

DEGLOBALIZATION OR THE TRANSFORMATION OF GLOBALIZATION: THE EVOLUTIONARY DILEMMA

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Abstract

Globalization does not end; it has evolved and will continue to evolve for the foreseeable future. Trade barriers for services are significantly higher and falling faster than for goods, indicating that growth in services trade is likely to persist for many years and will continue to outpace trade growth with goods, suggesting that the future of trade is in services. Support for globalization by developing countries will become an important counter to the deglobalization promoted by some developed Western countries. The network of society formed under the paradigm of information technology will be a very important source to the development of globalization. Due to the effect of cultural globalization, the chance of the coming deglobalization also decreases.

Keywords: Globalisation, Deglobalisation, Connotation, Convergence, Glocalisation, Slowbalisation

JEL: F1, F3, F4, G2

1. Globalization or Deglobalization: The Evolutionary Dilemma

The global economy is facing new challenges, including overcoming the slowdown in the economies of the world economy and minimizing the risks due to the depressed world economy. In addition, states must manage international business and trade in the face of increasing deglobalization. Globalization is a process of increasing interdependence and integration into a world economy. While deglobalization, the second object in the study, is the reverse context of globalization and is a process of decreasing interdependence and integration between nation states in the world economy.

Scholars argue that the driving forces toward deglobalization include trade imbalances, political pressures, populism, high unemployment, and trade tensions between countries. The coronavirus disease pandemic has been widespread in the first half of 2020, shrinking the global economy due to reduced movement of goods and services. Due to these circumstances, there is a high risk that the world economy will go into depression.

However, history shows that as the cyclical manifestation of globalization in the world economy, deglobalization emerges. Supporters of free trade promote international trade and business activities, while opponents want to protect assets and security from the problems or risks of globalization. Global upheavals affect different regions of varying magnitude. Some regions are particularly strongly affected by global shocks, some are affected with smaller ranges, and some appear not to be affected at all (Van

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Bergeijk, 2017). From Trumpism to Brexits, there is a tendency for deglobalization to be focused on developed countries, which is not a new development, as the debate between globalization and free trade and deglobalization with trade protections continues.

The key research question, the aim of the study, is how the recent phenomenon of deglobalization differs from those of the 1930s and 2008. Moreover, it is important to define the key factors, to trace the evolution in determining the intensity of the trend of deglobalization in the future. The coronavirus disease in 2020 makes the world economy more protected and increases barriers to goods and services and financial investment. In terms of international business management and the current global value chain (GVC), determining the appropriate reconfiguration of the GVC and business strategy is essential.

The literature related to deglobalization is limited. The research focus is on the conceptual studies of Stiglitz (2007). The literature shows that the antecedents of deglobalization come only from economic factors and later political and social dimensions are included. The historical cyclical pattern between globalization and deglobalization explored by Jones (2005) represents ongoing debates regarding its origins, spread, and consequences. Most Western nations belonging to the Organization for Economic Cooperation and Development (OECD) countries support free trade and capitalism, as well as international trade and entrepreneurship, as key drivers of economic growth. After the financial crisis in 2008 the world faces the challenges of income inequality, political populism and new international political threats. Globalized free trade is controversial in nonprofits organisations because free trade with capitalism accelerates economic disparities between rich and poor, developed and underdeveloped countries. South Korea, for example, has been putting a lot of effort into export-oriented economic growth policies that are proving successful. While most trade-intensive countries face new challenges in order to overcome the pressures of deglobalization.

2. Literature review

Globalization is closely related to multinationalism and the integration of the international economy. Globalization, as a process, means the importance of standard procedures, free trade, international compliance and international investment. International organizations, such as the World Trade Organization (WTO), the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD), are considered important for global trade and economy. Criticism has been leveled against globalism because of the inequality and injustice that has become a critical problem among trading nations. This gives rise to regionalism, which leads to regional cooperation such as Free Trade Agreements (FTAs) increasing at the country level. Moreover, regional integration agreements such as the Association of Southeast Asian Nations (ASEAN), the European Union (EU) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) reflect a shift away from multinationalism and globalism.

This reaction to globalization creates deglobalization, which can lead back to globalization. Globalization and deglobalization have cyclical competition everywhere in history. Jones (2005) points out that the first global economy was from 1840-1929. Then, the Depression and World War I caused the first deglobalization of 1929-1979. During this period, the world suffered from World War II, Western nations worked to remove trade barriers, and many countries became members of the WTO. The second globalized economy is after 1979, and continued until the global financial crisis in 2008. Distrust of financial systems and global companies makes nations worry about income inequality and division. Although international trade transcends the borders of economies, powerful individuals as well as small and medium-sized enterprises (SMEs) feel that they are not being paid fairly. This attracts the attention of both the public and politicians, and the crisis creates a new model of deglobalization.

Stiglitz (2007) argues that developing economies do not grow at all and demonstrates that through tariffs, subsidies, an overly complex patent system and pollution, the world is both economically and politically destabilized. Therefore, the study of incomplete markets can make corrective government policies desirable. This reflects the negative aspects of globalization. Since then, there have been several observations indicating deglobalization.

First, tariff barriers to imports are strengthened by developed countries, and the imposition of tariffs is a relatively easier policy for trade management agencies. Specifically, the Trump administration in the US is imposing high tariffs on Korea, China and others that enjoy a trade surplus with the US.

Safeguards have rarely been used and some governments use „grey area“ measures to protect their industries. Since the beginning of 2014, the total number of safety cases worldwide has been decreasing, but has again shown an increasing trend since 2018, this way. On May 10, 2019 US raises import tariffs from 10 to 25% on USD 200 billion of Chinese goods. A trade war is brewing between the world's two largest economies.

Second, non-tariff barriers (NTBs) are imposed through different methods. NTBs refer to restrictions that arise due to difficult or costly prohibitions, conditions or specific market requirements for importing or exporting products. NTBs include the unfair and incorrect application of non-tariff measures such as sanitary and phytosanitary (SPS) measures and other technical barriers to transactions (TBTs). NTBs to trade can arise from import bans, general or product-specific quotas, „buy domestic“ policies, overvalued currency, restrictive licenses, complex regulatory environments, import licenses, seasonal import regimes, and the like.

Third, in recent decades the global economy has tended to be structured around GVCs, which are responsible for a large percentage of global trade, production and employment (Pla-Barber and Villar, 2019). The GVC is reconfiguring global trade in terms of actors and comparative advantages. In the global economy, more and more value chains are being restructured, driving advances in living standards in emerging markets while increasing income inequality in developed countries (Dollar, 2001).

According to Bello (2004), deglobalization has 14 characteristics: (1) production for the domestic market; (2) subsidies at the national level; (3) a strong trade policy; (4) industrial policy, including subsidies, tariffs, and trade to strengthen the manufacturing sector; (5) long-delayed measures for equitable income redistribution; (6) de-emphasis on growth but emphasis on increasing quality of life; (7) transformed energy and transport systems into decentralized systems based on renewable sources; (8) maintained a healthy balance between the capacity of the country and the number of its population; (9) environmentally beneficial technology; (10) a gender perspective to ensure gender equality; (11) strategic economic decisions towards the market or towards the technocrats; (12) civil society monitoring and private sector and state oversight and process to be institutionalized; (13) property transformed into a mixed economy; and (14) replaced centralized global institutions with regional institutions.

3. Process Drivers

The first wave of modern globalization began in the second half of the 19th century. Colonial expansion led to global trade. However, the First World War at the beginning of the 20th century caused the collapse of this wave and provoked the first deglobalization. After the Second World War, some developed Western countries became the reason for the creation of three major world economic organizations: the World Bank, the International Monetary Fund and the World Trade Organization. Under the trinitarian effect of „world currency – international finance – world trade“, developed Western countries are provoking *the second wave of globalization*. Despite the two oil crises (1973 – 1974, 1979 – 1980), they caused serious economic shocks in Western countries, and the global economy, dominated by Western countries, also suffered the most serious crisis after World War II. Therefore, after two oil crises, the second deglobalization began quietly. The first oil crisis began from the Yom Kippur War. (Yi Zheng, 2022) The second oil crisis started after the political turmoil in Iran and then was affected by the Iran-Iraq war. Therefore, both the beginning of the first and the second deglobalization can be mainly due to the political tension and military conflicts. Neither country appears to be voluntarily and actively promoting these two deglobalizations. Thus, these two times of deglobalization appear to be passive and accidental. Compared with the current wave of deglobalization, which is actively promoted by several developed capitalist countries, active in previous deglobalizations, it is difficult to draw a firm conclusion that this active impulse can have enough power, like wars, to compete with the power of globalization.

Globalization has different dimensions. In addition to the economic dimension, this is also reflected in politics, culture and society. With the development of economic globalization, more and more people can exchange information and products more conveniently. It also promotes the integration of cultures of different countries, although economic globalization will have some impact on cultural globalization. For example, the global market contributes to the consumerism of many areas of the globe, while

cross-border communications, transportation and networks stimulate the cultural integration of different nations. The cultures of different nations can merge and influence each other, although global culture will not simply merge. As Hofstede (1984) says, culture can be defined as the collective programming of the mind that distinguishes members of one category of people from those of another culture. Each type of culture has a unique nature and can be used to distinguish members of two different nationalities. The uniqueness of each culture is also difficult to be replaced by other cultures.

Another typical example is language. With the dominance of developed Western countries in economic globalization, the importance of the English language is increasing, especially on the Internet. Although a large number of non-English speakers learning English, they still speak their native language instead of English in their daily lives when communicating with people of the same ethnic group. As a tool for transmitting a nation's culture, language can give people who speak the same language a common sense and national cultural identity. Unlike the heritage of a people's native language, the unique culture of that nation will hardly be destroyed. As Herkenrath et al. (2005) consider convergence and divergence as well as 'glocalization' occur simultaneously. The connotation of cultural globalization cannot be generalized. This does not mean that global culture is fully integrated, it includes the phenomena of cultural convergence, divergence and glocalization. Therefore, the outcome of cultural globalization is actually uncertain. The uniqueness of each national culture can act as a resistance to the integration of global cultures, and this intransigence can also act as a counter-globalization force. But on the other hand, cultural convergence and glocalization can be a force for globalization. Moreover, as economic globalization continues, there is always the possibility of convergence of global culture. When the convergence, divergence and glocalization of global culture work simultaneously, although the cultural differences of different nations of the world have some positive effect on deglobalization, it is not certain that such effects are able to overshadow the driving forces of globalization.

4. Development of Globalization

The development of Globalization goes through five eras

The following elements can be identified as components of globalization: cross-border flows of trade, investment, data, ideas and technology, people, including workers, tourists and students. Global trade, measured by the ratio of world exports to world GDP, is a proxy for economic integration. There are five periods of modern globalization.

In the first period from 1870-1914. economic integration increased, driven by the steamship and other advances that allowed more goods to move more cheaply between markets.

Globalization reversed itself *in the second period*, from the outbreak of the First World War in 1914 until the end of World War II in 1945. World War I caused continued economic dislocation, which included Russia's withdrawal from world trade after the Communist revolution in 1917, the Spanish flu pandemic of 1918, monetary

instability in the early 1920s, new immigration restrictions, the Great Depression, beginning in 1929, and the outbreak of protectionism in the 1930s. This turmoil reduces integration and the world economy falls into crisis.

Economic integration was restored *in the third period*, the three decades after World War II. American leadership is helping to create new institutions for economic cooperation, such as the General Agreement on Tariffs and Trade, allowing countries to reopen their economies to trade and investment. These steps help usher in a golden era of growth.

The geographic scope of the third phase—limited to the United States, Western Europe, Japan, and a few other countries—is limiting how far global economic integration can go. The Soviet bloc of communist states and China are the non-market economies that do not participate for political and economic reasons. The developing world in Latin America, South Asia and Africa chooses its own path of import substitution while remaining relatively isolated.

In the fourth period, from the 1980s to the financial crisis of 2008, economic integration rose to a historically unprecedented global scale. Led by China and India, developing countries are beginning to remove trade barriers. The Soviet bloc in Eastern Europe moved towards 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 – are also fueling integration and leading to the creation of global supply chains. Global growth is strong and global poverty has declined significantly.

„Slowbalisation“ or Peak Globalization

Measured by trade flows, this fourth era of globalization appears to have peaked in 2008. The ratio of world trade to GDP has been falling since the Great Recession. World trade recovered in 2010 from the 2009 shock. While the world economy is *in a fifth historical period*, sometimes called „slowbalisation“.

In recent decades, trade has tended to grow faster than world output, while trade growth has been unusually weak in recent years. The volume of world trade actually declined in 2019, even though the world economy grew relatively steadily.

There are a number of factors at play. The growth of global value chains – the spread of supply networks between countries – is leveling off. The reform agenda has stalled around the world. Under President Xi Jinping, with policies to promote the local population and develop leading industries (the Made in China 2025 initiative), China is beginning to turn inward and exports as a share of its GDP are declining. China remains an export power, but from 31 percent in 2008. to just 17 percent in 2019, as Nicholas Lardy notes. (Irwin, 2020)

Under President Donald Trump, the United States is adopting an „America First“ policy, moving away from trade liberalization (withdrawing from the Trans-Pacific Partnership) and moving toward protectionism. The Trump administration is

imposing tariffs on steel and aluminum imports ostensibly for national security reasons, spreading trade barriers in the other direction.

The United States also started a trade war with China over its unfair trade practices, significantly reducing bilateral trade. President Trump's economic advisers have equated economic security with national security and have spoken of a desire to sever the supply chains that make the United States dependent on China. Tensions between the United States and China have loosened their relationship in some cases, known as the „decoupling“ between the world's two largest economies. Separation does not mean that integration shrinks to nothing, only that it is significantly reduced.

Thus, even before the pandemic hit, several factors were reducing globalization.

The pandemic – an impulse towards a deglobalization trend

The COVID-19 pandemic is definitely adding further momentum to the deglobalization trend. The World Trade Organization predicts that global trade will fall between 13 and 32 percent in 2020, far more than the expected decline in global GDP.

More important is how countries begin to embrace economic integration. French President Emmanuel Macron stressed that the coronavirus is „changing the nature of the globalization we have lived with for the last 40 years“, adding that it is „clear that this type of globalization is reaching the end of its cycle“. (Irwin, 2020)

The pandemic is heightening concerns around the world that supply chains have gone too far. Export bans have been imposed on inadequate domestic production of medical equipment, personal protective equipment and pharmaceuticals. Such policies exacerbate scarcity, the opposite of the expected effect. (During the 2012 food crisis, export bans drove up world prices and led to short-term shortages.) Protectionism is proving no substitute for stockpiling and preparedness, which have been lacking in recent years.

Past experience shows that when some countries begin to restrict trade in critical goods, others are likely to follow suit. This is nothing new. As Adam Smith observed in his *Wealth of Nations* long ago: „The very bad policy of a country may render it somewhat dangerous, and imprudent to ascertain what would otherwise be the best.“ (Irwin, 2020)

Experience also shows that fear causes states to turn inward. Many countries are now rethinking trade dependence. Phil Hogan, the European Union's Trade Commissioner said, „we need to think about how to ensure the strategic autonomy of the EU.“ Scott Morrison, the Prime Minister of Australia told Parliament: „Open trade has been a fundamental part of our prosperity for centuries. But we also need to look carefully at our domestic economic sovereignty.“ Japan is also beginning to explore how to break its dependence on China for supply chains and produce more at home.

The risk of overreaction and a slide into protectionism is compounded by the failure of leadership in the United States, leaving a vacuum in the global trading system. The lack of a coordinated and joint response could accelerate destructive „beggar-thy-neighbor policies“ not seen since the 1930s.

The world economy is at a critical turning point in history where fears of dependence on others are growing. An inward turn does not mean the end of globalization, only a partial reversal. But undoing the resulting damage is likely to prove difficult.

5. Is the world economy deglobalizing?

Many observers say yes. Irwin (2020), for example, writes: „The Great Recession of 2008–2010 marked a historic turning point in terms of global economic integration. In response to the health and economic crisis, policymakers seem poised to take targeted steps to strengthen the movement toward deglobalization.“

The main conclusion is that while the intensity of trade in goods reached its peak in 2008, the ratio of world trade in services to gross domestic product (GDP) continues to grow. Services exports now account for over a fifth of world export earnings. (Baldwin, Freeman, Theodorakopoulos, 2023) *In short, globalization is not over; it has evolved and will continue to evolve for the foreseeable future.*

Globalization is driven by firms buying or producing goods in one nation to sell them in another for profit. In other words, arbitrage drives globalization. Arbitrage is profitable when international differences in relative costs exceed the cost of selling across a border. Globalization will continue as long as international arbitrage is profitable.

Although there is considerable convergence in the relative costs of producing different goods internationally, and geo-economic tensions may raise barriers to trade in goods, there are still large differences in the relative costs of producing services by different nations. Since services tend to be labor intensive, the main relative cost differences are determined by relative wage differences (adjusted for productivity). Differences in wages also appear to be large. A wage of USD 5 an hour for a 2,000-hour work year yields an income of USD 10,000, which corresponds to a middle-class life for an office worker in most global economies, but is far below the minimum wage in advanced economies. In addition, digital technology is making office work increasingly cheaper in one nation, relative to another. This is the main reason to believe that the end of globalization is very far away.

The end of the period of rapid globalization – the second decoupling – which began around 1990 has attracted widespread attention and is clearly supported by the data. Some commentators go further and argue that the world economy is actually deglobalizing, a position that is clear in the title of Rana Foroohar's 2022 book, *Coming Home: The Road to Prosperity in a Post-Global World* (Foroohar, 2022).

Others argue that the deglobalization view misses the key facts that show that globalization has developed, not ended. The ratio of world trade in goods to GDP peaked 15 years ago, but trade in services continues to flourish, accounting for a fifth of international trade. (Baldwin, Freeman, Theodorakopoulos, 2023) The trend towards continued trade in services can be argued *for four reasons*. *The first* is that barriers to trade in services are much higher than barriers to trade in goods, but they are falling faster. *The second* is that digital technologies reduce barriers to trade in services. *The third* –

demand is not a limiting factor, nor supply, as the fourth. *The bottom line is simple: trade barriers for services are significantly higher and falling faster than for goods, indicating that growth in trade in services is likely to persist for many years and will continue to be faster than the growth of trade in goods. In short, it suggests that the future of commerce is in services. Although the share of world trade in goods may be declining, the rise in the intensity of trade in services and the growing importance of intermediate services suggests that the end of globalization has been greatly exaggerated.*

The possibility of deglobalization is very small comparing which side of the driving force (of globalization or deglobalization) is powerful. First of all, with the development of globalization, developing countries are gradually growing, and the world system is gradually emerging from the unilaterally dominant framework of developed capitalist countries. Developing countries are more in favor of globalization and more hope to promote globalization when they can benefit from globalization. *Support for globalization by developing countries will become an important counter to the deglobalization promoted by some developed Western countries.* In addition, the arrival of the information age cannot be reversed, and the development of information technology is also unstoppable. *The network of society formed under the paradigm of information technology will be a very important source to the development of globalization.* It will connect people and things around the world more closely. As long as information technology is still developing and the networked society is still developing, deglobalization is almost impossible. *Finally, due to the effect of cultural globalization, the chance of the coming deglobalization also decreases.*

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