

THE RELATIONSHIP BETWEEN GLOBALIZATION AND THE ECONOMIC CRISIS

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Abstract:

Since 2007, the whole world has been facing a very severe economic crisis. The most important economies of the world have been going through a period of deep recession. In this matter, globalization has had a major role. Consequently, the aim of this paper is to analyze the link between globalization and the current economic crisis and to highlight the complexity of the relationship between the two phenomena. The research method used is documentary study, representative papers in the field being analyzed. The findings led to the conclusion that the two phenomena influence each other. On one hand, the economic crisis has spread rapidly around the world due to globalization and, on the other hand, the process of globalization has been affected by the crisis. The study also revealed that the current crisis is not just an economic crisis but a systemic one, a truly global crisis. It is obvious that there were and there will still be changes as a result of the crisis and not just economically, but the magnitude of these changes remains to be seen.

Key words: Globalization, economic crisis, recession, global crisis, deglobalization

JEL classification: F60, F69, G01

INTRODUCTION

Both globalization and the current global crisis are topics of great interest and actuality. In most cases, they are analyzed independently one of another. However, the economic developments in recent years require an analysis of the link between the two phenomena, this being also the purpose of this paper.

Globalization is a reality of contemporary world, having interconnected repercussions at all levels of human activity - economic, political, social, cultural, scientific, technological, and ecological. With the onset of the current global crisis, globalization has been called into question on two levels.

On the one hand, globalization is considered one of the main causes of the immediate spread of the crisis worldwide, crisis that resulted as globalization, not only economic but also a political, social, moral and a cultural one. The epicenter of the crisis was in the United States, and from here, the crisis has spread shortly, due to the increased interdependence of states and international liberalization on a wide range of markets.

On the other hand, the global crisis has brought into question the extent of the process of globalization and if it is needed more or less globalization. In the early years of the crisis, governments' priority was related to their national interests at the expense of international interests. Basically, they put national economic growth in front of global economic growth. Thus, the question arises whether the global crisis has triggered a weakening of globalization and how globalization will emerge following the crisis.

In a short time the crisis has become global, affecting a large number of countries and manifesting on all elements of the global economy. In addition, the financial crisis of the United States exceeded the economic sphere. The crisis has had as a consequence a social crisis, and also it revealed underlying weaknesses of the system, involving politics, capitalism, religion, etc.

THE VEHICLES OF GLOBALIZATION - CAUSES OF CRISIS SPREADING

Globalization implies increased world trade, financial integration and technological progress. In these circumstances, economic shocks from one country spread over other countries. At the same time, financial integration leads to increased frequency of shocks, which affect all economies. From this perspective, globalization has been designated responsible for the propagation of the current crisis. However, there are different opinions in the economic literature regarding the role of globalization in spreading this economic crisis.

Normally, financial liberalization and innovation, along with the free movement of capital, are fundamental elements of economic growth. De la Dehesa (2007) shows that financial globalization contributes to enhancing the development of financial markets, as capital becomes more mobile and financial institutions increase competition and innovation of national financial sectors, resulting in a decrease in interest rates, while reducing risk and increasing profitability. This translates into an increase in potential growth rates in countries with developed financial markets. However, de la Dehesa points out that financial globalization is not without problems; by its nature it facilitates the very fast transmission of negative shocks from a part of the world into another.

Among the engines of globalization, the development of information technology has played a key role in spreading the crisis. Despite the fact that IT innovations have generated an explosion of productivity, responsible for the high rates of constant GDP growth between 1992 and 2007, they also had negative effects. Lybeck (2012) points out that one of these effects is the substandard credit crisis. Due to globalization, financial capital flows around the world with a much higher speed, thanks to the widespread adoption of information technology. In these circumstances, not only the economic situation has pushed investors to risky investments, but also IT, which favored the meeting of borrowers and lenders on the Internet. Also, IT has enabled the collection of the necessary information to differentiate clients on two levels: the premium category and sub-category.

Moreover, technological innovations in computer science have enabled the creation of all mathematically complex financial products as CDOs and CDSs. In addition, rating agencies could not grant such securities an AAA rating without complex mathematical models, made with the help of IT.

Also, Roubini and Mihm (2010) believe that globalization has opened the way of this crisis, thanks to the speed with which financial capital can circulate to and from savings and certain markets, which amplified price volatility and financial crisis morbid ability.

The globalization of markets and the development of information and communication technologies, which increased the volume of transactions in real time, have been a powerful incentive for the emergence of financial actors, truly global, one example being the giant AIG. Some financial companies of this type have dominated the market. This can be seen easily in the several times multiplication of the weight of the financial industry profit in the global GDP, in the last two decades. Imprudent behavior of several huge financial institutions and their networking has allowed the creation of systemic risk.

As a conclusion, globalization has led to increased prosperity in the world, but at the same time, it also contributed to the spread of recession started in the United States, in 2007, around the world. Thus, due to globalization, the recession has affected both countries that have managed well their financial sector and those who have not done this. Also, there have been hit by the crisis both states that have had great benefits from globalization, but also those who earned less. It is obvious that as countries showed a greater degree of openness, the more affected by the crisis they have been. Neoliberal ideology has been behind many institutions and agreements that formed the conceptual framework of globalization. Just as neoliberal ideas have been at the basis of deregulation that played an important role in the current crisis, they have also been the elements supporting the liberalization of financial markets, which resulted in the rapid spread of global crisis.

THE IMPACT OF THE ECONOMIC CRISIS OF THE PROCESS OF GLOBALIZATION

The current economic and financial crisis has had a devastating impact on the world economy and also on globalization. Regarding the influence of the crisis on the process of globalization there are several points of view in the economic literature.

By 2007 globalization has developed unprecedented. But the crisis began in the United States has shaken confidence in the globalizing worldwide, calling into question the functionality of the process. In the early years of the crisis, many researchers believed that globalization was in retreat and that time of laissez-faire was over, based on the trends of those years: the role of governments began to grow, as well as regulations, an example being the nationalization of the banking and auto industry in the U.S., UK and Ireland.

The fact that in the early years of crisis governments' priority was related to their national interests over the international interests proves that the economic crisis that led to a decline of globalization. Many countries have taken protectionist measures to encourage spending within national borders. In this regard, Stiglitz (2010) gives the example of the United States, which included a recommendation to "buy American products" in the law related to the stimulation of the economy, which stated to purchase products made in the United States. Finally this provision of the law has been changed, in the sense that it would only apply if there were no international agreements to prevent such discrimination. But America has such agreements concluded mainly with developed countries, which mean that incentives were used to purchase goods from developed countries, and not from poor countries.

Jean Pisani-Ferry and Indhira Santos (2009) showed that the current crisis has affected the engines of the rapid globalization from the recent years: private property, multinational companies, global logistics chain and the open market. First, public participation in the private sector increased in late 2008 and early 2009. From the 50 largest banks from the United States and the European Union, 23 and 15 respectively of them received injections of public capital. Other sectors have received state aid, such as the insurance and the auto sector. Then, despite the fact that economic integration in the last quarter century was due to multinational companies, these companies were the first affected by the crisis. Huge multinational corporations were suddenly put in the position to identify the government that could support them. Third, Pisani-Ferry and Santos (2009) warn that the national response to the crisis can lead to financial and economic fragmentation. Originally, governments have asked banks to continue lending domestically, streamlining credit in foreign markets. This was the case when the Dutch government suggested to the ING bank to expand domestic credit and reduce the overall balance at the same time. This measure leaves emergent economies and developing companies vulnerable to financial protectionism, given that these generally depend heavily on external credit. Also, despite the commitment of the G20 in November 2008 not to raise tariffs, these have increased from the beginning of the crisis in many countries, including India, China, Ecuador and Argentina. Considering these risks, Jean Pisani-Ferry and Indhira Santos forward the idea that global governance and the global economic picture will emerge from the crisis reshaped. Depending on the policies adopted by governments, globalization can be stronger or weaker after the current economic crisis.

At the same time, Wade (2009) argues that despite the attempts of the states to return to the financial sector, and also in some productive sectors of the economy, their involvement is limited because neoliberal institutions and rules were the basis of the global economy in recent decades. In other words, there has not been an alternative set of principles as the core of a new consensus, the free market and international economic integration remains as default. Therefore, although the first reaction to the economic crisis was the development of programs and regulations by each country and in particular in the developed ones, in a second phase of the crisis, there have been developed attempts of harmonization and coordination of the necessary policies in a still global economy.

A direct consequence of the economic crisis was the decline in trade and foreign direct investment worldwide. In this context, some studies used the term deglobalization, to define the

process resulted following the crisis. Brăilean (2012) considers that the signs of this trend are given by: stock trends, market segmentation, limiting speculative quotations and financial flows and some devolution of capital.

Furthermore, Karunaratne (2012) emphasizes that the dynamic process of economic globalization and deglobalization has been taking place in "waves" in the last 250 years. Therefore, the recent global crisis quickly spread throughout the world, has transformed a global economy booming and promoting policies of globalization, in an economy that has brought into discussion deglobalization policies.

On the other hand, the fact that the economic crisis has weakened globalization does not mean that the world is witnessing the end of globalization. It is obvious that as long as countries are unequally endowed with resources and technology, they are different in their abilities and potential to produce goods. In these circumstances, while requests for certain products in various countries exceed their ability to perform these products, economic dependence among nations will remain, thereby globalization will continue. In 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 leadership, global institutions, and globally integrated financial system. Also Buneci, Masu and George (2009) believe that the current crisis will not end the process of globalization and that it will manifest itself in a distinct manner. Thus, globalization will mutate, there will be another system of interaction among key national and international actors, and basically there will be a new world order.

In other words, we can say that the forecasts of some experts indicating a possible stop of the globalization process have not been confirmed. On the contrary, this process continues, taking forms and characteristics induced by global phenomena today. In fact, if on short term globalization has been affected by the economic and financial crisis of 2007, on a medium and long term the crisis intensifies globalization.

THE CURRENT CRISIS – ECONOMIC CRISIS, STRUCTURAL CRISIS, SYSTEMIC CRISIS, GLOBAL CRISIS?

The current crisis is not cyclical but a systemic one. Brăilean (2012) points out that the crisis was born due to systemic problems, a system characterized by excessive financialisation, excessive virtualization, with a excessive liberal, consumerist and mercantile character.

Looking beyond the economic aspect of the crisis, Brailean (2012) notes that the current crisis has affected the world in many ways and it is not only a financial and economic crisis, being at the same time, a social crisis, a political and a cultural profound crisis, a moral crisis, a crisis of democracy, of ideologies and of the capitalist system. A genuine cult market has been applied throughout human existence. However, there are authors like Lybeck (2012), for which the current crisis is just a financial crisis. He thinks of it as a systemic crisis only because it affects the entire financial system, and he does not take into account the other dimensions of the crisis.

From the social point of view, the crisis has meant the loss of jobs for a large part of the population worldwide. Besides this, the crisis has deepened poverty in all countries. There is a growing homeless population. An example is Spain, but there are other countries in the same situation. For instance, in Spain people have taken advantage of cheap loans offered by banks taking large loans compared to their income. When the economic crisis occurred, many people have lost their jobs. Under these conditions, they found themselves unable to pay rates on banks. As a result, the banks have taken their homes.

The fact that the financial crisis has forced governments to rescue large financial entities has been adversely affected social cohesion by emphasizing the feeling that things are not right. This is evident in the case of the losses of private companies that have been covered by states, while for many citizens the revenues have been eroding.

Also, the current crisis is political. Throughout history, most of the economic crises were doubled by policy changes. For example, the economic crisis of the '29 - '33 determined the rise of Hitler, because of deflationary policy of Chancellor Heinrich Brüning. So prolonged economic downturn raises against democratic values and institutions. Already in the Western world there have been developing extremist parties and policies: current radical anti-immigrant and anti-Semitic ideologies movements, radical nationalist policies and authoritarian sentiments. Examples of such countries are Netherlands, where a far-right party is in government, Hungary, which is on the track to return to an authoritarian regime and such cases are on the rise, especially in Europe. The situation is similar in the United States where the Republican Party has become more extreme in recent years.

The crisis also revealed a lack of action by the political class that remained, in most cases, in front of the economic downturn without a proper response. No national government and no international institution have been able to deal properly with the weakening global economy. The response of governments has been concentrated, at worst, on managing their own political image, and in the best case to treat the symptoms of the crisis, not the cause. Since the onset of the crisis, politicians vied in adopting contradictory policies, failing to fulfill their role and the mission that is to serve the interests of citizens in a right way. Therefore, we can say that the political class is in crisis. Distrust in government is conclusive in this respect. Resentment is amplified by what is perceived as the inability of the political class to formulate strategies not to promote the interests of the business circles in the detriment of employees. The problem is that the political class in the whole world is strongly influenced by powerful private companies. One example is that in the United States, bankers and rich people have relatively easy access to the offices of senators. In fact, they have managed to persuade the former U.S. president, Bill Clinton, to lift the ban on the low that did not allowed commercial banks to use customer's money in speculative activities.

At the same time, the current crisis it is a crisis of global capitalism. Despite the fact that the capitalist system based on private ownership, competition and capital, has proved undeniable virtues, the current economic crisis has revealed that in the last decades capitalism has fostered speculation, has raised uncovered debt and has increased financial engineering and "games". Today, capitalism no longer seems to offer an ideal framework for growth and development.

Since the 1980s, capitalism has not been directed towards the economic development of the world, but rather, to obtain profits from speculation. Capitalism meant, as emphasized by Buneci, Masu and George (2009), uncovered currency issues, involving financial engineering with mathematics in a "casino economy". Motivated by the possibility of obtaining huge gains, the system began to create more money. As a result, the exchange rates have increased too much, in this process resulting speculative bubbles in all types of transactions, especially in real estate. In other words, the money of this type of capitalism has not been obtained through work, in productive enterprises or trade, but by speculation. Brăilean and Plopeanu (2012) claim that there have been forgotten the true values of capitalism: perseverance, team spirit, solidarity institution, creativity, patience, balance, initiative backed by thrift and especially work and savings. In addition, the capitalism unleashed since 1980 is mainly financial and characterized by excessive liberalization of the economy.

The current crisis is also a crisis of the moral values, values that have shacked more and more in front of money. In the capitalist society, money is considered an end in itself and not a means, as it should be. Hence, people's chase after money and excessive consumerism.

From a religious perspective, Brăilean (2012) points out that in the West, religions are in decline, adopting very different forms. In the Muslim world antimodernity is dominant, generating extremist movement, with a fundamentalist and radical basis, and Daoism, China's deep faith, is still affected by the Chinese communist system. In other words, the world is facing a religious crisis too.

Based on all the elements described above, we can say that the crisis has quickly become a global crisis. The United States exported its deregulation philosophy first and then exported its recession. This is one of the ways in which the American crisis has become a global crisis. Given

that the U.S. economy is the largest in the world, it is understandable that a decline of this magnitude has a global impact, generating a slowdown in global economic engines. In addition, global financial markets are highly interconnected, Stiglitz (2010) considering that the evidence for this is the fact that two of the first beneficiaries of the U.S. government rescue of AIG were foreign banks.

As the crisis deepened in the United States and Europe, other economies of the world were beginning to feel the effects of the collapse of global demand. Buneci, Masu and George (2009) note that in 2008, in January, the crisis affected the UK, Ireland, Iceland, Spain, in March, the crisis invaded Canada, Japan, Mexico, Estonia, Lithuania and Latvia and in June the downturn included Portugal, Denmark, Vietnam and South Africa. In the same year in September, the crisis manifested itself in Italy, France, Hong Kong and Australia, and in January 2009 the crisis hit Greece, Germany, Belgium, Chile, Ukraine, Hungary, Slovenia, Croatia, Pakistan, Poland, Czech Republic, Taiwan, Singapore, Serbia, Bulgaria, Russia, China, Brazil, Ecuador and Romania. However, Asia was less affected due to three facts. Firstly, Asia has recently experienced a major economic crisis in 1996-1997, of which she has learned several things. Secondly, Asia has real economy and industry, it produces. Thirdly, Asian societies are closed, autocratic, most often having planned economies with market characteristics, so they are easier to control.

In spring 2009, the crisis was already present in both the banking sector around the world, and the world economy. In other words, it has become a global crisis affecting all sectors and including most national economies.

Moreover, the concept of "global crisis" shows, beyond the extent of the geographical dimension, the final outcome of the process of globalization of the crisis. From one country, the United States, the crisis spread soon around the world and from a sector, the banking sector, it has spread just as quickly, in the whole world economy, downstream and upstream. In other words, the economic crisis swept across the world, becoming a true global crisis.

CONCLUSIONS

In conclusion, since 2007, the global crisis has affected a large number of countries and has manifested on all elements of the global economy. In addition, the financial crisis of the United States exceeded the economic sphere. On the one hand, the crisis has had as a consequence a social crisis, and on the other hand, it revealed underlying weaknesses of the system, involving politics, capitalism, religion, etc.

However, the economic crisis has reached the process of globalization. While some authors argue that globalization is in crisis and the current global economic downturn will end the process of globalization, others are convinced that globalization will emerge stronger from the crisis. However, if short term globalization has been affected by the economic crisis, in medium and long term, we can say globalization is reinforced and even exacerbated by the crisis.

The crisis has shown that if globalization is a source of economic growth, also it can be a factor of economic instability due to poorly assessed risks interconnections. Globalization, the financial liberalization and technological innovations in the field of IT have enabled the spread of global economic crisis. Depending on the nature and strength of the U.S. economic ties with other countries, it has spread sooner or later, immediately leading to reduced economic activity. The crisis was followed by a long period of severe recession in all countries

Certainly, the economic crisis began in 2007 is not a conjectural avatar. In fact, it is rooted in unsustainable growth patterns that have developed since the '80s, characterized by excessive debt. The whole world is facing a structural crisis, a systemic crisis that has arisen due to the problems of the economic system, relied too much on financialisation, virtualization, liberalism and consumerism.

The fact that both globalization and the global crisis are subjects of extensive debates, demonstrates that they are controversial phenomena of major importance and scope on the global scene. It is

obvious that there will be changes as a result of the crisis, but how deep and fundamental they will be is not yet known.

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