Deglobalisation Essay Series 2

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Deglobalisation May Slow Down

Economic Growth and Institutional Changes

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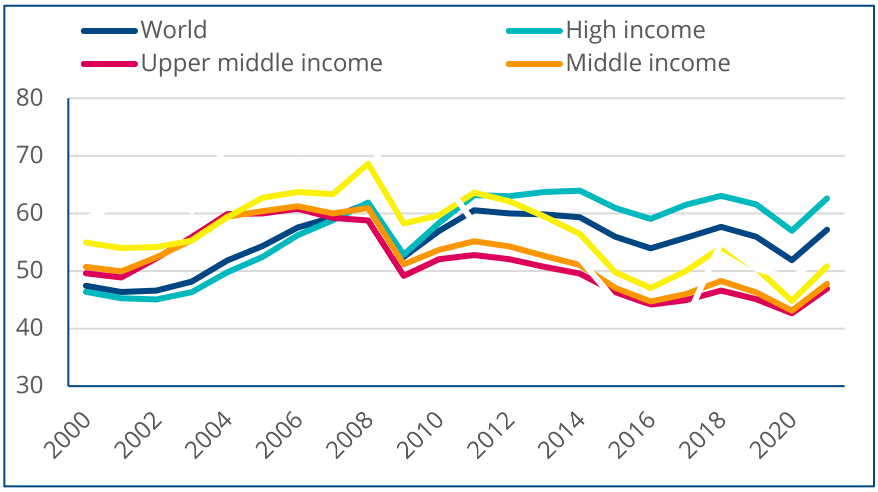
Globalisation is generally understood as the process of increasing trade in goods and services, capital, labour, and ideas between countries. Over the past several decades, the world has significantly benefitted from globalisation. Thanks to globalisation, production has become more efficient, prices have been lower, and people's standard of living, especially in developing countries, has improved dramatically. Over the past 25 years, the number of people living below the extreme poverty line in the world has steadily decreased. However, the COVID-19 pandemic, political and economic conflicts, and climate change in many parts of the world have disrupted this trend.

The world has begun to see more and more evidence of deglobalisation since the United Kingdom left the European Union in 2016, U.S.-China trade tensions emerged, and nationalism rose in 2018. Concerns about deglobalisation became

even more severe when the pandemic spread in 2020 and the Russia-Ukraine War broke out recently.
Nevertheless, the deglobalisation process probably started many years earlier. After increasing rapidly in the first decade of the 21st century, the openness of the world's economies (measured by import and export value as a percentage of GDP) tended to slow down after the world economic-financial crisis from 2007 to 2009 and decreased further from 2018 to 2020. Low-and middle-income countries have a faster decline in openness than high-income countries. Although this decline in the trade may not be necessarily due to deglobalisation, it can also be due to other reasons such as (1) fuel prices (which account for a large proportion of the international trade) falling sharply during the pandemic outbreak, (2) various free-

Figure 1.

Exports Plus Imports of Goods and Services (% of GDP)



Source: World Bank

trade agreements helping reduce tariffs and thereby the value of traded goods, and (3) the appreciation of the U.S. dollar. Similarly, cross-border capital flows also plunged during the global financial crisis and have remained at a modest level since then.

In general, the perception of deglobalisation is quite controversial. Some argue that this deglobalisation process mainly takes place from a political perspective. Except for the economic isolation of Russia, the economic links between the United States and China as well as the United Kingdom and the European Union are still close despite the political disagreements between these countries/regions. However, if economic deglobalisation is indeed happening, what challenges will both developed and developing countries face?

Globalisation has helped some countries increase their standard of living faster than others, and some countries may be more dependent on others. A return to protectionism may somewhat lower this inequality and dependence. However, it is more likely to reduce income in both rich and developing countries. Deglobalisation will lead to higher tariffs, lower foreign-investment flows, reduced labour mobility, poorer policy coordination, and increased poverty.

The world economy has been highly interlinked over the years. Therefore, no country, even a diverse, world-leading technology rich in resources like the United States, will be immune to the damage caused by deglobalisation. In 2021, more than 23% of global FDI flowed into the United States (World Investment Report 2022, UNCTAD). Most of them went to the manufacturing sector. The U.S. manufacturing sector is deeply integrated with the global economy in production inputs and sales. The total trade value in the manufacturing industry is about 120% of the U.S. GDP. Setting up trade barriers will inevitably, more or less, harm these FDI inflows and their domestic beneficiaries. The EU region is facing an even worse situation related to the energy crisis, for which an alternative solution cannot easily be found overnight.

Or as with China, despite having a vast domestic market and being the second largest economy in the world, it is unlikely to avoid the adverse effects of deglobalisation. In addition to the U.S.-China trade gap and previously unresolved human rights concerns, China's tacit support for Russia in its war with Ukraine further distances it from the United States and its allies. In 2021, China's exports of goods and services reached 336 billion USD (20% of GDP), of which nearly 40% went to the American, European, and Japanese markets. Suppose tensions between China and the United States and its allies continue to escalate. In that case, it will make it difficult for China to find alternative markets in the context of slowing global economic growth, despite its efforts in the dual-circulation strategy to promote domestic demand and technological autonomy.

In addition, China will also have difficulty accessing advanced technology. Pursuing its goal of technological independence many years ago and announcing its "Made in China 2025" plan, China has devoted a lot of financial resources to developing technology for many industrial sectors. So far, however, Beijing is far from achieving its goal for several reasons. Core technologies on which China is still lagging and dependent on the United States include artificial intelligence, quantum computing, bioscience, semiconductors, aerospace engineering, and autonomous systems. This technological dependence could make it hard for China to promote growth when confronting the United States and its allies.

Although they will all suffer from deglobalisation, major economies such as the United States, China, India, and Brazil will probably be more resilient, thanks to the massive size of their domestic markets. Developing economies—which previously benefited greatly from participating in global supply chains with high openness and a lack of mass markets, such as Vietnam, Thailand, Indonesia, and many other low- and middle-income countries—will undoubtedly be more affected. Manufacturing is likely to be the area that suffers the heaviest losses, as it is deeply integrated into the world economy.

In the era of globalisation, small size can be a significant advantage, thanks to its ability to adapt flexibly and to be deeply involved in the supply chain. However, small countries will be more vulnerable to deglobalisation when they are not self-sufficient in domestic production and are more economically and politically dependent on large countries.

Globalisation is not merely about economic integration but also an opportunity for developing countries to improve their institutional environment through commitments set by many new-generation free-trade agreements. For example, to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), countries must commit to: allowing for the freedom of association and collective bargaining of employees and employers, opening the government-procurement market, and improving its fairness, publicity, and transparency, and strengthening environmental protection. In addition, the CPTPP members must also ensure that state-owned enterprises follow strict financial auditing and operate under the market mechanism without excessive state subsidies and anti-competition. Intellectual property rights and trademarks are also guaranteed to be protected and enforced. As deglobalisation occurs or globalisation slows down, some trade barriers may be reintroduced, especially by large countries. Consequently, small and developing countries may not fulfil commitments in free-trade agreements. Institutional improvements in these countries have, therefore, been neglected.

Besides economic conflicts, deglobalisation also makes the world's critical issues, such as combating climate change, access to food and water resources, immigration, international crime, terrorism, etc., remain effectively unsolved.

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