Cushioning the Momentum Towards the Deglobalization Trend

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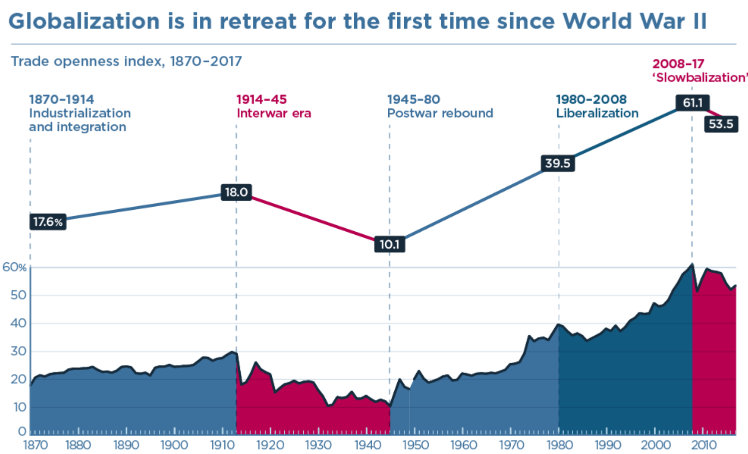
Introduction

The outbreak of the Covid-19 pandemic intensified deglobalization trend. President Emmanuel Macron of France stated, "[the coronavirus] will change the nature of globalization, with which we have lived for the past 40 years…this kind of globalization was reaching the end of its cycle." The current adverse effects of the spread of the virus around the world include restrictions on trade (decreasing by around 3.75% in 2020), travel, and commercial events which decreased spending, lowered global equity prices by 20% during the first nine months of 2020, and resulted in the decline of GDP, stemming from the reduction in demand and supply chain. These effects are substantially weakening the economic interaction between nations, leading to deglobalization. Many experts have predicted that if worse comes to worst, the growing trade conflict and the Covid-19 epidemic will lower investor confidence and cause around 30.7 million people to be pushed into poverty and a global income fall of 1.4 trillion dollars will entail. As nothing is certain at this point, the fears of interdependence among countries are growing. Thus, finding ways to cushion the momentum towards the deglobalization trend is crucial.

Background



The graph of how modern globalization has evolved through 5 eras

The 2008 global financial crisis is marked as the turning point of deglobalization. Before the crisis struck the world's economy, economic integration had increased drastically since the 1980s. Several factors, such as removing trade barriers from developing countries, Eastern European nations moving toward economic liberation, and developing communication technology stimulated the trade among nations. However, the world trade volume has been steadily diminishing since the 2008 great recession and has not recovered until now. According to the United Nations Conference on Trade and Development (UNCTD), the average global trade volume has risen by 3.5% from 2009 to 2018, which is relatively slower than the average growth of 7.6% before the 2008 financial crisis. Recently, the world is undergoing a zero increase in trade that is highly affected by the flattened nature of global supply chains, growing trade conflict, and China and the US's propensity to turn away from trade liberalization and move toward economic protectionism.

To illustrate more on each factor, global value chains (GVCs) enabled economic revolution over the past 30 years by accelerating economic growth, increasing income, and decreasing poverty rates. However, trade conflict and lack of significant reforms prevent the nations from benefiting from GVCs. Furthermore, under chairman Xi-Jing Ping, China turned inward by focusing on developing its leading industries and declining the export share of its GDP (growth domestic product) from 31 percent in 2008 and to 17 percent in 2019. Moreover, former US President Donald Trump implemented an "America First" policy, which raised trade barriers by imposing tariffs on imports of steel and aluminum to maintain national security. He also initiated the US-China trade war to accuse China of unfair trading activities and become economically independent from China. The world's two most significant economies pledged to limit economic integration. Even before the Covid-19 pandemic, deglobalization had already began.

Problems Raised

Inability to reach the Sustainable Development Goal (SDG) target of increasing the exports of developing countries

SDG Target 17.11

The United Nations (UN) recognizes trade as a crucial factor for poverty reduction and economic growth. SDG target 17.11 aims to double the Less Developing Countries' (LDCs) share in global exports by 2020, which is likely to be implausible as there has not been a considerable increase in the LDCs share of exports since 2012. Although developing countries' share of exports of goods and services increased from 29.7% in 2000 to 41.4% in 2012, the export rate has ever since stagnated at around 44%. Also, the outbreak of the Covid-19 pandemic poses additional challenges to fulfill this goal. According to UNCTAD and World Trade Organization (WTO), the first quarter of 2020 showed a decrease of 2.8% in world merchandise exports compared to the first quarter of 2019, mostly impacted by COVID-19-related confinement measures. UNCTAD estimated a reduction of 26.9% in world export volume from the previous quarter. Additionally, in 2019, LDCs were only responsible for 0.91% of world trade. From 2005 to 2019, their share of global exports of goods and services raised by 0.23% from 0.68% to 0.91%. This statistic indicates that LDCs still have a long way to go to double their share. As the major trading partners of LDCs such as China and the US are moving toward protectionism and are worst affected by Covid-19, LDCs became even more vulnerable to economic disruptions and challenging to reach the SDG target by 2020.

Developing economies getting hit by the economic downturn in China during coronavirus lockdown

China currently plays a significant role in international trade as a manufacturer and exporter of consumer products and intermediate inputs for numerous companies. Around 20%

of global trade in manufactured intermediate products are initiated in China. According to an analysis done by UNCTAD, the economic downturn in China will disrupt GVCs and negatively affect the supply from producers, which will substantially impact economic output in any country trading with China. Particularly, machine and communication equipment and the automotive industry are the most impacted sectors while China undergoes an economic downturn, leading to a decrease in trade volume. In the first quarter of 2020, China's exports and imports dropped significantly from 21% to 11.5% compared to the previous quarter. Also, China's GDP fell by 6.8% during the first three months of 2020 due to the shutdown of factories and businesses to curb the spread of the coronavirus. Fortunately, China's economy returned to growth and grew by 3.2% in the second quarter. However, even before the pandemic occurred, China's GDP was on a decreasing trend, which causes doubt on whether China can return to a 6% annual growth rate or not. If China continuously follows this trend, countries that rely on the Chinese economy will face severe economic challenges.

The rise in tariff rates resulting in decrease of the economic growth

One of the consequences of deglobalization is the global rise in tariff rates that reduce world trade growth by about 2% and world economic growth by around 0.6% annually. Higher import tariffs mean higher trade costs, which will ultimately change international trade goods' quantity and quality. The higher trade costs will increase the production costs of importing firms and the goods' price, thereby causing domestic inflation, and negatively influencing household's real disposable income. As more and more developed countries are imposing protectionist measures, trade uncertainty has risen in the past two years. However, via analyzing the impact of the US administration's imposition of tariffs as one of the protectionist measures, the trade disputes led to a reduction of wages by 0.35%, a loss of 394,300 full-time jobs, and a fall of US GDP by 0.51%. This measure only created negative impacts on the US economy except for a rise in the US revenue from the tariffs. Since the increase of tariff rates is inevitable if the deglobalization trend persists, there need to be solutions to minimize this phenomenon's negative consequences.

'Buy American, Hire American' policy makes it difficult for foreigners to secure job in the US

President Trump has signed an executive order 'Buy American, Hire American' to make the rules more difficult for skilled foreign workers to obtain working visas and enforce regulations that restrict foreign contractors from bidding on local projects. Trump stated, "We're going to do everything in our power to make sure more products are stamped with those wonderful words 'Made in the USA,'" By directing the misuse of H-1B visa program from foreign companies, especially technology firms, and prioritizing the use of American companies and goods, the government aims to discourage the use of foreign labor and ensure that American labor is hired. Also, this executive order means to support US steel mills and steelworkers. The pro-American policy shows how the US government is trying to promote a deglobalized economy, eliminating dependence on other countries. Therefore, due to this policy, many foreign specialists will whether loose their jobs or

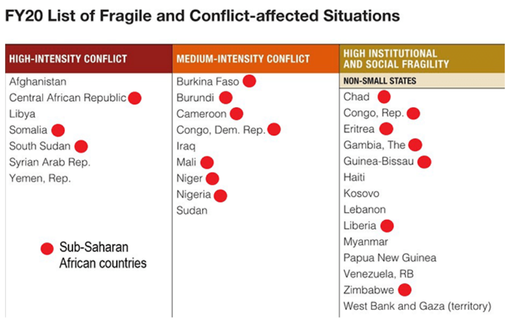
Former US President Trump signed an executive order 'Buy American, Hire American' the opportunity to obtain jobs in the US, implying the significance of finding solutions to take care of these people during the deglobalization.

Places of High Concern

The European Union (EU)

The EU is formed to integrate European countries to promote four freedoms- for things, people, services, and money- and build a European free market that thrived during the globalization era. However, as the world moves from globalization to deglobalization, the EU is now facing a new challenge. Both the US and China are trying to tear apart the current globalized economy by exploiting their economic leverage to the EU. For instance, China threatened Germany to cease the car trade between them if Germany supports the US's decision to block Chinese telecommunications from Huawei. Besides, China's ambassador to Sweden mentioned in Swedish public radio, "We treat our friends with fine wine, but for our enemies we got shotguns" as a warning of trade restrictions. The US also raised tariffs on imports of steel and aluminum, which poses a more significant threat to the multinational trade regime that the EU is involved in. Since the way that the global economy works differs from the way the European countries do businesses, they have to find ways to promote and protect their own business by going through a profound internal transformation to adapt to deglobalization, which may require it to give up the multilateral institutions the EU has relied on.

Sub-Saharan Africa



According to the World Bank biannual Africa's Pulse report, economic growth will decline from 2.4% to between -2.1% and 5.1% from 2019 to 2020 in sub-Saharan Africa due to the pandemic. The reduction of economic growth is mostly due to huge contractions in South Africa, Angola, and Nigeria stemming from their over-reliance on exports of commodities experiencing price crash. Therefore, trade is crucial for the African economy. Referring to UNCTAD's Economic Development in Africa 2019 report, from 2015-2017, Africa's total trade volume was around 760 billion US dollars. The share of exports from Africa to other countries ranged from 80 to 90 percent in Africa's total trade from 2000 to 2017. However, due to Covid-19, the mass production shutdowns and supply chain disruptions created ripple effects worldwide, leading to further uncertainty in a place already suffering from widespread geopolitical and economic instability. Although significant trading partners of Africa such as China are reopening their economies, the recovery process of African economic growth caused by the reduction of trade will not be smooth, at least for several years. Thus, Sub-Saharan African countries must avoid over-reliance on exports and focus on the production of domestic goods.

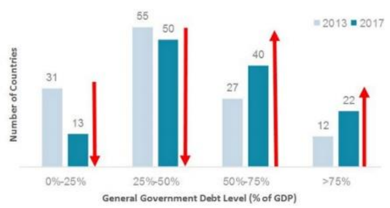
Possible Solutions

As there are many aspects of this problem, many solutions can be proposed. Among the many facets that exist within this issue, the three of the gravest are the following:

1. Building economic resilience for developing countries that are heavily reliant on exports and imports. For developing countries to prepare to face deglobalization, it is time for them to not only focus on trade, but also put in extra effort in developing their domestic products. Thus, they should invest more in domestic projects and form job opportunities for their citizens while carrying out those projects.

2. Organizations such as WTO and IMF coming up with debt restructuring and forgiveness policies to countries that are suffering from extreme debts. Currently, the IMF classifies 59 countries as "low income developing countries. Out of these countries, 24 countries are now either ready to join or already in the debt crisis list. For example, the Republic of Congo and Mozambique are the two countries facing critical debt crisis. Before these countries deal with their debts, it is really hard to foresee their deglobalization path. Debts will always be dragging them down and prevent them from developing their economies internally. Thus, paying their debts is the most essential thing for them.

Figure 1: Developing Countries by General Government Debt (as % of GDP), 2013 & 2017.



Source: World Bank data

3. Developed countries loosening trade restrictions until developing countries can fully adapt to the deglobalization trend. Developed countries immediately putting barriers on trade such as raising the tariff rate can lead to the deterioration of the economic situation in developing countries. Therefore, it is significant to develop a step-by-step process so that all countries can naturally adjust to deglobalization with minimum damage.

Glossary

Global Value Chains (GVCs): international production sharing, a phenomenon in which different countries carry out different activities and tasks during the production process

Tariff Rates: a tax imposed by a government on goods and services imported from other countries to increase the price of imported goods and make imports less competitive versus domestic goods and services

Sustainable Development Goal (SDG): Global goals adopted by the UN member states in 2015 to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity by 2030

H-1B Visa Program: the US immigration act that allows US employers to temporality employ foreign workers in specialty occupations

Real Disposable Income: the amount of money households must spend and save after income taxes have been paid.

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