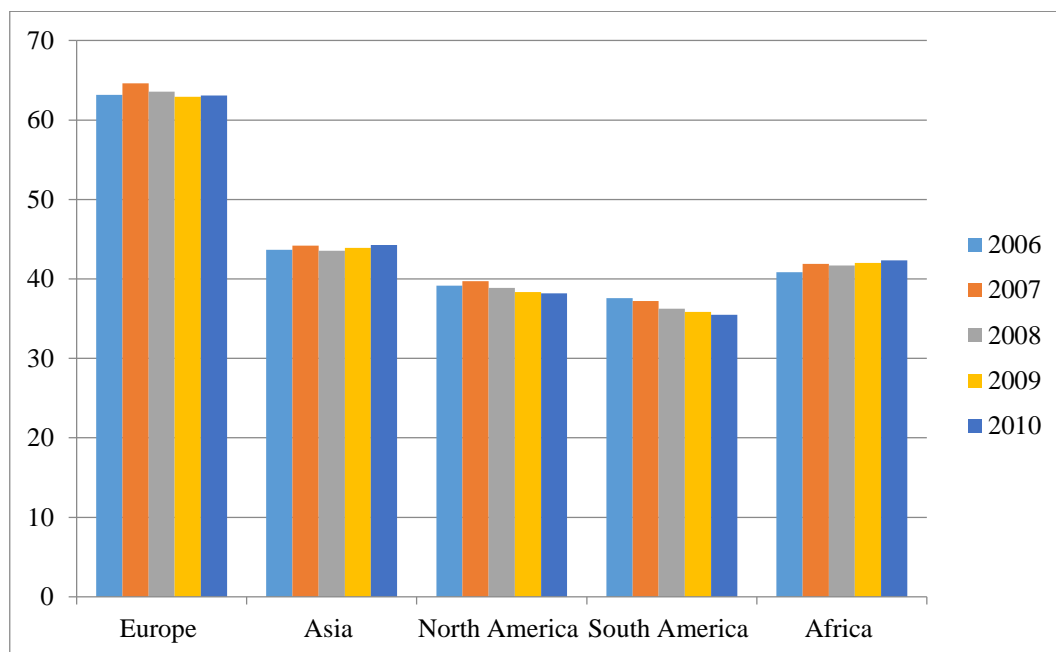
Surprisingly, in 2010, economic globalization started to increase again, with 0.37% from the previous year. This means that economic globalization is showing signs of recovery.

2.2. The index of economic globalization on world regions

To see if the economic crisis affected economic globalization worldwide, we will study the KOF Index of Economic Globalization in all regions: Europe, Asia, North America, South America and Africa.

Europe, the most globalized region in the world, had a decrease of the index of economic globalization, in 2008 (the year that the economic crisis started to have its impacts) compared to 2007, decrease that continued also in 2009. However, in 2010 the index of globalization started to increase. In Asia the economic globalization had a similar evolution as in Europe. Not all regions followed this trend. In fact, for Africa the Index of Economic Globalization had an upward trend between 2006 and 2010, suggesting that in Africa, at least in economic terms, globalization hasn't been influenced by the economic crisis. In contrast, North America and South America have faced a downward trend in the 2007-2010 period (figure 2).

Figure 2 - KOF Index of Economic Globalization for all regions, 2006-2010



Source: KOF database.

2.3. The evolution of economic globalization on specific countries

To determine whether one country is more vulnerable to the economic crisis than another requires a comparison between the situation before and during or after the crisis. Consequently, we have taken several countries and we have analyzed the KOF Index of Economic Globalization for each of these countries, between 2000 and 2010. That means that we have analyzed their situation before and during the economic crisis. The countries included in this study are the top 10 largest economies in the world, in 2013, according to the International Monetary Fund: USA, China, Japan, Germany, France, Brazil, United Kingdom, Russia, Italy and India.

Table 1 - KOF Index of Economic Globalization on specific countries, 2000- 2010

Country Year	USA	China	Japan	Germany	France	Brazil	United Kingdom	Russia	Italy	India
2000	66,01	41,20	44,51	77,48	73,79	49,03	81,26	48,74	79,72	30,42
2001	63,68	47,02	42,71	75,67	70,4	56,19	79,66	50,55	77,54	32,23
2002	60,82	49,64	41,33	76,39	71,29	58,12	79,17	52,61	76,41	33,62
2003	61,85	49,66	45,55	76,64	72,04	55,46	79,81	54,11	75,13	35,46
2004	63,69	53,35	46,56	75,78	74,69	55,95	77,65	53,08	77,37	36,32
2005	63,49	57,59	47,98	75,57	72,91	56,53	78,5	53,92	76,76	40,87
2006	65,47	52,91	45,52	75,65	73,95	56,17	78,21	53,85	76,19	40,84
2007	66,62	54,46	46,16	75,86	74,85	56,54	77,82	55,4	77,13	43,26
2008	63,48	50,94	44,86	73,59	72,64	51,84	76,83	49,25	75,75	43,73
2009	60,34	50,51	45,25	72,01	71,9	52,86	77,34	54,01	74,64	42,98
2010	60,33	51,12	44,01	71,55	71,72	52,37	78,01	55,55	74,75	42,71

Source: KOF database

From the table above (table 1.) we can point out the following:

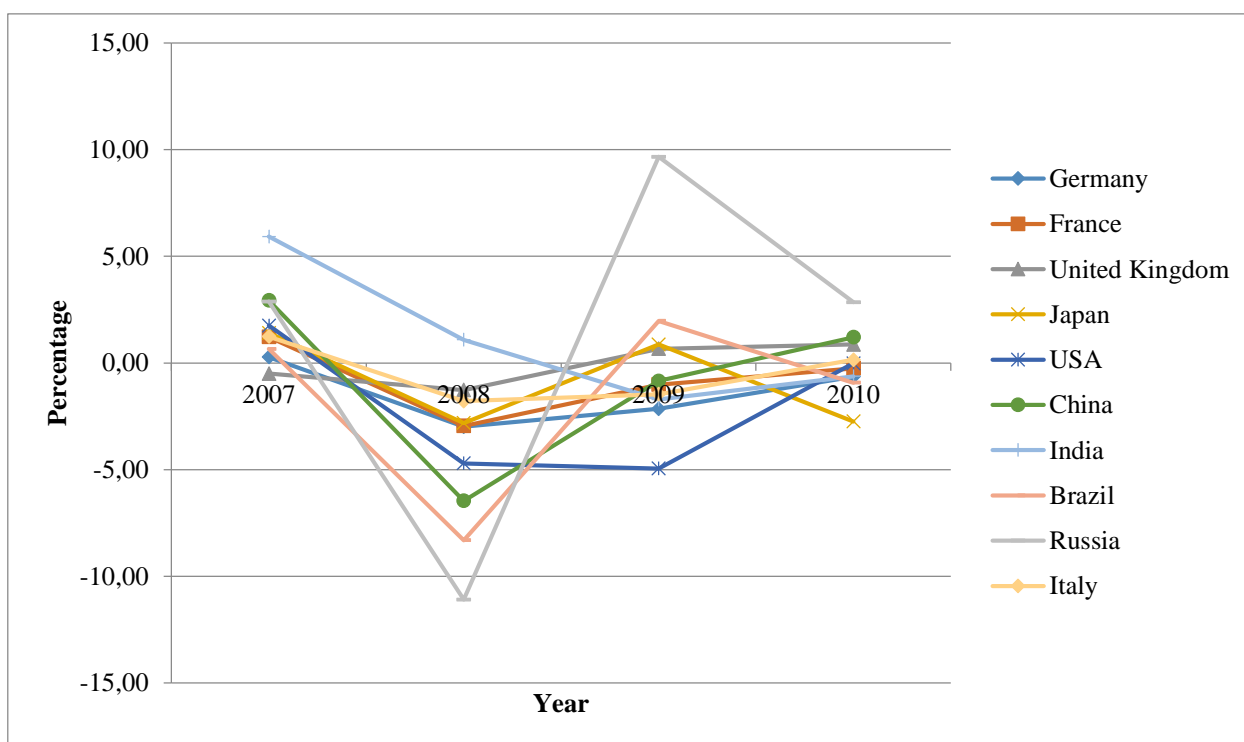
First, it is obvious that almost all the countries mentioned above, have been characterized by an upward trend of the level of economic globalization. However, United Kingdom is the exception, having the highest value of economic globalization in 2000 (81,26). Surprisingly, after this year the United Kingdom had values of the index of economic globalization between 76,83 and 79,66. What

is more, in this period, some countries had a remarkably increase in the level of economic globalization. These countries are India, China, Russia and Brazil, meaning the BRIC countries.

Second, it is clear that 2007, the year prior the economic crisis (even the economic crisis started at mid of 2007, its effects began to appear starting with 2008), is the year with the highest degree of the index of economic globalization, for most of the countries presented in table 1, except for Germany, Brazil, United Kingdom and Italy. In spite of this, for these countries, the level of 2007 is one of the highest from the period 2000-2010;

Third, we can notice that starting with the year 2008 for all the countries characterized in table 1. there was a drop in the level of economic globalization. For some of these countries the decrease was very high. For example, for Russia the decrease was 11 % in 2008 compared to 2007. Also, China`s Index of economic globalization had a decrease with 8% in 2008 (figure 3.). What`s more, the USA has lost ground in terms of economic globalization in 2008, compared to the previous year (as a large economy a high proportion of its trade is internal, which means that the USA doesn`t need to be as globalized as small countries);

Figure 3 - KOF Index of Economic Globalization (percentage change from previous period)



Source: Own calculations, based on KOF database

Next, the economic crisis, has affected more and less globalized countries about equally. For instance, Germany, that is one of the most globalized countries, has experienced a decrease in the level on economic globalization very similar to same decrease experienced by Japan, a country less globalized (figure 3.);

Last but not least, it seems that in 2010 the KOF Index of Economic Globalization began to grow, exceeding the value from 2008, in countries like China, Brazil, Russia and United Kingdom. In fact, in 2010, for Russia and United Kingdom the Index of Economic Globalization reached the value from 2007.

CONCLUSIONS

The current global crisis has raised questions about the extent to which economic globalization has been affected by it. There is a clearly identified connection between the crisis and the fall in the level of economic globalization worldwide. Although in some countries or regions economic globalization hasn't had a decrease after the onset of the current crisis, at a global level economic globalization has been, indeed, weakened.

However, there are two encouraging facts for the process of globalization. On one hand, economic globalization has not decreased with a high percentage. On the other hand, starting with 2010, the index of economic globalization has begun to increase worldwide, meaning that the world is facing a slight recovery of economic globalization.

Even though the process of economic globalization has slowed down, it is certain that we cannot talk of an end of globalization, as some predictions have indicated.

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