

# ESSAY: GLOBALIZATION: <sup>The</sup> End of Austerity

## OUTLINE:

### 1. Introduction

Thesis statement: Globalization, through its intricate web of economic interdependencies, has challenged the viability and necessity of austerity measures. However, even with soaring penetration of borderless interactions, certain evils of austerity remain diluted within the global politics. Therefore, effective measures may catalyze an impetus to strengthen the globalized world, containing the austerity in the process.

2. Unraveling the globalization and austerity measures - economic policies to curb the budget deficit.

3. Pitfalls of austerity measures vexing the economic affairs of the states.

a - Economic stagnation - isolationist policies and budgetary units catalyzing financial downturn

b - Unemployment and inequality - proletariat as the affectees of economic stagflation

c - IMF pushing austerity measures to ensure self-sufficiency

d - Rise of protectionism

e - COVID-effect marked the return of austerity measures - border closure

f - Social security constraints saddling the chances of <sup>prolonged</sup> economic growth and



development.

4. Globalization putting a halt to austerity - the evils of austerity curtailed through interconnectedness

- a- Controlled policy autonomy - state entanglement - #wasting unilateral policy making
- b- Economic integration - market access escorting the budgetary balance
- c- Ensures capital mobility, pushing finances and investments to constrain the need of austerity
- d- Social and political considerations - inter-state spillover effects emanating from borderless interactions.
- e- Employment opportunities generated by state-connectivity.
- f- Climate change countered via state-cooperation and aids.
- g- Free movement of labour.
- h- Promotion of healthcare through global campaigns.

5. Generating an impetus to strengthen globalization and to contain austerity.

- a- By investing in human capital
- b- By formulating trade policy and poverty reduction.
- c- By ensuring democracy and economic growth.

6. Conclusion



## Essay:

The Silk Road, an ancient network of trade routes across China, Central Asia and Mediterranean used between 50 B.C.E and 250 C.E, is perhaps the most well-known instance of exchanging ideas, products and customs. As with the future globalizing boom, new technologies played a key role in the Silk Road trade. However, at times the trade, growth and development is inhibited by imposing austerity measures to curb the budget deficit. Consequently, economy of the state is influenced. Bank and file suffers from unemployment, poverty, economic downturn and financial inequality. Moreover, protectionist policies in order to increase local reserves and loan scheme of IMF exacerbate the crisis. In addition to this, outbreak of pandemics and security issues, impede the global trade. Nevertheless, globalization has the potential to alleviate the perils of austerity measures via inter-state supervised policies, global market, movement of capital and labour mobility. Besides, social and political aspects need to be considered in borderless trade. Furthermore, employment opportunities, mutual aid for climate change and healthcare awareness are the outcomes of globalization. Therefore, human resource, trade policies and democracy should be prioritized to ensure economic sustainability. Hence, globalization



through its intricate web of economic interdependencies, has challenged the viability and necessity of austerity measures. However, even with soaring penetration of borderless interactions, certain evils of austerity remain diluted within the global politics. Therefore, effective measures may catalyze an impetus to strengthen the globalized world, containing the austerity in the process.

The history of mankind is the history of conflicts, war, co-existence and innovation. New ideas and modern technology have molded the living standards of homo sapiens. Industrial revolution is a remarkable event of human history as it has brought radical changes in human societies at local and global level. Among the new ideas, globalization is important in modern history. Man has always strived for mutual co-operation since the recorded history as a Greek philosopher, **Aristotle** said, "Man is a social animal". This desire for co-existence proved as a catalyst for the strengthening of globalism. In this way, globalization emerged as a reality. Globalization refers to integration between people, governments and companies. Most noteworthy, this integration occurs on a global scale. Furthermore, it is the process of expanding the business all over the world. Globalization kept on growing gradually since **1st BC**. In **7th century AD**, most noteworthy Arab merchants led to a rapid expansion of international trade. This was the time when



Islam was spread. Finally, in 21<sup>st</sup> century globalization took its ultimate form. Notwithstanding, at times governments impose strict policies called austerity measures, to hinder the way of globalization and to make economy stable. Austerity measures are strict, frugal economic policies used by governments to manage public debts. Hence, globalization and austerity are interlinked yet inversely proportional to each other.

Isolationism in political and economic affairs ensues economic downturn. Countries are often of the opinion that they can meet their needs on their own. They enact policies without external intervention, which sometimes prove detrimental and strict for a common man. For instance, China cut itself from the world in the fifteenth century and tried to stay isolated from that point forward. Moreover, in the recorded history, many countries avoided being part of an organization to pursue their own interest and remained isolationist states. For example, **US foreign policy** during the 1920s was characterized by the enactment of isolationist policies. U.S. opted not to join the **League of Nation**, despite the fact that it was the first nation to who proposed such international co-operation. Hence, isolationist policies often lead to catalyzing financial downturn. There is a famous saying "**money**



gets money." It points to the fact that rich becomes richer and poor becomes poorer because of its policies. As discussed earlier, economic downturn ensues loss of job opportunities and inequality in the country. Due to frugal austerity measures common man is unable to keep body and soul together. This creates discrimination between the poor and the rich, and hence give rise to poverty. Borrowing countries are more likely to face austerity if they host to significant direct investment (FDI), particularly from the western Europe. Furthermore, by increasing the income of share of the top ten percent at the expense of bottom eighty percent raises unemployment and impacts can be manifested in raising poverty levels of countries having tighter austerity measures. Therefore, austerity measures contribute to lower socio-economic standards of living.

Moreover, countries dependent on foreign loans have to fulfill the conditions and austerity measures imposed by the host country or organization. In this perspective, IMF pushing austerity measures to ensure self-sufficiency is evident. Some countries that have recently engaged in IMF programs had their citizens take to the streets in opposition to IMF imposed austerity. Argentina sought the largest loan in IMF history, i.e. 50bn USD loan from IMF amid national protests.



Similarly, scenes of protests against IMF imposed austerity unfolded in many other developing countries. Ecuador and Egypt in 2019 protests are the most remarkable. Even in Lebanon, which did not have an IMF program, protestors rallied against proposed austerity measures in its 2018 Article IV consultation. Hence, IMF imposed austerity measures were a major setback to the economies in the history.

Another factor which impedes globalism and fosters austerity is protectionism. Domestic consumers are worse off as a result of protectionism. Besides, in protectionism, imports are restricted from other countries to bolster domestic industries. Although domestic producers flourish through protectionism, but consumers have a limited choice. The United States had a long history as a protectionist country, with its tariffs reaching their high points in 1820 and during Great Depression. U.S implemented the highest number of trade policy measures deemed as harmful to global trade liberalization, with nearly 9,500 policies. So, global economic interdependencies decreases through protectionist policies.

Besides, COVID-19 was the most disastrous event in the history of globalization. Borders-closure and tensions arise due to detrimental effects of pandemic. Consequently, the whole global trade has



affected. **United Nations Secretary General, Antonio Guterres** said that Corona disaster is the most disastrous event after World War II. Moreover, COVID is a major setback to the economies of the world. It is predicted that COVID-19 will lead to an economic recession that will be severe than 2008 economic recession (**IMF, 2020**). Global supply chain is interrupted across the globe as is seen in case of interrupted supply chain of **Apple company**. In addition to this, multi-national companies hold offices in many countries and their manufacturing is also dependent on multiple companies. Some countries provide raw materials, some countries manufacture spare parts and some may assemble products in their final stage. All these factors substantiate the fact that Corona Epidemic was posing existential challenge to globalization and succored austerity.

Over and above, social security is another aspect which hampers economic growth globally. The concept of security has been under serious reformation by every security referent since the cold war ended. History witnessing the fact, that if anyone tried to live in isolation, he faced great difficulties in response. **Sudan** and **South Korea** are the case study in this context. In the post Cold war international relations, the Korean Peninsula is not only the



heart of the Northeast Asian security discourse, but also the center of global security concerns. Therefore, security concerns restrain a country from economic development.

Although perils of austerity are irking the economic growth of states, yet globalization has the capability to impede the way of austerity via supervised inter-state policies. Globalization ensures interconnectedness between two countries, so, the policies of a state cannot be formulated in isolation especially, when it affects both states. In a view of this, Pakistan and China are strategic partners through **CPEC**. Any economic policy formulated by Pakistan cannot be enforced without China's approval. If that policy impacts China in some way, it has the right to revoke the policy and vice-versa. In this way, state-centric policies are halted through globalization. Ultimately, it has strong impact on curbing the austerity measures.

Another pros of globalization is the accessibility of the global market. The competitors will lose their profit margin for attracting more consumers. In this way, the consumer not only has lot more choices but also has quality goods too. With the decrease in prices of the goods, the states will be able to have more on cheaper price. It maintains budgetary balance and discourages austerity measures. Moreover, a common man is benefited and his living standards are raised. Through economic integration, chances of foreign direct investment and exports are relatively high than mere sticking on isolationist policies. Many coalitions are made for this purpose. **NAFTA** (North American Free Trade Agreement) established a free-trade zone in North America. It was signed by Canada, Mexico and



United States, NAFTA immediately lifted tariffs on the majority of goods produced by the signatory nations. Hence, through globalization, world has become a global village and global market which boosts the world economy.

Furthermore, capital mobility has been an integral part of the global process in economic development. It has integrated the people. It allows people throughout the world to run their business, wherever they want. The free movement of capital is bridging gaps between the countries. It is due to the tool of globalization that one can have access to all the things he wanted through a single click. Trade between states became a hallmark of the globalization. It has helped the world to squeeze and capital can be much more mobile. For instance, a **multinational company** may move some of its financial capital from Europe to Australia to take great advantage of higher interest rates in Australia. Besides, capital mobility can be in the form of goods such as buildings, machinery and tools. Therefore, globalization has compacted the world which helps in movement of goods, services and capital from one place to another.

In the globalized world, due to interdependency states must take into account social and political aspects with other states before formulation of policies. Many factors impact the policies of a state. Negative impacts of internal upheaval of one country has a ripple effect on the economy of another, usually more dependent country. Spillover effects may be caused by stock market downturns such as **Great Recession** in 2008. Moreover, every country is in some ways



borrower and lender in the other way. This creates a need for states to engage in economic interconnectedness. However, during engagement some social and political considerations are considered so that no country could make stern decisions. Currently, US and China are competing for global super power. In fact, the United States of America is the largest borrower of China. Hence, economic interdependence restrains a country to take severe decisions.

With the dawn of globalization, employment opportunities are also created. Globalization is maximizing the wealth of the world. Simultaneously, it creates the opportunities to elevate the living standards of people. Indeed, when a multinational company goes in a region, it creates an opportunity of employment. It gives financial support for the betterment of roads and transportation. Sudan is the case study of this. The oil, gold and gas reservoirs were of no use to the people of Sudan. When multinational companies went over there, they explored these reservoirs. As a result, their economy <sup>has</sup> started to appreciate and people are getting more jobs. It may be said that it has altered the life style of Sudanese. So, globalization has the potential to alleviate austerity and elevate employment opportunities.

Besides, environmental problems are no more a personal issue. Climate change and different kinds of pollution are no more an indigenous or local problem. It is a worldwide phenomenon. The question is why is it a global problem? The answer is that the carbon emissions from one state would damage the atmosphere and the whole world might bear one's wrong doing. In



in this regard, a protocol had been signed by the name of **Kyoto Protocol** among the big countries except the United States of America whose carbon emissions is the largest in the world. More than 15 percent of overall carbon emission being contributed by United States (**UNFCCC**). Hence, climate change is a global problem which needs global and mutual aid and co-operation.

Another point to counter austerity measures is the free movement of labour through elimination of trade barriers which include tariffs, quotas and subsidies. **World Trade Organization** is working on same agenda. It augmented the trade between two countries. By its effectiveness and performance it can be assumed that it is the order of the day. Every state is interdependent on the other. This interdependence becomes the general norm of international politics. Furthermore, free movement of labour is a fundamental principle enshrined in **Article 45** of the **Treaty of European Union**. State welfare and development are interrelated very closely. Many organizations like **WTO, EU** and **IMF** pave way for trade instead of aid through movement of labour and via other means. Therefore, free movement of labour assists globalization and discourages austerity measures.

One of the important sectors in human resource is healthcare. Healthy human capital is an asset for a country and contributes to economic development. Globalization promotes healthcare facilities through general dissemination of awareness campaigns. Under **WHO**, the world was declared as "small pox free" in 1986. After that a rigorous campaign had been launched against **Polio**. In addition to this,



International media raised the voice in the era of COVID-19. Outbreaked from China, COVID<sup>19</sup> spread ed world wide and was of global concern. Presently, the campaign against HIV AIDS is on its peak which is funded by World Health Organization. Therefore, globalization has its pros in health sector, an essential aspect for economic development.

In view of the above discussion, globalization still needs to strengthen its routes to halt austerity, leading ~~the~~ world to a more integrated and prosperous world in future. For this, investment in human capital should be done. Strategies for promoting economic growth and poverty reduction should be an important part of every country's economic policy. There is a need to encourage investment through economic liberalization, privatization and reduced trade barriers. There is a need to invest in human capital, such as human health and education, creating effective institutions of governance and eradicate corruption. Singapore has been ranked top in Asia for developing human capital (WEF, Sep 2022). In conclusion, human capital development is crucial for economic prosperity and globalization is the tool or means.

Moreover, trade policy of a country determines its relation to the other countries. The trade policy should be formulated in such a way that takes into account the national strategies for poverty reduction and redistribution. If the goal is to reduce poverty, the governments, international institutions and civil societies need to conduct a real dialogue on how to make globalization work for the



poor. In order to serve this purpose, GATT (General Agreement on Tariffs and Trade) was created. The world trading system has benefited from eight rounds of multilateral trade liberalization, as well as unilateral and regional liberalization. The resulting integration of the world economy has raised living standards around the world. Hence, trade policy is directly proportional to the economic standards of a country.

In addition to the above, democracy and economic growth are interlinked with each other. Economic growth can only be possible if there is a stable system of politics. The politicians are willing to develop their state efficiently. It can happen only when there is democratic system in the state. Marx Weber rightly said that, "it is the charisma of the leader that determines the fate of the nation." Democracy is closely tied with economic sources of growth, like education levels and lifespan through improvement of educational institutions as well as healthcare. Consequently, democracy is associated high human capital accumulation, lower inflation, lower political instability and higher economic liberation.

In conclusion, globalization has transformed the world into a global village. It is a blessing for everyone in this contemporary world as it helps in movement of goods, services, and capital from one country to another. It really enables the modern man to tackle the problems efficiently. The voyages which were of months, now limited to hours. Furthermore, globalization is a



major setback to the austerity measures. It boosted the trade liberalization and has a positive impact on the economy of the world. With the assistance of multi-national companies and international organizations, world has been successful in eradicating poverty, unemployment and inequality. Moreover, the boon of globalization eases trade liberalization, which curbs the need of austerity measures. By implementing economic-friendly policies, globalization will surely end the austerity worldwide. "The speed of light does not merely transform the world. It becomes the world. Globalization is the speed of light."  
— Paul Virilio.