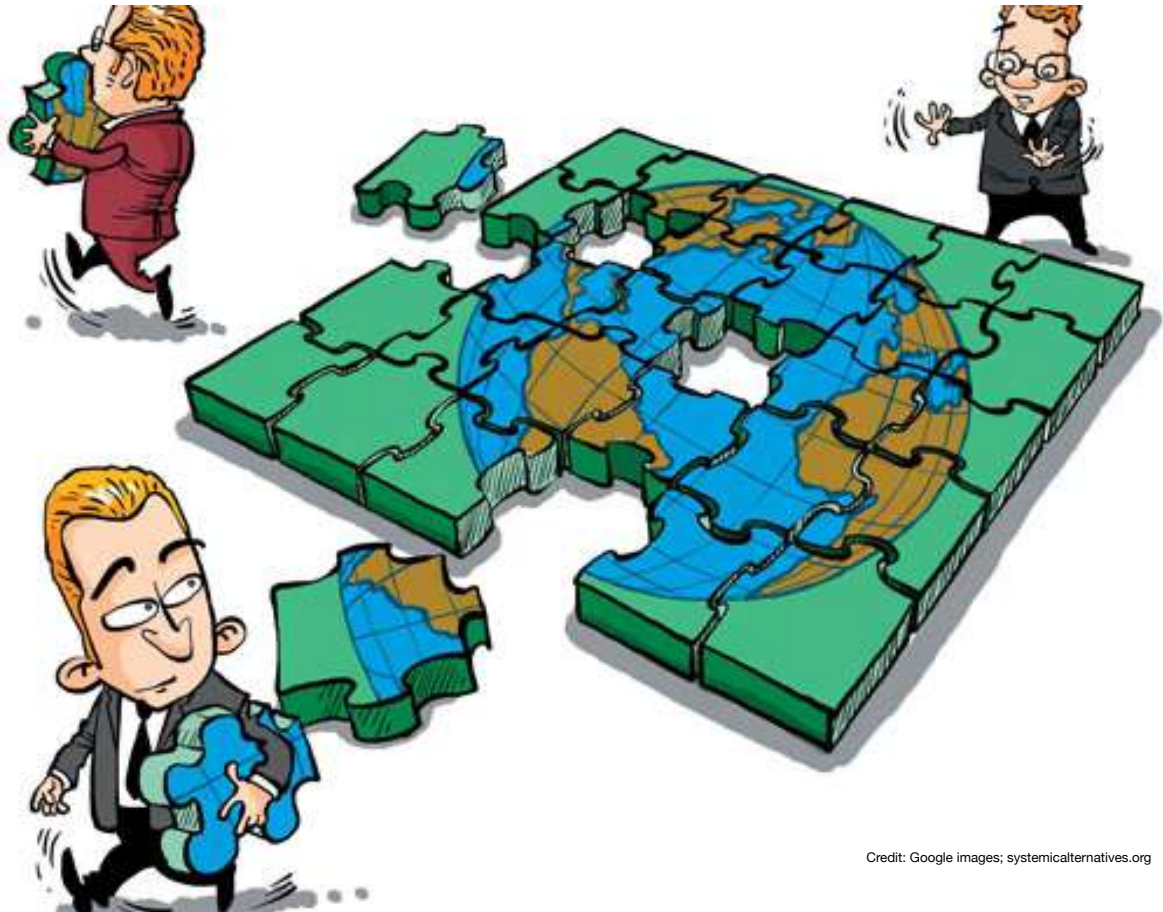


# Is world De-globalising !

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New Delhi, August 2020



Credit: Google images; systemicalternatives.org

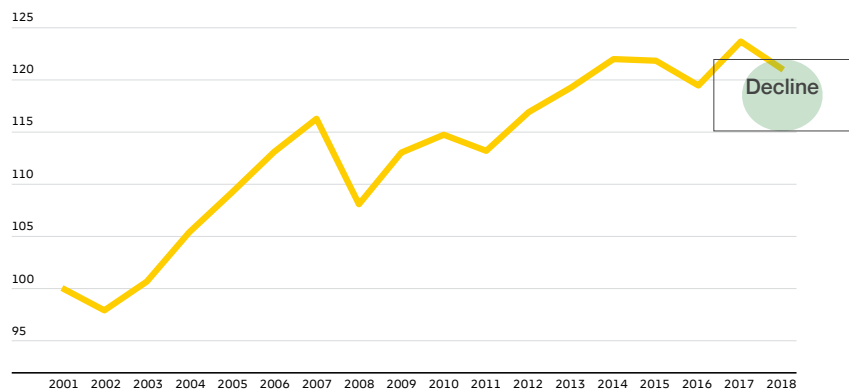
**A**lthough the full impact of the pandemic is yet to be felt as new wave of infections are re-emerging in Europe, China, Singapore, Japan etc. and of course the world economy including individual nations are suffering negatively with recession, however, this pandemic can not be fully blamed for de-globalisation. The open system of trade, investment & capital was witnessing a slower growth in previous years which is now exacerbated by the pandemic.

DHL Connectedness Index is an interesting index measuring of globalisation which is published by NYU Stern business school & DHL. The index report provides an update on the state and trajectory of globalisation, highlighting key developments. It mainly measures the flows of trade, capital, information & people with 3.5 million data points on country to

country flows. In their latest report 2018 (update 2019)<sup>1</sup>, the major six take ways were; i) world's level of connectedness declined reversing previous years of gains, ii) escalating trade tensions, iii) China's reliance on exports to US falling, iv) the average distance across which countries trade do not indicate shift from globalisation to regionalisation, v) digital technologies are transforming information flows & vi) while world is more connected than at almost any previous point but international flows are far smaller as most business takes place within rather than across national border.

The debate if “Globalisation is dead” was spiked in 2019. DHL connectedness Index measuring globalisation is plotted in the adjacent figure from the year 2001 to 2018. Index declined in 2018, against the backdrop of major events of 2016 ie Brexit vote & US elections. Out of four pillars of index, drop for 2018 was mainly driven by international Capital flow

**FIGURE 1: DHL GLOBAL CONNECTEDNESS INDEX, 2001 – 2018**



The DHL Global Connectedness Index retreated from its 2017 peak, but its 2018 level is still close to the all-time high.

mainly Foreign Direct Investment (FDI) and portfolio equity investment. In first half of 2019, however, the share of global output traded across national borders fell mainly due to US-China trade war. Of course year 2020 will have steeper decline due to pandemic. All four pillars of globalisation ie Trade, Capital, Information and people are facing head winds due to distrust among the nations.

It is important to evaluate a long journey reached to achieve what we are today here as “Globalisation” and is it now worth losing it. To understand the future, history should be understood first. Henry George in 1879 came out with his work “Progress & Poverty” wherein he argued for a single tax on land sparking a political movement in United States around his work. David Lloyd George came out with first reformist “people oriented budget” in British parliament in 1911. World war I (1914-18) and then came the great depression of 1930s. It was the worst economic downturn started with stock market crash in 1929 and lasted till 1939. During this time in 1930s, John Maynard Keynes with his economic theory, famously know as Keynesian Economics, still remains very relevant. His theory was on total spending in the economy and its effect on the output and inflation. The theory was developed in the response to the Great depression and strongly advocated for the increased government spending (by fixing a govt role in the economy) with lower taxation to stimulate the demand to pull the economy out of depression. You may see how relevant the theory is in the present context of pandemics as well. World War II (1939-1945) gave the world new era of institutions like UN etc. Years 1989 to 91 witnessed fall of Berlin war &

<sup>1</sup> DHL Connectedness Index 2018 & update 2019

collapse of Soviet Union remain very historic events which shaped the world for 21st century for higher globalisation.

The journey includes the development of global trans-national institutions. The League of Nations (LON) was the first international diplomatic group developed after World War I as a way to solve disputes between countries before they erupted into open warfare. Unfortunately, LON effectively ceased operations during World War II. LON was then replaced by United Nations or UN presently. World Bank & IMF were also established in 1944 & 1945 respectively to provide financing, advice, and research to developing nations to aid their economic advancement. In the mean-while it would be important to also mention the creation of European Union in late 1990s and Brexit in 2016.

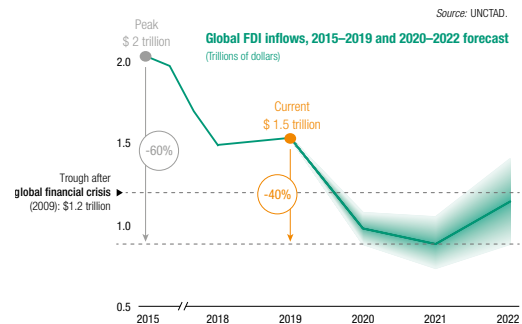
General Agreement of Tariff and Trade (GATT) was set up in 1947 for multi lateral trade negotiations to harmonise unilateral tariff reductions, for example repeal of Corn laws in 1846, by the nations with respect to the other foreign producers. If the reductions are taken in concert with the foreign powers, some producers gain new export market thus becoming supporters. In 1995, GATT became World Trade Organisation (WTO) representing 98% of the world trade with 164 member countries. WTO<sup>2</sup> is the only global international organisation dealing with the rules of trade among nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to ensure that trade flows as smoothly, predictably and freely as possible. Other important trade treaties worth mentioning are Association of Southeast Asian Nation (ASEAN) and North American Free Trade Agreement (NAFTA). Additionally there are some initiatives for forming the trade associations for Asia Pacific regions are led by China & Japan. One of the aim of WTO was to cut tariffs by negotiations and agreed rates are applied to all the trading partners. Any trade disputes among the member nation are then settled with due process by WTO. Of course the agreement against WTO remains for its effectiveness. China joined WTO in 2001<sup>3</sup> but the WTO has not been successful to tame China for allegedly flouting the spirit of its rules by shaking down foreign investors for technologies and giving under the table assistance to own industries mainly its State owned enterprises (SOEs). SOEs have vast and opaque subsidies have distorted the markets and caused the gluts in supply for commodities such as steel. EU and Japan share America's concern on this. At the time of writing this article, members will choose next Director General for WTO from eight candidates. It would be interesting to see the consensus on candidate for the top job given the tensions between USA and China. UNCTAD is a permanent intergovernmental body established by the United Nations General Assembly in 1964. Its headquarters are located in Geneva, Switzerland, and have offices in New York and Addis Ababa.

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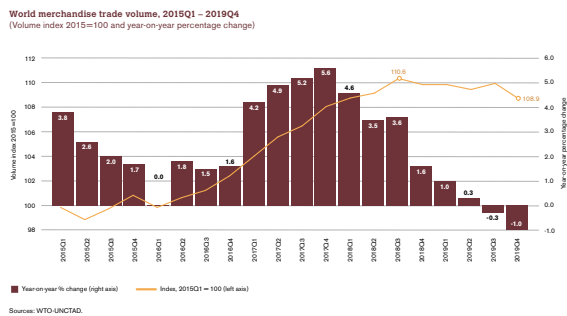
<sup>2</sup> [WTO.org](http://WTO.org)

<sup>3</sup> Economist 2019

**W**orld Investment Report (WIR) 2020<sup>4</sup> published by UNCTAD indicates that the Global FDI flows are forecast to decrease up to 40% in 2020 bringing it below \$1 trillion from its 2019 level of \$1.54 trillion. FDI is projected to decrease by a further 5 to 10 per cent in 2021 and to initiate a recovery in 2022. Interestingly, FDI has dipped below then Global Financial crises 2008-09 level of \$1.2 trillion. The recovery in 2021 & 2022 of course will improve the FDI the projections are still even lower level than the Global financial crises level. The pandemic has resulted in a supply, demand and policy shock for FDI. Abrupt, frequent and local lock downs are further exacerbating the FDI leaving one of the pillar of globalisation in a shock. Though the good news is WIR 2020 estimates long term revival by 2030. Countries are keenly looking into the relocation of supply chain projects back to their national/regional boundaries which may result from globalisation to regionalisation/nationalisation.



Let us look at another pillar for globalisation index ie Trade. WTO latest report<sup>5</sup> on World Trade and GDP 2019-2020 data shows that Merchandise trade volume declined by 0.1 per cent in 2019, compared with 2.9 per cent growth in 2018. World GDP growth slowed to 2.3 per cent, down from 2.9 per cent the previous year. Seasonally-adjusted merchandise trade volume was down by 1.0 per cent in the fourth quarter of 2019 compared with the same



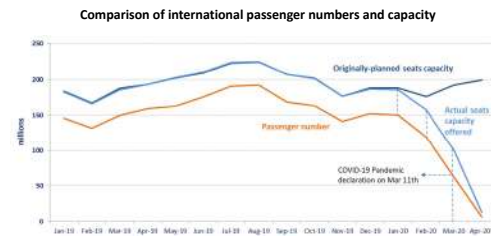
period in 2018 and 1.2 per cent down compared with the third quarter. This is equivalent to a 4.6 per cent decline on an annualised basis. The key reasons for trade uncertainty were US-China trade dispute and impact of Brexit. WTO report further covers the impact of COVID19 pandemic impacting global trade in first half of 2020. Purchasing managers' indices (PMIs) show new export orders of manufacturers falling

sharply to 27.1 in April 2020, compared with a baseline value of 50. In the same month, new export orders in services fell to 21.7, also measured against a baseline of 50. However, May 2020 data show a rebound to 32.2 and 29.8 for manufacturing & services respectively. A seasonally adjusted index of container port throughput was down 8 per cent year-on-year in May 2020, with no clear sign of bottoming out, the report elaborates. US-China trade tensions have further sparked the debate on trade imbalance between the countries and emphasis on domestic manufacture and trade thereby impacting negatively the globalisation curve.

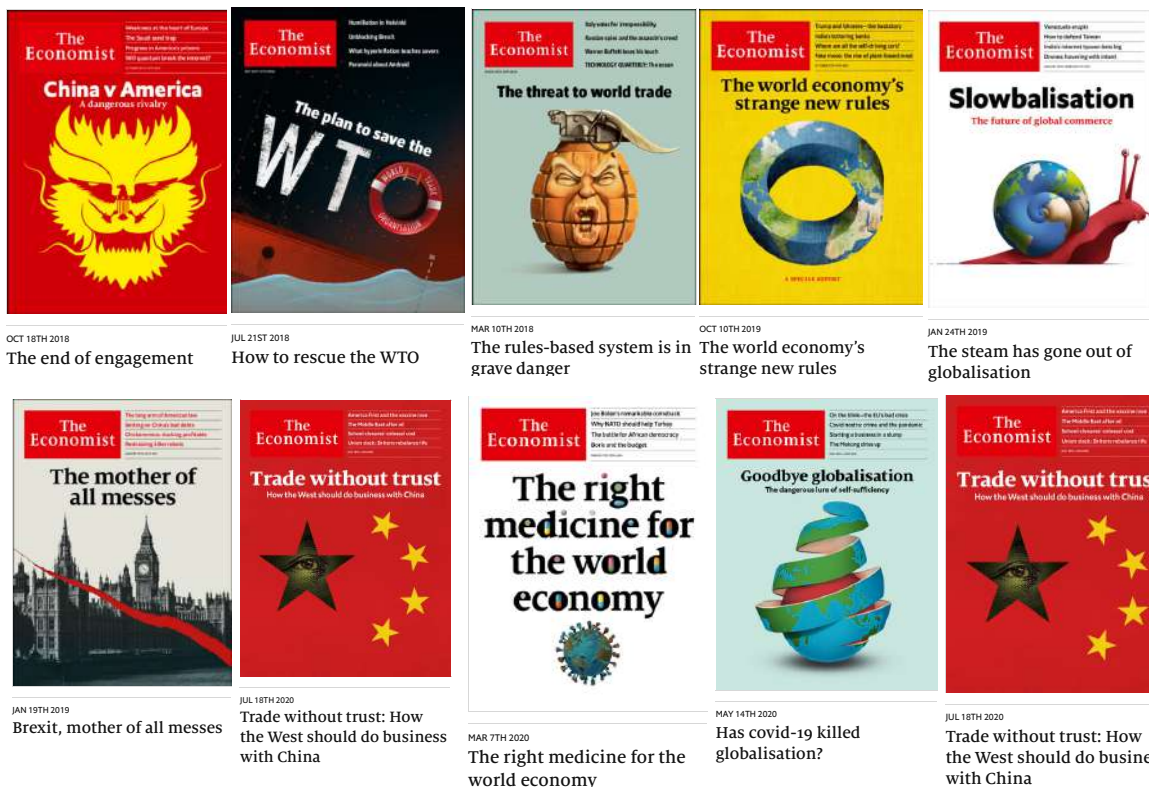
<sup>4</sup> World Investment Report 2020 by UNCTAD

<sup>5</sup> World Trade and GDP 2019-20 by WTO

Another important pillar for globalisation ie people & their movement. The International Civil Aviation Organization (ICAO) is a UN specialised agency, established by States in 1944 to manage the administration and governance of the Convention on International Civil Aviation (Chicago Convention). ICAO presentation<sup>6</sup> shows a dismal picture (see the chart). Passenger numbers decline started from mid 2019 & now it is touching bottom with over \$50 billion loss from Jan-Apr 2020. Airlines are reviewing their orders for purchase of airplanes for cancellation. Localised quarantine restrictions are putting stumbling blocks on the air traffic revival. Recent spat between Spain & UK is an example after Covid-19 resurgence in Spain including US-China tensions on air travel. Countries are now discussing Air-bubble agreements to operate the flights between the countries reversing the globalisation. The fourth pillar i.e. information, will continue to grow as digital trade is thriving but still at very modest level. The sales abroad<sup>7</sup> of Amazon, Apple, Facebook and Microsoft are equivalent to just 1.3% of world exports.



**B**ut the question is, if the pandemic is all to be blamed for de-globalisation. The coalesce of cover pages of some editions from the year 2018 to 2020 of Economist, stacked as below tell a trend in itself. The trend was set in from the year 2018 post Brexit and US-China trade.



<sup>6</sup> Effects of COVID 19 on civil aviation- Economic Impact Analysis 29 April 2020

<sup>7</sup> Economist May 2020



The stack speaks clearly that the de-globalisation was “work-in progress” since 2018 and it got aggravated post pandemic. However, one thing is clear that De-globalisation is in play and pandemic is fast forwarding it.

Hegemony of a country creates a world order thereby may be a contributory factor for globalisation, is an argument to be ponder upon. British hegemony ended with WW I and thereafter replaced by US. Now the emergence of China as second economic power is challenging the hegemony of US. World is splitting in three groups ie pro-US, pro-China and third one either neutral (although difficult to remain one) or taking the position on issue to issue base, indicates as if hegemony of a particular country is over or it is temporary. But this may lead to much more noisy situation at international institutions like UN, WTO etc leaving the countries becoming more regionalistic or nationalistic.

Although the world is witnessing a decoupling from globalisation, all is not finished. Decoupling of globalisation may start with another wave of globalisation. This can be either, to start with, among the friendlier nations first then to expand to others. For example many companies got relocated from China to other asian countries like Vietnam, Indonesia, Bangladesh, India etc in response to US China tensions. There is also an emerging need among the nations to relook on their supply chain keeping in view the various business drivers. As per Prof. Felipe Monteiro of INSEAD<sup>8</sup>, Global integration in an industry will be largely determined by the extent of its exposure to four main drivers ie market drivers - consumers taste & habits across the borders, cost drivers - economics of scale, competitive drivers and government drivers - policies around localisation. Mr Michael O’Sullivan’s book, “The Levelling: What's Next After Globalisation” argues a roadmap with multipolar world forming but international institutions are unprepared for this. The world, will cleave into “Leveller” countries that hew to rights and freedoms, and “Leviathan” ones that are content with state-managed growth and fewer liberties<sup>9</sup>. To wrap up, although the globalisation is in reverse gear leading to de-globalisation but on long term it will re-emerge with new forms and not going to disappear.

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<sup>8</sup> <http://knowledge.insead.edu>

<sup>9</sup> Economist 2019