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The COVID Pandemic Adds Momentum Deglobalization Phenomenon

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ABSTRACT: Various measures for deglobalization are introduced for monitoring the deglobalization of a country, and statistical measures are reported. The research framework for deglobalization and empirical models are suggested. The relationship between deglobalization and globalization is being modeled using three KOF globalization indexes: economic, political and societal. This study used panel data from 1970 to 2017 for developed and developing countries to determine the degree of deglobalization.

The COVID-19 pandemic is driving the world economy to retreat from global economic integration. Policymakers and business leaders are now questioning whether global supply chains have been stretched too far. In an environment where alliances are uncertain and international cooperation is absent, they are also asking whether they should reduce their economic interdependence. National security and public health concerns are providing new rationales for protectionism, especially for medical gear and food, and an emphasis on domestic sourcing.

This retreat will not mark the end of globalization, a process that has reached a historically high level. But globalization can be reversed, at least partially. The Great Recession of 2008–10 marked a historic turning point in the degree of global economic integration. Now, in response to the current health and economic crisis, policymakers appear poised to take deliberate steps to reinforce the movement toward deglobalization.

I. INTRODUCTION

Deglobalization has been found empirically since the global financial crisis. Deglobalization is estimated by the decreasing trend of import share in a country's gross domestic product and is influenced by manufacturing imports, country's income divide and political globalization. Both economic and societal globalizations have negative influence on deglobalization. Deglobalization is more apparent in developed countries than in developing countries, and the deglobalization trend will continue in diverse formats.[1,2]

These steps threaten to slow or reverse the economic growth delivered by globalization. Even worse, new restrictions on trade could proliferate and inflict damage that could take decades to reverse.

Globalization reversed in the second period, from the outbreak of World War I in 1914 until the end of World War II in 1945. World War I produced prolonged economic dislocation, which included the withdrawal of Russia from world trade after the communist revolution in 1917, the Spanish flu pandemic in 1918, monetary instability in the early 1920s, new immigration restrictions, the Great Depression starting in 1929, and a severe outbreak of protectionism in the 1930s. This turmoil reduced integration and the world economy suffered.[2]

Going by history, India could re-emerge as a land of opportunity. According to a recent report by Jones Lang Lasalle, "India has witnessed a 257 percent growth in GDP between 2004-05 and 2018-19, emerged as the 6th largest consumer market globally with 49 percent workforce participation, ranked among the top 10 recipients of overseas investments in 2019, attracting \$49 billion in inflows (16 percent increase from previous year)".

The cumulative total FDI inflows received from April 2000 to September 2019, aggregate to \$642.36 billion and just in the half year period between April - September 2019, aggregated to \$34.90 billion.

India, while protecting its national interests, has an opportunity to redefine the contours of global trade.

Economic integration rebounded in the third period, the three decades after World War II. American leadership helped create new institutions for economic cooperation, such as the General Agreement on Tariffs and Trade, enabling countries to open their economies once again to trade and investment. These steps helped usher in a golden age of growth.[3,4]

During the fourth period, from the 1980s until the financial crisis of 2008, economic integration rose to a historically unprecedented global scale.[3] Led by China and India, developing countries began dismantling trade barriers. The Soviet bloc in Eastern Europe moved toward democracy and economic liberalization with the fall of the Berlin Wall in

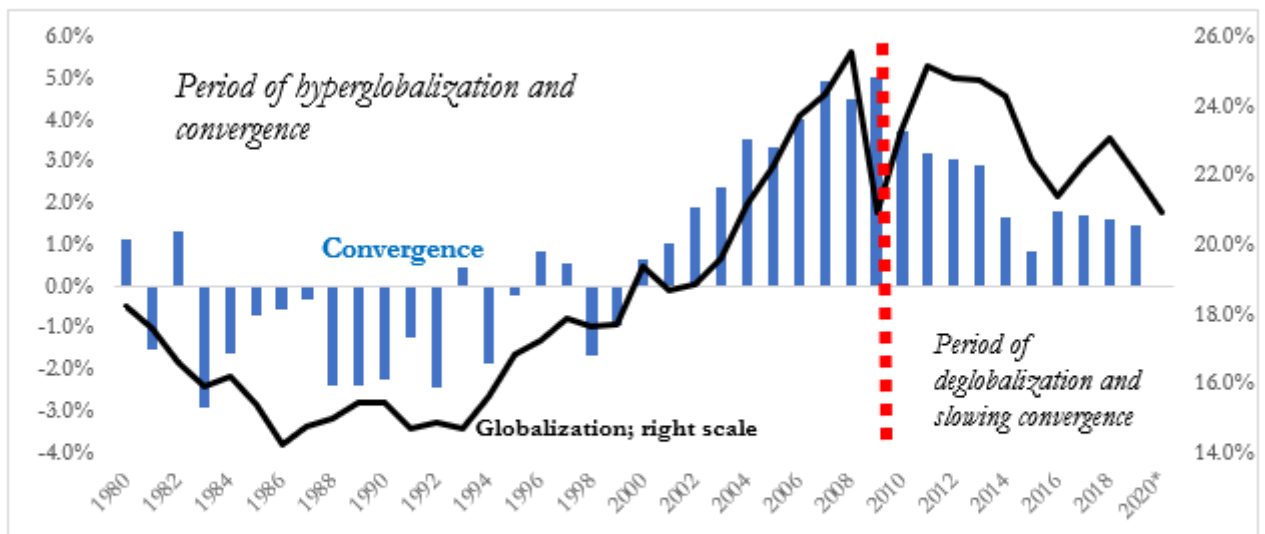


1989, followed by the collapse of the Soviet Union in 1991. Changes in technology—the shipping container and improvements in information and communication technology—also fueled integration and led to the creation of global supply chains. Global growth was strong and world poverty fell significantly.[4]

II. DISCUSSION

Among other things, hyper-globalization drove the global export-to-GDP ratio from 15% to 25% over the two decades leading up to the 2008 global financial crisis, and this export boom fueled rapid growth in developing countries. Hence, as the following figure shows, hyper-globalization and convergence were interlinked phenomena.[5]

Convergence and Globalization, 1980-2020



Source: World Bank's World Development Indicators

Globalization is measured as the ratio of world merchandise exports to world GDP; convergence is measured as the difference between the per capita GDP growth of low- and middle-income countries and that of high-income countries (2020 is an estimate).

The pandemic has reinforced concerns around the world that supply chains have gone too far. Export bans have been imposed over concerns about inadequate domestic production of medical equipment, personal protective equipment, and pharmaceuticals. Such policies will exacerbate shortages, the opposite of their intended effect. (In the food crisis in 2012, export bans drove up world prices and made short-term shortages even worse.) Protectionism is proving to be no substitute for stockpiling and preparedness, which have been inadequate in recent years.

The risk of overreaction and a slide to protectionism is compounded by the failure of leadership in the United States, leaving a vacuum in the world trading system. The absence of a coordinated and cooperative response could accelerate destructive beggar-thy-neighbor policies not seen since the 1930s.

The world economy is at a critical inflection point in history in which fears about dependence on others are growing. An inward turn would not spell the end of globalization, only a partial reversal. But undoing the resulting damage is likely to prove difficult.[6,7]

The question now is how the pandemic will influence the process of deglobalization that was already underway. It is too early to be sure, but two possibilities stand out. One plausible scenario is a generalized retreat in which deglobalization accelerates as countries and firms reassess the benefits of trade against the risks of import dependence. Alternatively, the next phase of deglobalization could be more limited and driven by China's economic transition. In that case, a few developing countries would benefit in the short run but fail to secure a sustained advantage, because the heightened risk of future trade and strategic conflicts would usher in a new climate of deeper uncertainty.

This was the era of what John Williamson called the Washington Consensus that favored economic liberalization.



Of course, while policy changes and technological improvements were reinforcing each other, there was also a limit to this process. Absent policy reforms and progress in new innovations, these one-time changes would eventually have diminishing returns in terms of their impact on economic integration.

This is the theme of the World Bank's 2020 World Development Report.

Fortunately, he added: "Strategic autonomy does not mean that we should aim for self-sufficiency. Given the complexity of supply chains, this would be an unattainable goal. We need an evidence-based discussion on what it means to be strategically autonomous."

The intellectual response to deglobalization and the reversal of the historic process of convergence has been a near-deafening silence. Very few academics or policymakers in advanced economies have spoken up in defense of an open global order on behalf of poorer countries. Cosmopolitan elites who previously had been loud and enthusiastic champions of globalization have sat on their hands.[8,9]

Indeed, the pendulum may be swinging in the opposite direction, toward a resurgence of older development ideas such as the "Big Push," whereby developing countries are advised to replace successful export-led growth models with inward-oriented strategies. There are reasons for this, of course, including valid concerns about globalization's effects on inequality in advanced economies. Still, the fact remains: the interests of developing countries have been abandoned. In fact, intellectuals in the developing world have also been silent, offering no real defense for the preservation of open trade. In key developing countries – notably China and India – the intellectual and policy landscape is tilting sharply toward self-reliance and inwardness.[10,11]

III. CONCLUSION

To some degree, policymakers are making a virtue of necessity, given developing countries' relative lack of influence on globalization. But it is also true that the intellectual currents in the West are drifting east, convincing policymakers to summon the ghost of past ideas like import substitution, which famously failed in the 1960s and 1970s.

In the post-pandemic climate, we should expect a continued acceleration of deglobalization and, unfortunately, intellectual accommodation of this trend. In a best-case scenario, a few developing countries might seize on new export opportunities as major firms look to diversify production away from China. But for most low- and middle-income economies, the price will be steep in terms of lost trading opportunities. The growth ladder used by Singapore, Taiwan, Hong Kong, South Korea, China, and Vietnam will be kicked away from still-lagging countries in South and Central Asia, Latin America, and Sub-Saharan Africa.[12,13]

For two golden decades, developing countries enjoyed the fruits of hyper-globalization and convergence. But deglobalization, meeting little intellectual resistance, is gaining ground, auguring a long-term loss of economic dynamism for the world's poorer regions.

IV. FUTURE PROSPECTS

- With COVID-19 raising concerns around globalization and world trade, global value chains are beginning to fray, as countries look inwards for economic growth, write two experts.
- Since the early 1990s until recently, the world had been witnessing an economic "convergence," whereby poor countries were beginning to catch up with rich ones.
- Hyper-globalization drove the global export-to-GDP ratio from 15% to 25% over the two decades leading up to the 2008 global financial crisis.
- This export boom fueled rapid growth in developing countries.
- There is every reason to worry that a historic process of deglobalization is underway, threatening to scuttle the growth models of poor countries that previously used trade as a path to prosperity. Worst of all, this disturbing shift has been met by silence or even encouragement by those who should know better.[14]
- How will COVID-19 affect developing countries' growth prospects? The answer will depend largely on how globalization – and intellectual support for it – evolves in the pandemic's aftermath. The prospects are not encouraging.
- Even before the pandemic struck, the global merchandise export-to-GDP ratio had been declining for the first time since World War II, falling by about five percentage points since 2008 to about 20% this year.
- This is not the first time that the world has de-globalized. Between World War I and the eve of World War II, world trade collapsed, and the export-to-GDP ratio fell from a peak of 16% in 1913 to just over 6%. In John Maynard Keynes's memorable words, this contraction was the result of "the projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion." [15]



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