POLITICAL ECONOMISTS TEND TO THINK OF RECENT HISTORY IN TERMS OF DISCRETE PERIODS (E.G. POSTWAR 'EMBEDDED LIBERALISM', GLOBALIZATION). ARE WE STILL IN AN ERA OF GLOBALIZATION? WHY OR WHY NOT?

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Introduction

Is the era of globalization coming to an end? Advocates of neoliberal economic thought, such as 'trickle-down' and 'laissez-faire' economics, argue that economic and political freedom are inextricably linked, making free international trade the only global economic system in accordance with contemporary values of political freedom (Gruszczynski, 2020). Critics, on the other hand, point toward the vulnerabilities of this system of intertwined economies heavily reliant on the state of global supply chains as well as the world's reserve currency, the dollar (Belke & Gros, 2019).

This paper presents a two-folded argument, propounding the era of globalization as still characterizing international economic relations. Despite the past decade's shifting power relations and rapid advancements within technology, which has fundamentally changed supply chains and the nature of the interdependency of nations, does the most cardinal features of globalization still appear prevalent. *Firstly, that economic interests of market sectors dominating the global economy, continue to pursue further standardization and in turn economic integration, playing out in the agenda of international institutions. Secondly, that the structure of the global economy and in particular the macroeconomic trilemma, condition states to obey the agenda set forth by these dominant interest groups and international institutions.*

Globalization emerged as a popular term several decades ago, following unprecedented advancements in the flow of money, goods and information, attempting to delineate these phenomena as a new era for the global economy. The term celebrated the victory of market efficiency - Adam Smith's 'invisible hand' and specialization of labor, over reactionary national politics. In lieu of being constrained by domestic resources, were consumers and suppliers now free to roam the global market, rendering Cold War geopolitics irrelevant, with states too dependent on the world market and disposition of the global economy (Farwell & Newman 2017).

Interdependence among states is not unprecedented, what made this era stand out as a discrete period was the ostensible elimination of costs related to communication that allowed for the vast increase in the flow of money, goods, and information, around the globe (Keohane & Nye Jr, 1998). Several crises have however, presented themselves in the last two decades, with some scholars arguing that the interdependence of economies not only exacerbated consequences, but may also have acted as a catalyst (Aizenman, 2019). Despite evident cracks in pundits like Thomas Friedman's 'Dell Theory of Conflict Prevention', and a grave 22% YoY drop in international trade, in the first year of the pandemic (Castelli, et al., 2020), does the global economy, nevertheless, not appear to be entering a new era.

Theoretical framework

This paper attempts to understand the state of the global economy through analyzing recent trends in international trade and shifts in both the importance and influence of the national state, especially following the onset of the covid-19 pandemic. Although the analysis builds on classical theory of International Political Economy - namely Economic Liberalism, it attempts to incorporate important focus points from modern IPE theory as well.

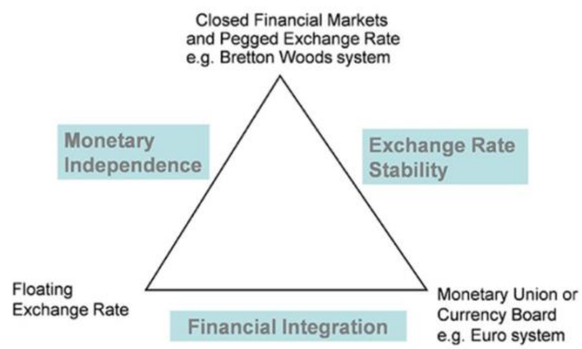
As Economic Liberalism can be argued as being more normative than positive in nature, with a tendency to some degree neglect economic interests and institutions, will Open Economy Politics (OPE) constitute the point of departure of the analysis, to ensure a comprehensive approach. OPE, as opposed to classical theory, provides a narrower, yet more extensive toolkit for explicating how national politics, and especially economic interests shape and influence foreign economic policy, a process which it suggests is facilitated through bargaining strategies (Lake, 2009).

One unique dimension of OPE, crucial for the discussion of the state of globalization, is its deduction of interests from economic theory. OPE regards the Specific Factors model, building on Ricardian theory and the Heckscher-Ohlin model, and their accompanying assumptions about international trade, as having carried differing relevance throughout the last century. While the Specific Factors model emphasizes capital and labor as fixed in particular occupations, the Heckscher-Ohlin model assumes all factors as mobile across occupations (Lake, 2009). This notable distinction has been studied by several scholars, attempting to discern which assumption to be more appropriate for the study of the global economy, at their respective point in time. As noted earlier, has these underlying assumptions arguably varied throughout the 20th century.

In his 2002 book; *International Trade and Political Conflict – Commerce, Coalitions, and Mobility*, does Michael J. Hiscox, Professor of International Affairs at Havard University, suggest that factor mobility has decreased in the last couple of decades, concurring with a shifting structure of political interests on trade (Gabel, 2004). His research, using cross-industry variations in rates of return as a proxy for factor mobility, implies an evolution of which units having held the most relevance for theories of international trade, with sectors emerging as the most appropriate unit of analysis (Lake, 2009).

OPE further emphasizes the positioning groups relative to others in the international economy, both applicable for firms and sectors, providing some predictive power of an effect of policy. Factors of production on the other hand, vary by their inherent scarcity relative to the global market (Lake, 2009). As flows of goods and factors across international borders must be equivalent in their effects on relative rates of return, according to Mundell–Fleming 1960s framework, can predictions of how factors are likely to be affected by economic policies thus be formulated (Aizenman, 2019). This framework is further central for a comprehension of the status of the global economy, as it outlines a critical challenge every national state participating on the global market faces. Mundell–Fleming's macroeconomic trilemma, theorized to characterize open market economies, encapsulates this challenge in an impossible trinity; the choice between three policy goals, where only two can simultaneously be pursued and never all three, as illustrated by figure 1.

Figure 1



Note. Reprinted from "International Reserves, Exchange and Monetary Policy: From the Trilemma to the Quadrilemma", *Oxford Research Encyclopedia of Economics and Finance,* Copyright 2021 by Oxford University Press.

This inevitable choice between monetary independence, exchange rate stability, and financial integration faced by states, is key within the adoption of economic policy, reflecting the status of the global economy (Aizenman, 2019). Observations of the macroeconomic choices made by states thus serves as crucial aspect of the investigation into the current state of globalization, in conjunction with the evolution and patterns within interest formation among different groups, accounting for their positioning in the global economy and how international institutions influence and shape international bargaining, explicating choices of policy by states (Lake, 2009). These considerations will serve as the analytical basis for this paper's discussion of the state of globalization.

Empirical application

The previous two decades constitute as dire evidence of the fragility of a globally integrated economy, promoting efficiency and power market above all else. The Financial Crisis of 2008 serves as the most ostensible evidence hereof, its causes arguably primarily pertaining to an interdependent banking system rewarding short-run returns and incenting the creation of ever riskier financial products (Bordo, 2017). Moreover, do scholars often point to the weak regulation surrounding the banks, both on the national and global level, as a key facilitator of the seeds of the recession (Belke & Gros, 2019).

Both the Financial Crisis and the succeeding Eurozone Crisis demonstrated that no state was immune from financial instability, although states with more developed institutions, as well as deeper fiscal capabilities, did stand to gain both stability and resilience by activating crossborder bilateral swap lines, that were arranged among their central banks (Aizenman, 2019). However, access to these swap lines largely removed the otherwise critical need to manage international reserves acting as buffers. A willingness to exploit this option, was demonstrated by the US Federal Reserve following the Financial Crisis, there activated unlimited swap lines between themselves and other key central banks, within OECD. This provided them with access to the necessary dollar liquidity, needed for the management of transaction exposure to the dollar (Aizenman, 2019).

This arguably inordinate privilege, significantly reduce or eliminate external constraints for the center country of our modern international monetary system, reflected in the substantial excess return of gross assets over gross liabilities, within the United States (Makengo, 2020). In return for their privilege, do scholars often point to the United States as the global economy's insurance firm, with economic interdependence necessitating expensive action on their behalf, in times of economic crisis (Olivié & Gracia, 2020). This was evident following the Financial Crisis when the swap lines, initiated by the Federal reserve, conceivably prevented colossal damage pertaining to bank crises, in countries that held the potential to cost the economy of the United States, gravely (Aizenman, 2019).

This acts as an example of how international bargaining represented a necessitous policy action for the world's reserve currency holder, an inescapable position that remain applicable (Olivié & Gracia, 2020).With the selection criteria involved in the provision of the swap lines, unprecedented in size, patently rested on exposure to domestic banks (Aizenman, 2019), suggests that only countries with significant financial linkages and trade interdependence should expect access to equivalent arrangements, with limited likelihood of such arrangements extending to emerging markets with the historical moral hazard concerns expressed by the United States (Olivié & Gracia, 2020).

Sustaining a fixed exchange-rate regime and monetary policy autonomy, the dominant choice of OECD countries during the era of 'embedded liberalism' that followed the Bretton Woods agreement in 1945, entailed capital controls on a large scale (Aizenman, 2019). Whereas, the maintenance of financial integration and monetary independence, instead entails exchangerate flexibility, acting as the dominant choice of large independent OECD countries today, such as the United Kingdom and Japan, other than the United States. This regime is, however, not seen preferred by countries in currency unions, such as the Eurozone, with countries instead having favored financial integration and exchange-rate stability (Aizenman, 2019).

This pair of choices infer that the domestic interest rate be relegated to the country which its exchange-rate is pegged to, as an open-market operation solely can change the central bank's composition of foreign and domestic assets on its balance sheet, without an effect on a monetary base. This preference can be explained by a situation of perfect capital mobility, where a fixed exchange rate impel a small open economy to give up monetary policy, still applicable for EU countries today (Aizenman, 2019). This aspect is essential for understanding recent trends in both interest formation and international bargaining, related to current economic policy (Hameiri, 2021).

One key trend that has affected the positioning of interest groups on the global market, is the declining ratio between that of global GDP and the percentage-change in trade flows. This ratio grew leading up to the Financial Crisis, whereafter it has since been a more parallel relationship, some years slightly declining with trade flows growing slower than global GDP (Donnan & Leatherby, 2019). However, data points towards long-term structural changes at play for the global economy, with increases in patents and rights to produce goods and services abroad, instead of shipping a physical product or labor, resulting in less tangible trade (Altman & Bastian, 2021).

Whether this should be viewed as a sign of deglobalization or rather an evolution of globalization, rests on the nature of the forces shaping economic policies responding to these trends. These forces can be understood by analyzing which groups assert dominance in the interest formation as well as examining the role of domestic institutions and finally bargaining power with regards to international economic relations and the institutions guarding them (Lake, 2009).

Many scholars agree on that no economic relation is more central today for the state of the world economy than that of the United States and China (Hameiri, 2021). Although quantifying this complex linkage is not only burdensome, but also demands careful consideration of method. Trade data estimating shifts in goods and services, by recording their values in shipping ports has long served as tradition. However, with parts coming from all over the globe today, even consisting of smaller parts sourced from a host of other countries, demands a more accurate measure. Data from OECD illustrates that by recording where value is added, changes the relationship notably, shifting it in favor of the United States (Donnan & Leatherby, 2019).

This showcases that the United States more heavily relies on sourcing parts from other countries than China does. In addition, does it imply that conventional economic policy tools may have less of an effect today, relative to previous decades. Advocates of protectionist economic policies, such as former U.S. president, Donald Trump, often propounds that a weaker dollar could amplify the country's exports, with relative cheaper prices for trade counterparts (Donnan & Leatherby, 2019).

However, with the exports of the United States, ostensibly encompassing parts sourced from a multitude of countries around the globe, likely embodying many different currencies, would diffuse the impact of such policy. Recognizing these complexities of recording trade data, arguably propels Cross-border investment flows as a more pertinent unit of analysis for the state of the global economy and interdependence among states.

Although record amounts of portfolio capital was pulled from emerging markets following the onset of the Covid-19 pandemic, were investors quick to pour back in already in late 2020 as bold monetary and fiscal policy responses were announced. However, looking at the data for international corporate investments paints a different picture, with levels of foreign direct investments yet to pick up from their noteworthy reduction of 42% in 2020 (Altman & Bastian, 2021). While these levels resemble those that characterized the global economy more than two decades ago, implying a grave setback for international investments, do corporate dealmakers appear less averse towards international transactions. The international share of mergers and acquisitions held steady throughout 2020, and picked up significantly in early 2021, implying confidence in the future of international economic cooperation and trade (Altman & Bastian, 2021).

In addition, have several governments recently introduced prominent policy, in an effort to open markets. In the Asia-Pacific region were the Regional Comprehensive Economic Partnership (RCEP) signed in November 2020, an agreement which encompasses almost onethird of the global economy, arguably making it the largest free trade agreement in history (Petri & Plummer, 2020). Replacing the NAFTA deal of 1994, was the US-Mexico-Canada agreement (USMCA) signed in June 2020, followed by the African Continental Free Trade Agreement (AfCFTA), which came into effect in January 2021.

These considerable steps taken by sovereign states imply that dominant sectors, economically important for these states, share an interest for further international trade and economic cooperation (Makengo, 2021). One study even suggests that these moves are supported by public opinion as well across several countries, specifically has polling in the United States shown record high support for globalization, in 2021 (Altman & Bastian, 2021). This suggests that the pandemic has anything but, caused for governments and businesses to dispose of international cooperation and trade to an extent that implies a new era for the global economy.

Discussion

Although decoupling signs within the relationship of China and the United States, have presented themselves following the Trade War in 2018, does the two economies remain arguably remain highly intertwined (Altman & Bastian, 2021), with American multinational firms continuing their course of heavy investments within China, as well as the ostensible increase in trade among the two countries throughout the pandemic.

Widening the scope to trade among all countries, has the average distance which businesses choose to trade across, furthermore been increasing since 2016, casting doubt on the feasibility of the popular term ‘regionalization’, that implies a shift away from globalization (Altman & Bastian, 2021), although some scholars advocate that regionalization will be an inevitable course for globalization (Gruszczynski, 2020).

The recoiling of global trade has arguably surpassed even the most optimistic forecasts, that were presented in the early days of the pandemic. Despite initial disruptions, did trade seemingly turn out to aid economies and health care systems significantly during the pandemic. (Altman & Bastian, 2021). With trade flows still picking up do businesses risk falling behind competitively if they opt out of imported inputs or export sales, implying that efforts to bolster resilience during the pandemic rather needs to consider broader supply-chain strategies, that addresses shifts in both production costs and demand across countries, advances in technologies as well as the geopolitical tensions that has been building up in recent years (Makengo, 2021).

Comprehending these conditions increasing the efficacy of macro-prudential and capital control policies, as well as their impact on the credit cycle and patterns of capital flow and trade, with implications for international reserves is central for the outlook of globalization and the policy choices of states going forward (Aizenman, 2019).

Globalization might be evolving from obvious associations such as the shipping container to being more intangible in nature, with exponential growth in the flow of data and far more disruptive forces luring than policies set forth by protectionist politicians, such as tariffs. New technology and innovative manufacturing techniques, as well as the automation of factories, are reshaping organizations and supply chains, reducing economic incentives to offshore production (Donnan & Leatherby, 2019). This arguably implies that the amount of goods and services shipped around the world might evolve to pertain less relevance as a unit of analysis, for the state of globalization.

While global interdependence holds the potential to create global problems with the same ease as information and goods and services flow between countries, namely global warming, recessions, pollution, overfishing and most recently, a pandemic, as obvious critique points, does a strong global community equally hold the potential to solve these issues through global markets and international institutions (Castelli, et al., 2020).

The pandemic has arguably amplified an ongoing evolution of global trends, pertaining to globalization, rather than facilitated the beginning of a new era for the global economy. It did undeniably showcase preexistent issues within the financial markets particularly liquidity problems in the fixed income markets (Castelli, et al., 2020). A key implication of this investigation into the state of the global economy is the unveiled risks of complex international value chains and the slowdown in globalization in certain strategic sectors, such as health and technology, that arguably began following the Financial Crisis. This suggests that the cracks within neoliberal globalization that became ostensible during the pandemic, might have roots that go far deeper than a global health crisis. This could indicate that globalization and international trade might evolve towards a model that is increasingly focused on services, and both less energy and capital intensive (Castelli, et al., 2020).

Estimating and conjecturing economic interdependence and integration among countries, traditionally viewed as the chief features of globalization, based on financial and investment flows and trade flows of goods and services, a paltry pause might be discernible.
However, applying these metrics as an estimate may not be an appropriate method in accordance with economic dynamics today. Rather might indicators of economic interdependence and integration transcending trade and investment flows, such as the standardization of production and markets, exposit a more accurate picture of the state of globalization (Arbache, 2019).

Such metrics are less tangible than recording the flow of value between countries, yet arguably serves more justice as a unit of analysis following years of global standardization of everything from processes, protocols, monitoring, control, and certification in areas as diverse from container transport to more complex areas such as safety and quality issues, communications and the production of goods and services, among others. Using these metrics paints a picture of globalization as not only invigorated, but accelerating (Arbache, 2019).

Standardization increases predictability, reduces time, and allows for strategists to identify risks and mitigators, this in turn streamlines value chains, stimulating investments and flows of production factors. These trends all work towards expedited integration of production and markets (Farwell & Newman, 2020). One conspicuous example of this is the unprecedented massification of access to digital tools and services connecting the globe, that is only possible through standardized operating systems and internet protocols (Arbache, 2019).

However, technological decoupling in terms of competition for global technological supremacy is arguably evident in both the United States and China. In addition, does the recent series of legal competition proceedings by the European Commission, against large-scale U.S tech companies, suggest that a segmentation of the world economy, based on regional economic blocs around local hegemons competing each other for dominance and power, in a host of both tangible and intangible fields, might be equally feasible (Gruszczynski, 2020). This would, however, not end the era of globalization but rather prove as an evolution with its cardinal features still showing signs of acceleration.

The current pandemic has nonetheless been argued to hold the potential of profound impact on these structures of economic integration, guarding globalization (IMD, 2020) While the seeds of such impact on the process of economic integration, arguably were sown in prior decades, before the pandemic, might it hold the potential to exacerbate preexistent tendencies of inversions of states, choosing to compete for economic and political dominance (Gruszczynski, 2020).

Whether such trends will materialize causing a paradigm shift in international trade relations and governance, is most probable to depend on the length and severity of the pandemic, as well as future policy responses and possible shifts in the positioning of interest groups on the global market (Gruszczynski, 2020). Nevertheless, does trends of expanded connectivity and low regulation in digital markets, accelerate the adoption of digital technologies, and allow for the emergence of a new generation of business models, that strengthens global interconnectivity and economic integration.

Escalating globalization is arguably prominent in financial and capital markets as well with increasing unification of services and products, by financial institutions (Arbache, 2019), in line with the interests of dominant market sectors and domestic institutions, playing out in regulation and policy formation within international institutions (Bordo, 2017). This owes to the standardization of processes and of financial and risk management systems policies, promoting integration and further interdependence among economies around the globe (Arbache, 2019). Unprecedented market consolidation in both goods and services markets (IMD, 2020), further emphasize this integration, with increasingly small interest groups exerting dominance and influence upon global markets and investments (Arbache, 2019).

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