# The Trend Towards Imperative Globalization: The Dynamization of Concepts and Reality


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# I N D E X

# 1. Introduction

- Globalization is understood as the intensification of global trade, investment, and technology networks, the most striking phenomenon in the world economy since the 1980s. "*The trade openness metric—the sum of exports and imports of all economies relative to global GDP—is used as a proxy for globalization*". (1)

- It was driven by the displacement of the manufacturing industry from developed countries to Asia (e.g., Japan, and China).

- It is complemented by the densification of value/production chains worldwide.

- Significant reduction of customs barriers and transport, logistics, and communications costs.

# 2. The Distribution of Income

- The traditional theory of international trade teaches that there can be significant changes in the distribution of income: that is, there can exist groups that win and others that lose.

- There has also been controversy surrounding the effects that globalization may have had on the environment, precarious work, and social aspects (e.g. Bhagwati (2) and (Stiglitz) (3).

- It is recognized by the governments of the USA and the European Commission, and many developed countries that we have gone too far in the relocation of value chains, especially in critical products for the security and defense of the West, which is leading to a radical transformation of industrial and foreign policies, given the current geopolitical environment.

# 2. The Distribution of Income

- The costs of reversing large-scale globalization would be enormous, and difficult for Western democracies to accept.

- Let's look at the benefits and costs of de-globalization, based on historical data and simulation models, so that we can assess the trade-off between economic growth and security.

- Recent estimates by Gompert, D. et al. (4) state that a war between China and the USA would reduce the GDP of the former by about 25-35% and the latter by 5-10%, depending on the scenarios.

- These are forecasts, but the conflict in Eastern Europe, and according to World Bank estimates Ukraine's GDP is expected to fall by 45% and Russia's by 11% in 2022. (5)

# 3. The Slowbalization

- We can distinguish three phases in the process of globalization in the last half of the twentieth century:

- The first, in the 1960s and 1970s, corresponded to the expansion of *American companies* into the European Common Market (now, the EU).

- The second was the expansion of the "*Asian Tigers*" (first Japan, then Korea, Taiwan, Hong Kong, and Singapore) in the 1970s and 1980s.

- The third was *China*'s expansion since the 1980s.

- Another way to look at the phases of globalisation is in Figure 1.

# 3. The Slowbalization

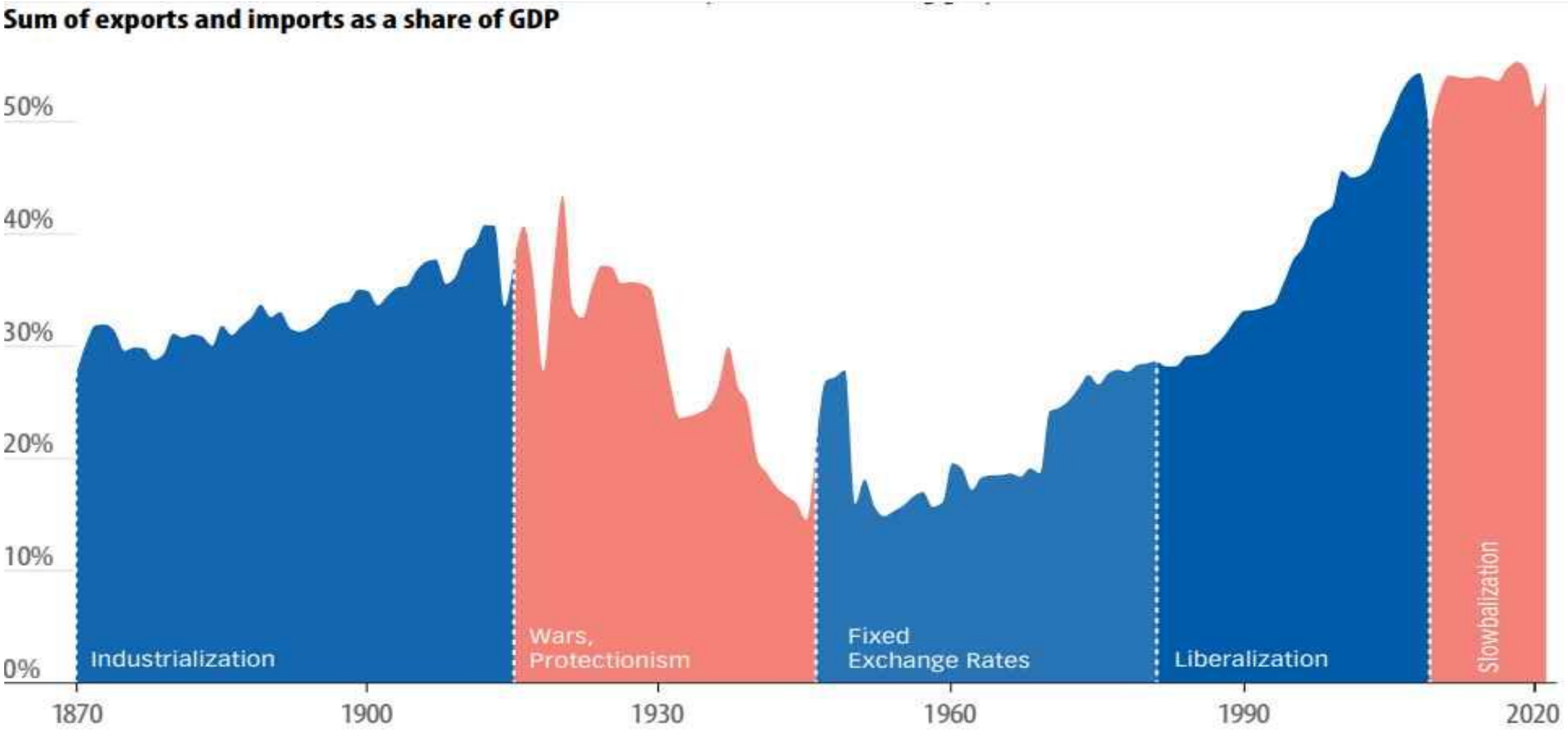
- Figure 2 (Ratio of Exports to World GDP) shows the evolution of the ratio between Exports and World GDP (blue line), where the growth of this ratio from about 14% in 1986 to 25% in 2009 is notorious.

- The value of exports, worldwide, and at current prices, expanded from $USD 2.3 trillion in 1980 to 7.9 billion in 2000 and 22.4 billion in 2020, according to UNCTAD data. Compared 2021 to 2022, there was a slower increase of 11,4%. (6)

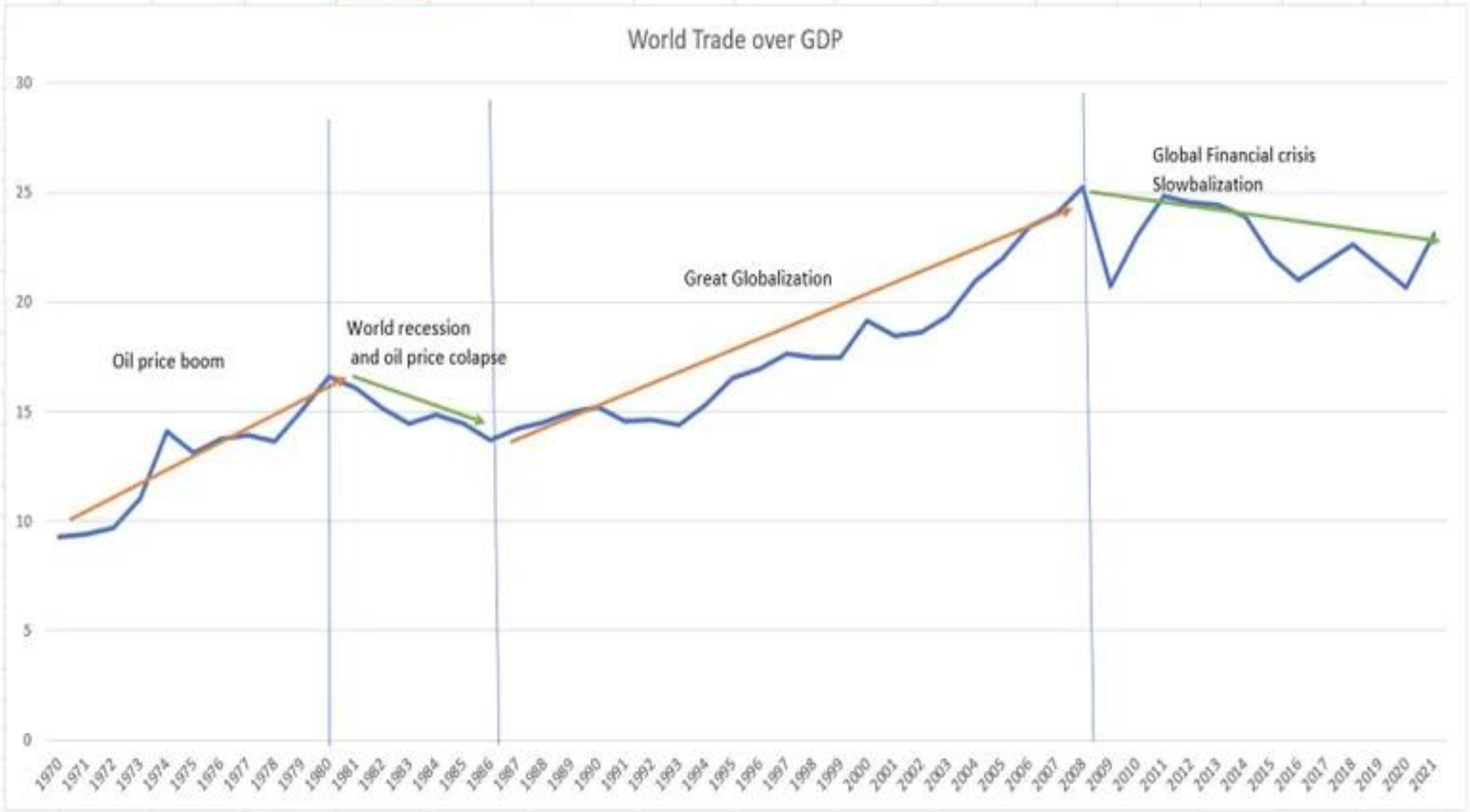
- The global crisis of 2008 ushered in a period, which The IMF (1) and then The Economist (7) call "***slowbalization***," which continues to this day. But the slowdown we are currently seeing is not entirely consensual.

- A large part of the fall in the ratio is due to the sharp decrease in the export-to-GDP ratio in China, due to the expansion of consumption and the inevitable internal development process in this country.

# 3. The Slowbalization (Figure 1)




**Sources:** Jordà-Schularick-Taylor Macrohistory Database; Penn World Data version 10.0; Peterson Institute for International Economics; World Bank; and IMF staff calculations.
**Note:** Sample's composition changes over time. The concept of eras of globalization is based on the work of Douglas Irwin at the Peterson Institute for International Economics.


World Trade over GDP
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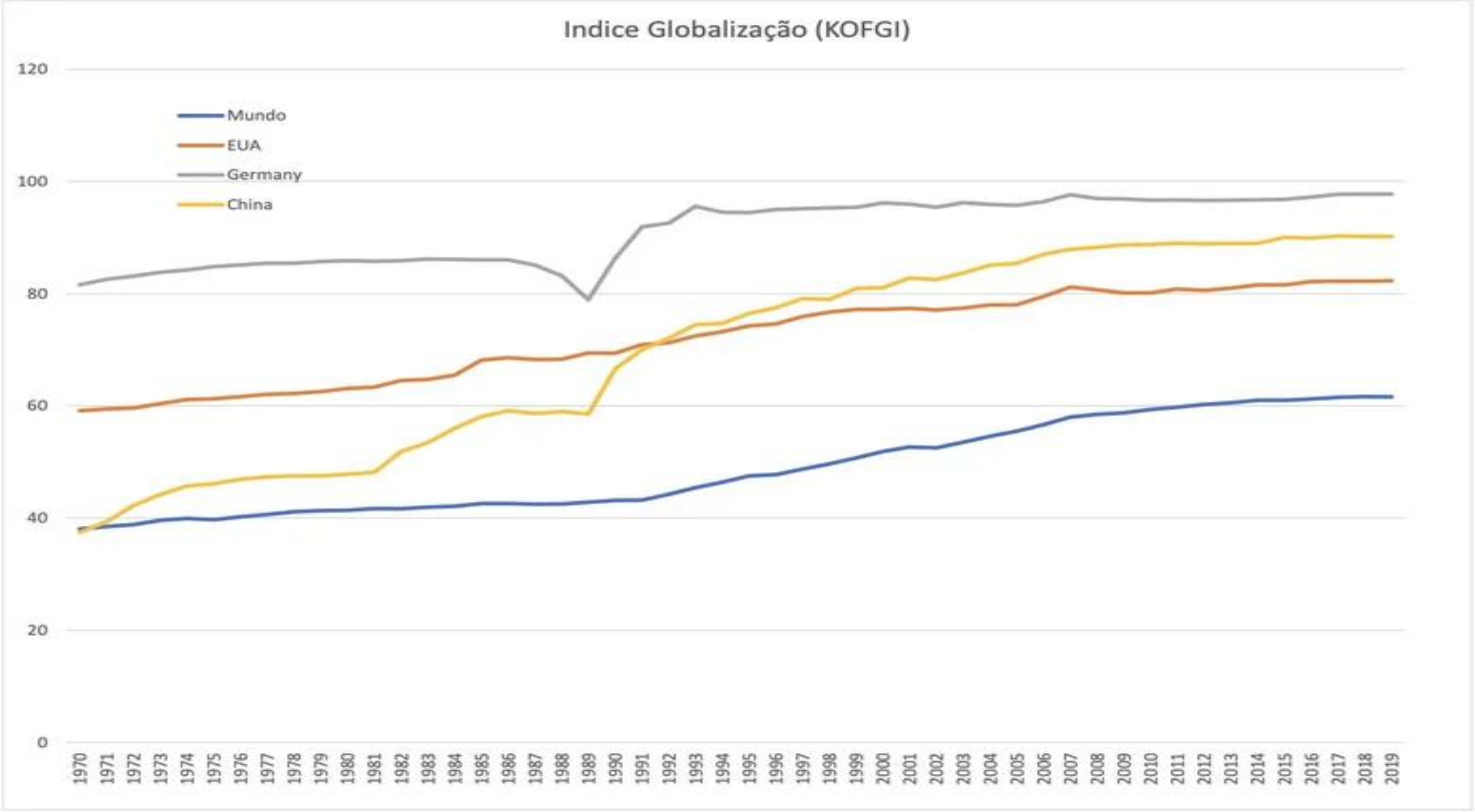
Oil price boom
World recession
and oil price colapse
Great Globalization
Global Financial crisis
Slowbalization
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

# 3. The Slowbalization

- An alternative globalization index is the KOF Globalisation Index (KOF Swiss Economic Institute), which aggregates trade in goods and services, human needs, information, cultural, and political flows (Figure 3). (8)

- It shows some deceleration since 2008, but unlike the previous index, still growing until 2019, as the information and technology exchange (e-commerce) component continues to grow at a high rate.

- By country, those in the EU (mainly Germany) show the highest degree of openness, and the US shows monotonic growth, while China has skyrocketing growth.


Indice Globalização (KOFGI)
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# 3. The Slowbalization

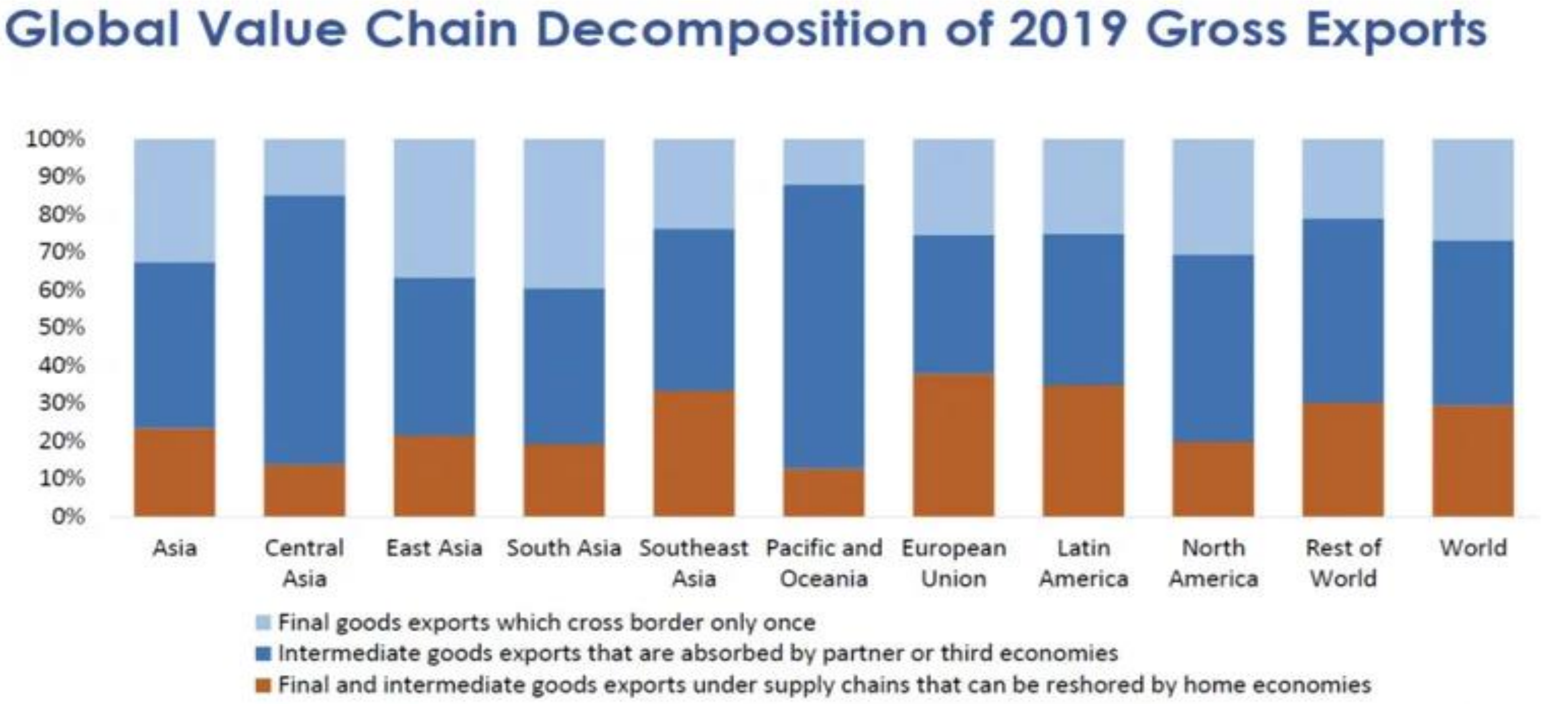
- The OECD used its model METRO for the world economy, to simulate a 25% increase in tariffs worldwide to post-World War II levels, and 1% of GDP in subsidies for an industrial policy of *reshoring* (resumption of the traditional industrial processes on a national basis). (9)

- According to calculations by the Asian Development Bank (Figure 4), the EU is one of the regions with the greatest potential for reshoring.

- It is the technology-intensive sectors that have the greatest potential for reshoring.

- In particular, that of machinery, electrical and transport equipment, and to a lesser extent, electronic equipment, mainly due to the new methods of automation (known as Industry 4).

# 3. The Slowbalization




Notes: Exports under supply chains that can be reshored by the home economy include goods with foreign value-added and returned domestic value added. This also includes goods considered as double counted, in which its production involves a back-and-forth movement between the exporter and its direct partner. North America refers to Canada and the United States; Latin America refers to Brazil and Mexico; Pacific and Oceania refers to Fiji and Australia. Please see Appendix 3 for full list.
Sources: Asian Development Bank (ADB) calculations using data from ADB. Multi-Regional Input-Output Tables; and methodology by Wang, Wei, and Zhu (2013).

# 3. The Slowbalization

- World exports would fall by 17.8%, causing a 5.5% drop in world GDP (Table 1).
- Value chains, which are production networks that assemble products based on imported parts (intermediate products) from various countries, led by multinationals, today represent 80% of the volume of international trade.
- Exchanges in intermediate goods are now about twice as large as exchanges in final goods, especially in advanced industries, as in the case of the automobile industry.

# 3. The Slowbalization

| IMPACT OF MOVING FROM AN INTERCONNECTED TO A LOCALIZED WORLD ECONOMY | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| | GDP | Domestic Production | Import Demand | Export Demand | |
| European Union | -4.2 | -4.4 | -7.9 | -7.4 | |
| Germany | -5.1 | -5.4 | -11.4 | -9.6 | |
| France | -5.1 | -5.6 | -9.9 | -12.5 | |
| | | | | | |
| USA | -6.9 | -7.1 | -20.0 | -28.3 | |
| Japan | -3.9 | -4.8 | -20.4 | -21.8 | |
| UK | -12.2 | -13.4 | -24.4 | -33.0 | |
| Korea | -7.4 | -9.1 | -24.1 | -22.5 | |
| | | | | | |
| China | -2.6 | -2.4 | -23.4 | -18.4 | |
| Russia | -3.4 | -2.9 | -22.1 | -11.2 | |
| | | | | | |
| World | -5.5 | -5.9 | -18.1 | -17.8 | |

# 4. Benefits and Costs of Globalization

- According to calculations from the McKinsey Global Institute's model, globalization contributed about 10% per decade to global GDP growth in the 2000s. (10)
- This contribution is due to the effects identified by David Ricardo on the ***comparative advantage*** process.
- The biggest impact was in China and India.
- According to World Bank calculations, the number of people in extreme poverty in China has fallen by 770 million since 1978, with the Chinese government declaring in 2021 that it had eradicated extreme poverty.
- Globally, this represents 75% of the roughly 1 billion reduction in the number of poor people.

# 4. Benefits and Costs of Globalization

- This reduction was achieved mainly due to economic growth, and the growth policies that led to it.

- With these figures, it is difficult to know what the contribution of foreign trade is, but if we consider that its weight in GDP is about 18% in China, and a multiplier of 2, we get an estimate of a reduction of about 288 thousand poor people, which seems to us, even so, to underestimate this impact.

- And globally, globalization will have reduced poverty by an estimated 350-400 million (11).

# 5. About deglobalization

- Deglobalization is a term designed to designate tendencies that have emerged contrary to the globalization process (Dugnani, 2018) (11), with the particularity of being a process of weakening interdependence between nations (Witt, 2019) (12).

- The word deglobalization arose from the analysis of data from international institutions (e.g., WB, IMF, the WTO, G7, and G20), which sought to show that the globalization process would have limits.

- The use of the concept of deglobalization refers to the period of financial crisis from 2008 to the present day, which puts on alert the Western models and values practiced since the end of World War II.

# 5. About deglobalization

- Deglobalization has become a reality, and it is expected to persist in many markets influenced by the "*new real*" (Witt, 2019; Rodrik,2019) (12) (13)

- Some governments have adopted protectionist measures, including tariff and non-tariff barriers (Meyer, 2017). (14)

- As restrictive measures, they use exchange rate controls to address security, competition, and asset protection issues and relevant innovations.

- The consequences of these policies are the restriction of the international transfer of intellectual property, the movement of labor, the integration of goods and services markets, and the flow of foreign capital (Conti, 2018). (15)

# 6. Conclusions

- We are witnessing a more deglobalized era, but the two strands continue to coexist: globalization and deglobalization.
- Deglobalization has become a reality, and it is expected to persist in many markets influenced by the "*new real*".
- Trade activity and foreign investment are decreasing, while New Information Technologies, along with global companies and international mergers in developing countries, have increased.
- Given the current conjuncture, it’s possible to recognize the existence of a "*new real*", comprised of changes in economic, demographic, socio-political, and technological components.
- **Deglobalisation does not mean leaving the international economy, but rather reorienting production towards the domestic market rather than production towards export markets.**

# References

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# Thank you