Globalization vs. Protectionism: Is the Latter the Outcome of the Failure of the Former?

Jayeeta Roy Chowdhury
Guest Lecturer, Loreto College

Mainak Bhattacharjee
Assistant Professor, The Heritage College

INTRODUCTION

- The term ‘Globalization’ stands for a global integrated system with economic and political aspects of various countries co-ordinated closely.
- Establishments of bilateral and multilateral agreements have been the cornerstone in this respect.
- However, the very recent international developments suggest a resurgence of ‘protectionist’ trends.
- ‘Protectionism’ can be defined as a set of policy instruments primarily affecting trade in goods and services.
- The notable recent developments include Brexit in June 2016 and the inward looking agenda of the current U.S. administration.
- The present paper investigates if any averse impact of globalization is the reason behind these circumstances.
- To understand the scenario, the paper makes use of the various trading blocs operating worldwide and examines if protectionism originates from within an integrated order.

LITERATURE SURVEY

- **Jeffrey A. Fankle et. al (2001)** in their paper have provided an estimate of common currency regime through trade on per capita income. The study at the outset suggests that entry into currency union leads to the magnification of the trade with other members of the zone. The empirical results obtained hereby testifies to the positive impact of currency union on economic performance through the promotion of trade rather and downplays the role of commitment to non-inflationary monetary policy or other macroeconomic influences. (Frankel, J. A. & Rose, Andrew , An Estimate of the Effect of Common Currency on Trade and Income, Faculty Research Working Paper Series, John F. Kennedy School of Government, Havard University)
- **J. Capaldo (2015)** has brought forth the effects of the Trans-Atlantic Trade and Investment Partnership (TTIP) using demand-driven econometric model. The findings of this article dispute the official assessments of the projected losses in GDP, employment and personal incomes. It also articulates an increase in the financial stability and continuing downward trend in the labour share in GDP.(Capaldo, J. The Trans-Atlantic Trade and Investment Partnership: European Disintegration, Unemployment and Instability, Economia & Larvo, pp. 35-36, ISSN:00012-978X).
- **Paul Hirst et. al (2006)** examines the present state of world economy in relation to the economic globalization. The primordial conclusion that this paper arrives at is the world economy is still far away from becoming globalized and this is due to the emergence of regional trading bloc and the continued predominance national economic management as the means of restructuring international economy.(Hirst, P. &Thompson, G. The Problem of Globalization: international economic relation, national economic management and the formation trading blocs, Economy and Society, pp. 347-396, ISSN: 0308-5147)

OBJECTIVE OF THE STUDY

- The current study aims at exploring the following points:

❖ Examining the condition of macro-fundamentals like inflation rate , fiscal deficit, external deficit of the countries within major trading blocs across the world indentified as per the contribution in the world export.

❖ Overhauling the degree of the propagation of economic disturbance in one country within a trading bloc into other countries in the same bloc and thereby getting the picture of the stability of each trading bloc.

❖ To find out if the disparity in macroeconomic stability is more pronounced within the trading blocs than between them.

DATA AND METHODOLOGY

- The current study is based on time series data over the period 2000-2016 on the trading blocs coming up within time span from 1950 till 2000. However out of these trading blocs, only those having significant share in the world export have been considered.
- Data sources include World Bank, IMF and OECD.
- To measure the degree of the macroeconomic spill-over among the countries within a trading bloc, correlation coefficient has been computed between the cyclic component of the GDP series of the countries.
- To extract this cyclic component, GDP series has been de-trended using Hodrick-Prescott filter mechanism.

DATA AND METHODOLOGY

- Principal Component Analysis (PCA) has been employed for the purpose of constructing macro-stability index to assess the macroeconomic stability of the countries based on three basic parameters namely price stability, fiscal solvency and external sector balance.

- Lastly, Analysis of Variance (ANOVA) has been approached to examine if the disparity in macro-stability is more pronounced within or between the trading blocs.

ANALYSIS AND FINDINGS

- **Table I :Classification of the Trading Blocks according to the time of their origination**

Time frame	Classification of the Trading Blocs	Names of the relevant Trading Bloc
Before 1980	Old	Andean Community (1969), European Union Customs Union - EUCU(1958), European Free Trade Association - EFTA(1960), Asia-Pacific Trade Agreement - APTA (1975)

Table I: Continued.

Time frame	Classification of the Trading Blocs	Names of the relevant Trading Bloc
Post 1990 till 2004	New	Southern Common Market(MERCOSUR, 1991), ASEAN Free Trade Area (AFTA, 1992), Common Market for Eastern and Southern Africa (COMESA,1994), North American Free Trade Agreement (NAFTA, 1994), South Asian Free Trade Area (SAFTA, 2004)

- **Table II: Major Trading Blocks with respect to their contribution in World Export**

Classification	Trading Blocs	Average Share in World Export (in percentage)
Old	EUCU	36.46
	Asia-Pacific	5.11
	EFTA	2.97
	Andean	0.61
New		
	NAFTA	14.2
	AFTA	6.4
	MERCOSUR	1.8
	COMESA	0.58

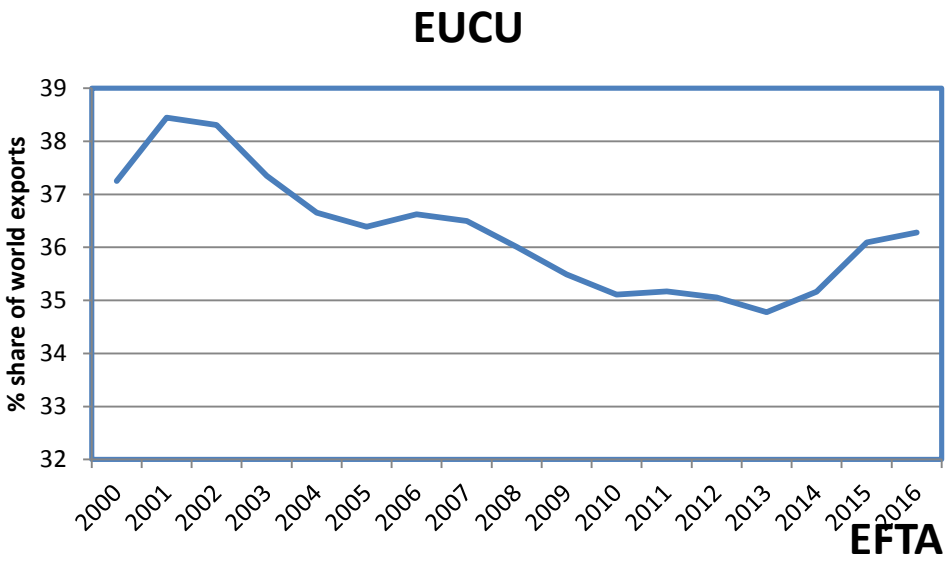
- Table III: Major contributing members of each bloc

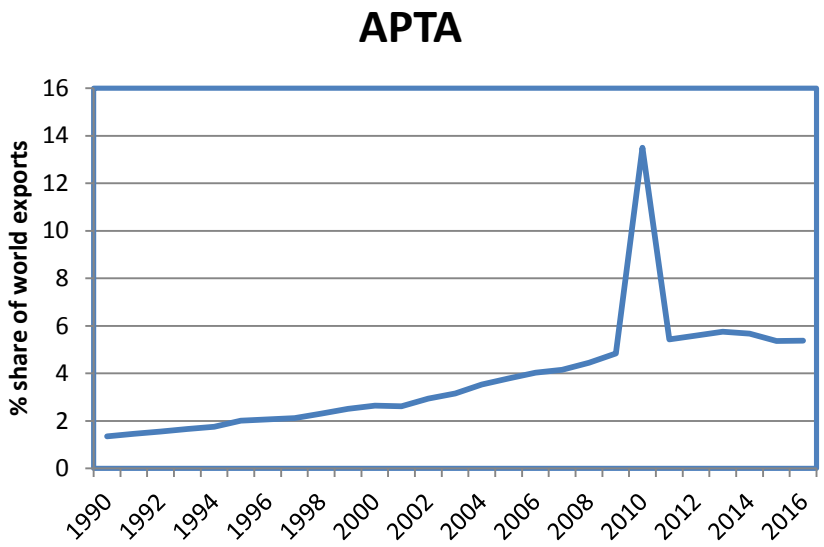
Classification	Trading Blocs	Major member states	Percentage contribution to bloc export
Old	EUCU	Germany (M1)	21.13788
		France (M2)	10.80566
		United Kingdom (M3)	10.44729
	Asia-Pacific	South Korea (M1)	51.87492
		India (M2)	34.42023
	EFTA	Switzerland (M1)	66.01582
		Norway (M2)	32.75097

- Table III: Continued.

Classification	Trading Blocs	Major member states	Percentage contribution to bloc export
New	NAFTA	United States (M1)	67.75986
		Canada (M2)	20.07928
	MERCOSUR	Brazil (M1)	66.71397
		Argentina (M2)	21.26864
	AFTA	Singapore (M1)	35.64909
		Thailand (M2)	18.02543
		Malaysia (M3)	17.85715

Illustration of export share of old blocs (in percentage terms)





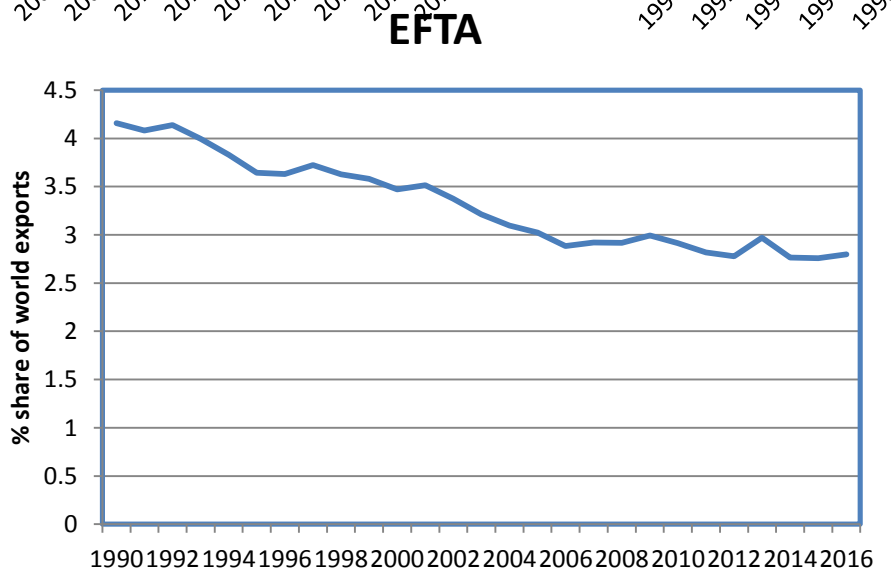
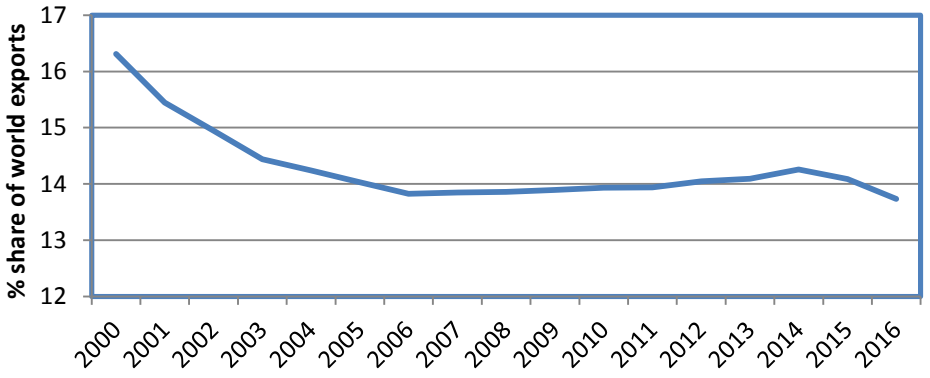
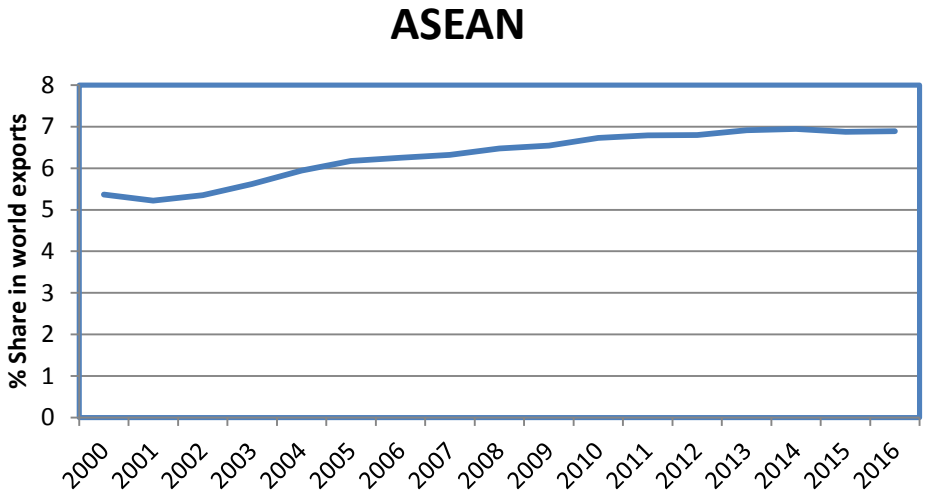
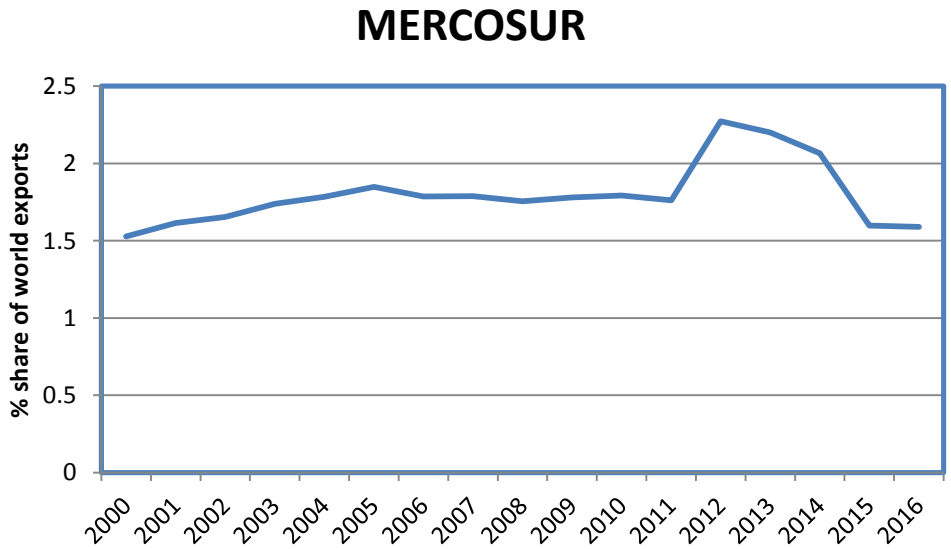


Illustration of export share of new blocs (in percentage terms)

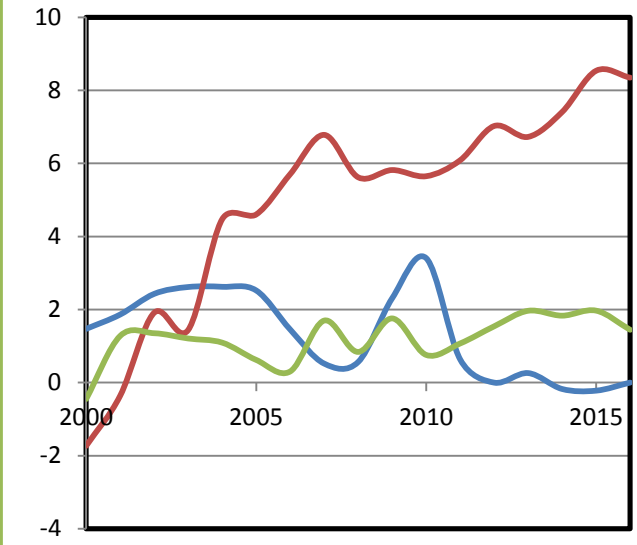




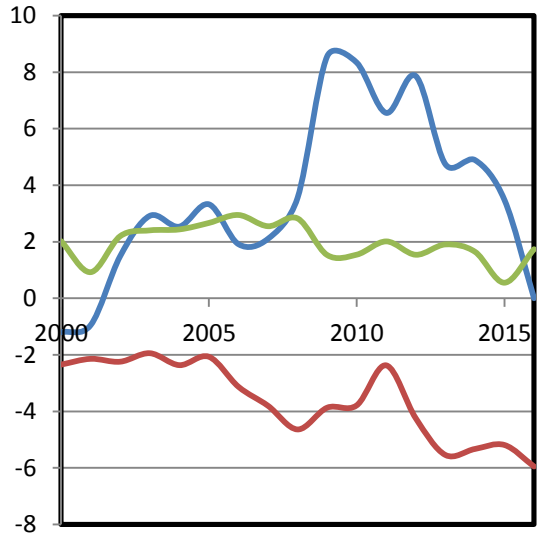


Behaviour of Macroeconomic Parameters for the Major Countries

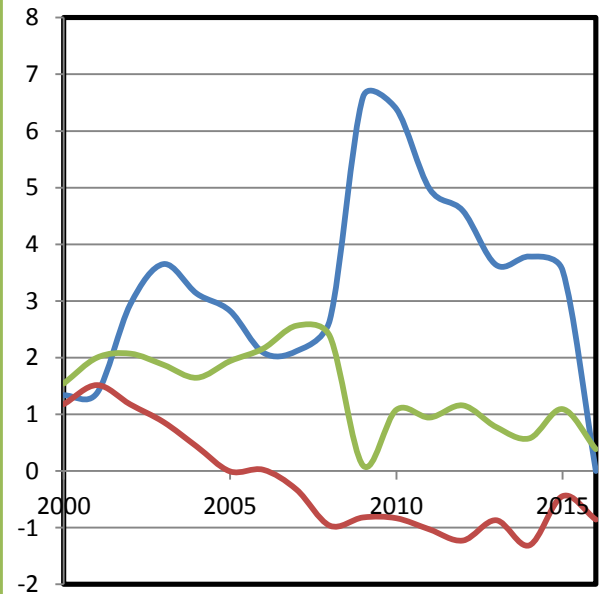
Germany



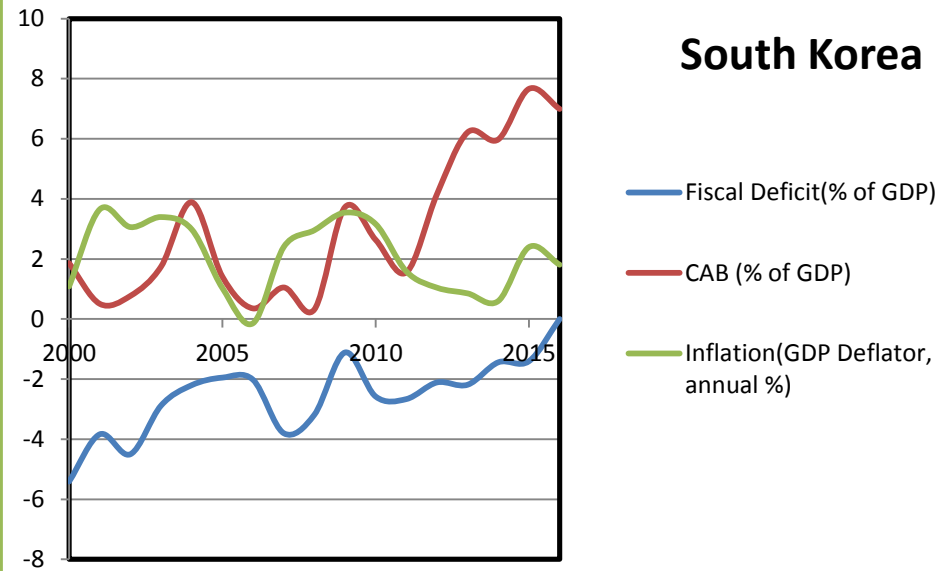
United Kingdom



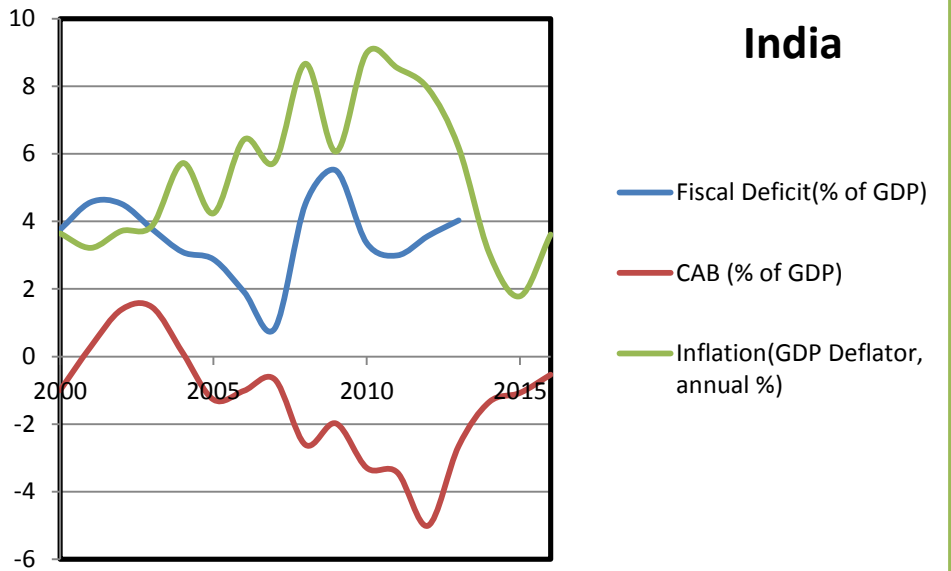
France



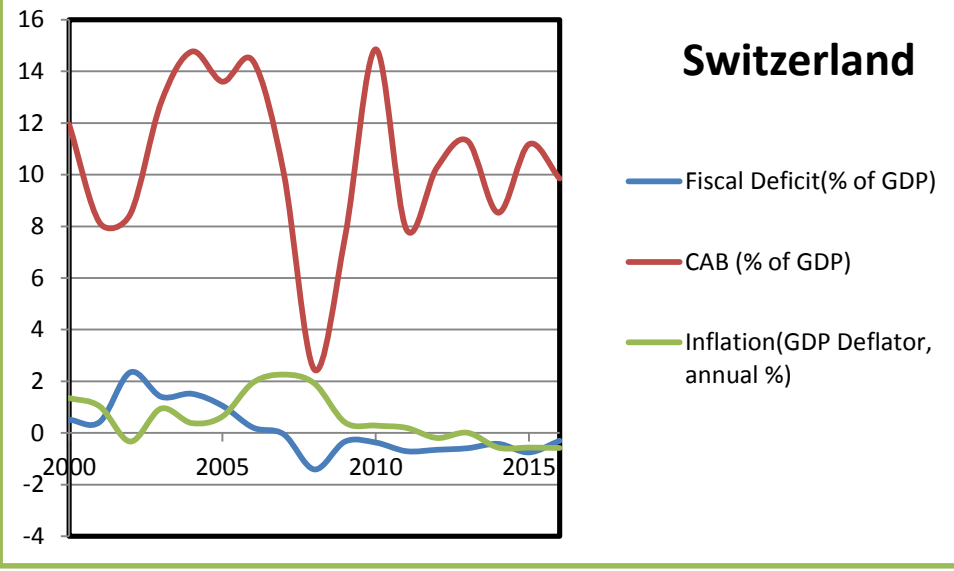
South Korea



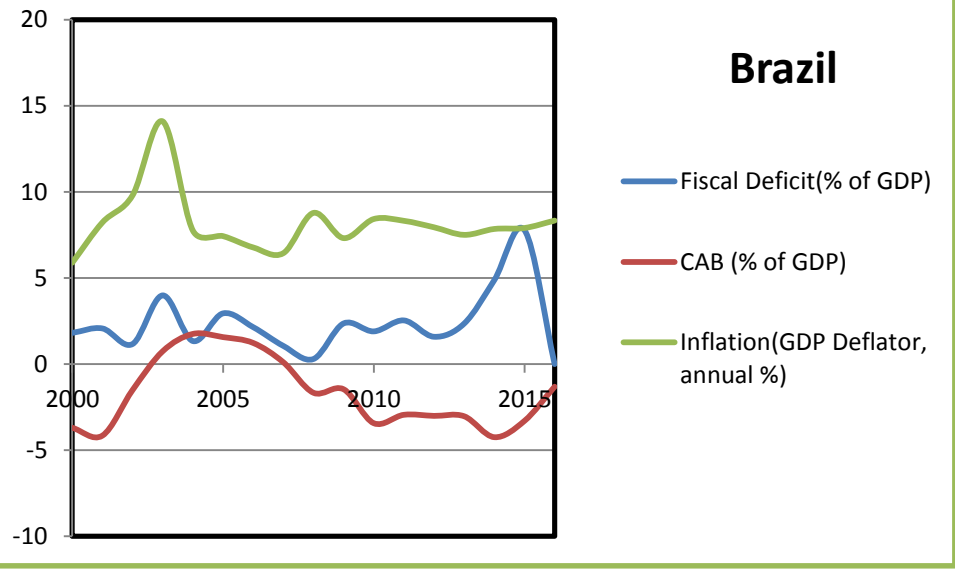
India



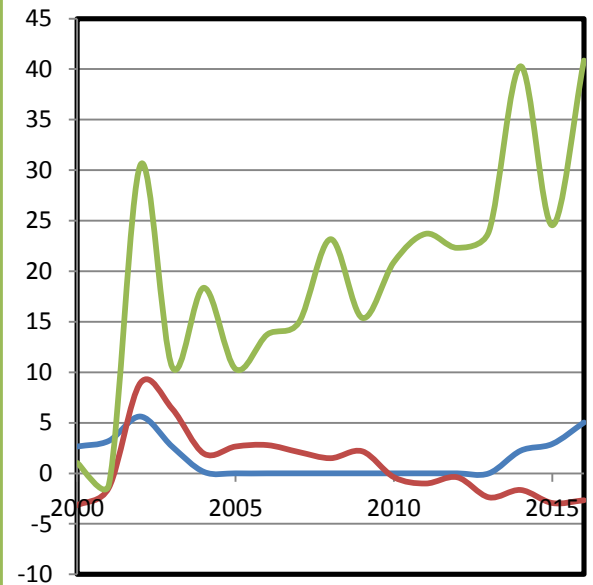
Switzerland



Brazil



Argentina

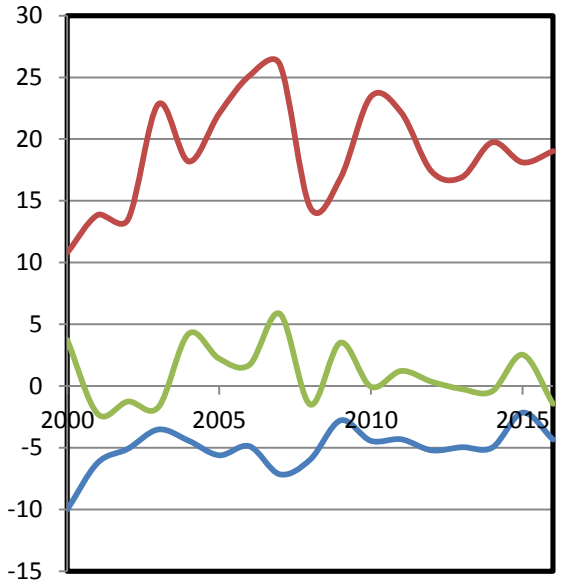


Fiscal Deficit(% of GDP)

CAB (% of GDP)

Inflation(GDP Deflator, annual %)

Singapore

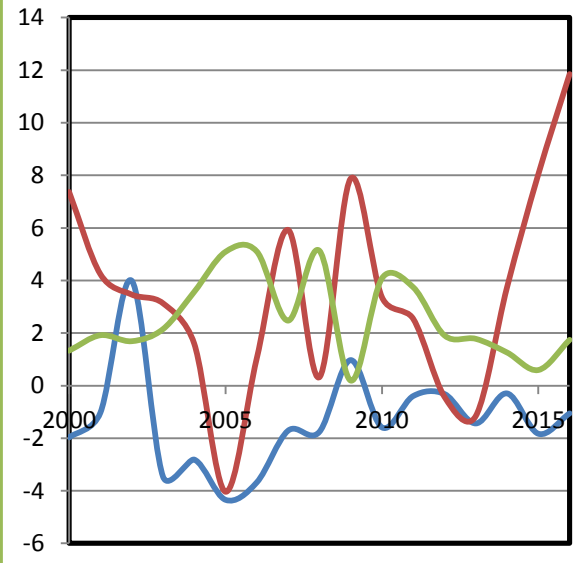


Fiscal Deficit(% of GDP)

CAB (% of GDP)

Inflation(GDP Deflator, annual %)

Thailand

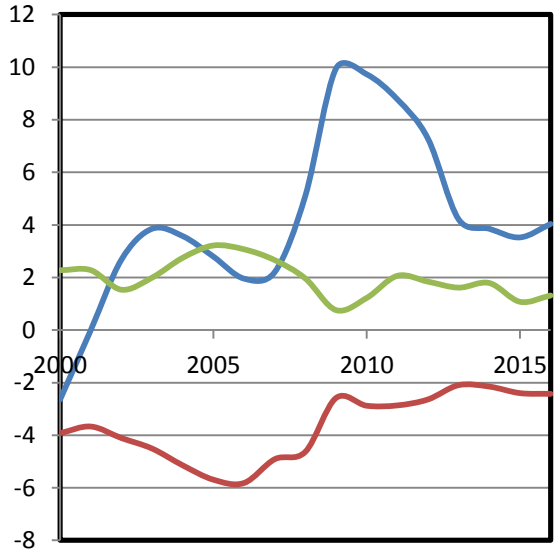


Fiscal Deficit(% of GDP)

CAB (% of GDP)

Inflation(GDP Deflator, annual %)

United States



Fiscal Deficit(% of GDP)

CAB (% of GDP)

Inflation(GDP Deflator, annual %)

Correlation Matrices: Old Blocs

- EUCU

	germany detrended gdp	france detrended gdp	uk detrended gdp	rest detrended gdp
germany detrended gdp	1			
france detrended gdp	0.9831 0.0000***	1		
uk detrended gdp	0.995 0.000	0.996 0.000	1	
rest detrended gdp	0.9995 0.0000	0.9873 0.0000	0.9974 0.0000	1

*** Significant at 1% level of significance

Rest of the countries in EUCU: Austria, Belgium, Czech, Denmark, Spain, Finland, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland,Portugal, Sweden, Turkey.

- APTA

	South Korea detrended gdp	India detrended gdp	rest detrended gdp
South Korea detrended gdp	1		
India detrended gdp	0.9957 0.0000***	1	
rest detrended gdp	0.9965 0.0000	0.9999 0.0000	1

Rest of the countries in APTA: Bangladesh, China, Sri Lanka, Mongolia, Laos

Correlation Matrices: Old Blocs

- EFTA

	Swiss detrended gdp	rest detrended gdp
Swiss detrended gdp	1	
rest detrended gdp	0.9985 0.0000***	1

*** Significant at 1% level of significance

Rest of the countries in EFTA: Iceland, Norway, Liechtenstein

Correlation Matrices: New Blocs

- NAFTA

	US detrended gdp	rest detrended gdp
US detrended gdp	1	
rest detrended gdp	0.9989 0.0000***	1

*** Significant at 1% level of significance

Rest of the countries in NAFTA: Canada and Mexico

- ASEAN FTA (AFTA)

	Singapore detrended gdp	Thailand detrended gdp	rest detrended gdp
Singapore detrended gdp	1		
Thailand detrended gdp	0.9982 0.0000***	1	
rest detrended gdp	0.9987 0.0000	0.9945 0.0000	1

Rest of the countries in AFTA: Malaysia, Indonesia, Philippines, Myanmar, Vietnam, Laos, Cambodia, Brunei Darussalam.

Correlation Matrices: New Blocs

- MERCOSUR

	Brazil detrended gdp	Argentina detrended gdp	Rest detrended gdp
Brazil detrended gdp	1		
Argentina detrended gdp	0.9997 0.0000***	1	
Rest detrended gdp	0.9786 0.0000	0.9748 0.0000	1

*** Significant at 1% level of significance.

Rest of the countries in MERCOSUR: Paraguay, Uruguay, Venezuela (joined in 2012 but suspended in Dec, 2016)

Macro-stability Index using Principal Component Analysis

Table IV: Weights of the macroeconomic parameters.

Parameters	Weights
Fiscal Deficit(% of GDP)	0.4920
Current Account Deficit (% of GDP)	-0.6397
Inflation Rate	0.5906

Macroeconomic Stability Index

EUCU

Germany(M1)	-4.40624	Hungary	0.1503
France(M2)	2.668944	Ireland	-2.7596
UK(M3)	5.356394	Italy	1.05098
Austria	0.42903	Luxembourg	-3.6869
Belgium	1.266939	Netherlands	-4.6501
Czech Republic	2.947211	Poland	1.60616
Denmark	-4.61524	Portugal	3.67599
Spain	1.675828	Sweden	-1.9777
Finland	2.889495	Turkey	5.91221
Greece	2.92261		

APTA

South Korea(M1)	-4.14437
India(M2)	1.737785
Bangladesh	2.216763
China	-1.6924
Sri Lanka	4.305461
Mongolia	6.125971
Laos	10.99248

EFTA

Switzerland	-7.84829
Iceland	0.135212
Liechtenstein	0
Norway	-10.3372

Macroeconomic Stability Index

ASEAN FTA (AFTA)

Singapore(M1)	-11.1392
Thailand(M2)	-5.69123
Malaysia	-2.33748
Indonesia	4.432584
Myanmar	4.951871
Philippines	-2.54982
Brunei	-21.0568
Cambodia	4.617909
Vietnam	-0.4126
Laos	11.05577

MERCOSUR

Brazil (M1)	10.58855
Argentina (M2)	17.80067
Paraguay	-0.20925
Uruguay	5.79988

NAFTA

Canada	1.597676
Mexico	4.656828
US (M1)	3.89741

ANOVA Table

Source of Variance	Sum of Squares	F-Statistic	p value
Between Blocs	466.9954	2.7686	0.0303*
Within Blocs	1383.14		

* Significant at 1% level of significance

CONCLUSION

- The results do indeed showcase a robust evidence in favour of propagation of macroeconomic spill-over within the blocs. Thus macroeconomic health of one country is subject to that of other countries in a trading bloc.
- Some of the major trading partners have an overall weak macroeconomic structure which is undoubtedly challenging as far as trade agreement continuity is concerned.
- This necessitates effectively tailored policies in such countries for a bloc to sustain over time.
- Finally, it is also observed that disparity in macroeconomic stability is more pronounced among countries within a bloc than among those outside a bloc. This surely implies that well to do countries have more incentives to opt out of the existing agreement, leading to disintegration.
- Therefore, persistence of an integrated global order is very much contingent upon the economic health of individual nation states.

THANK YOU