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REVERSE GLOBALIZATION: DOMINANT IMPACT OF COVID 19

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Abstract

COVID-19 pandemic has created a pertinent danger to not only human health and life but global economic health. World over economies have entered in a phase of drastic slowdown which is unlikely to acquire V- shape reversal after COVID 19 pandemic would have been tackled with. Globalization has been the world order for the last couple of decades, with its positive and negative impacts on countries and societies. Globalization ensured that many countries face less scarcity of essential goods and services. China is the shining example of benefits of globalization, which achieved higher economic growth and a higher standard of living in couple of decades. COVID-19 will affect human societies in many ways. The COVID-19 pandemic has generated enormous uncertainty around the world and slowdown in economic activities and dependency on other countries for necessary goods like medication and PPE equipment can encourage economies to be more self-sufficient, may lead firms to reassess business models that rely on global supply chains and accelerating robot adoption leading to a renaissance of manufacturing in their own countries. The effect of COVID-19 pandemic on the globalization is definitely going to give birth to new economic order.

Introduction

Globalization represents inter-linkages and interdependence between countries thereby resulting in a global economy with integration of markets. An event happening in one country having economic implication envisages repercussions in many other countries in the world. Globalization has converted closed economies which were self-reliant into open economies having dependencies on other economies not only for growth but even for survival in some cases. Furthermore, Globalization is a dynamic, complex, and multidimensional phenomenon taking place simultaneously in different levels and transforming the way to see and analyze political, social, economic and technological events in different parts of the world. (Mario Arturo Ruiz Estrada and Alam Khan) Though globalization has gained pace over the last 40 years, international trade is not a new phenomenon. Through the ages trade linkages were established so as so that discovery of sea route to India from Europe by Vasco De Gama was prompted by apparent riches from the trade of spices, gems, cotton etc. but the globalization has accelerated by revolution in IT, transport and communication. With advanced massive transportation systems and technologies, new Research Development (RD) systems, methods, models, and tools emerged, which in turns led to expansion in the centralization of world production (the largest manufacturing center of the world as China) and business (free trade promoted by U.S.)(S. J. Evenett,2020)However, the role of Massive Transportation Systems and the Development of Information Communication Technologies (ICT's) play an crucial role to support any massive contagious epidemic diseases crisis such as Wuhan-COVID-19 through the mobilization and communication of masses in case of a possible massive quarantine.(S. J. Evenett,2020) On 11 Feb, 2020 WHO announced the name COVID 19, for the new coronavirus disease originated from Wuhan , China and by then world has been exposed to the deadly impact on health of population and health of economies. And since the onset of the COVID 19, the world being besieged by the economic crises has raised questions on the world order of globalization.

Scope and Purpose of the Study

The paper proposes to analyses the impact of COVID-19 on globalization. Can COVID 19 actually act as catalyst to reverse the globalization? Will the form of globalization evolve and acquire a regional shape? The study analyzes the economic impact of COVID-19 through looking at economic growth, unemployment rate, and trade data of the countries. This paper used the available research, secondary data, reports, and literature from the international monetary fund, BLS, OECD for analyzing the situation.

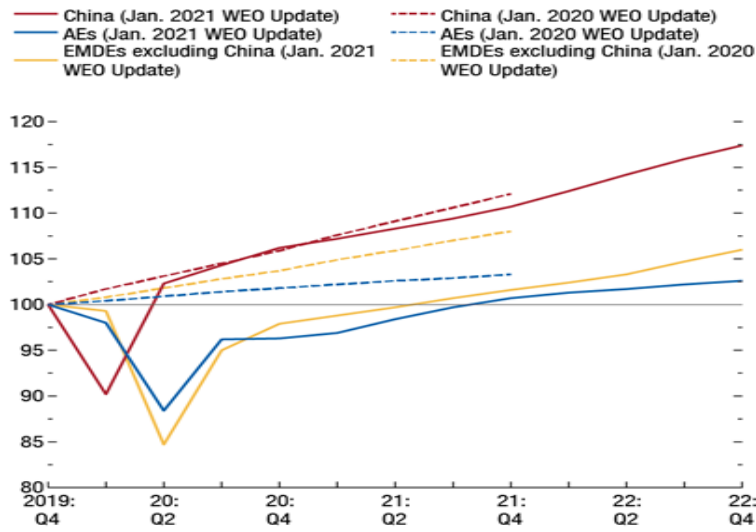
Economic Growth

Suspension of economic activities and lockdowns, complete or partial during the COVID-19 pandemic, which reduced economic activity levels significantly. Long term sustainable economic growth which is one of the most desired goal for any country is without any doubt is affected by reduced economic activity. The World economic outlook, April 2020, the global economy is projected to contract sharply by -3 percent in 2020, much worse than during the 2008-09 financial crisis. The global economy is now projected to contract by 4.4% in 2020 — an upward revision from an estimate of -4.9% made in June (which has now also been revised to -5.2% due to a new methodology used by the IMF). The IMF's forecast assumes that social distancing due to the coronavirus pandemic will continue into 2021, and that local transmission will fall everywhere by the end of 2022. Although the economic fallout will not be even among the countries as it depends on number of factors that interact hard to predict being the situation is unprecedented. the extent of supply disruptions, the repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioral changes, change in market structure, consumer confidence effects, volatile



commodity prices and many more will decide the state of economies for coming years. Below is the graph that shows the recovery projections after initial shock of covid in 2020, divided into advanced and emerging markets and developing economies.

Figure 1. Divergent Recoveries: WEO Forecast for Advanced Economies and Emerging Market and Developing Economies (Index, 2019:Q4 = 100)



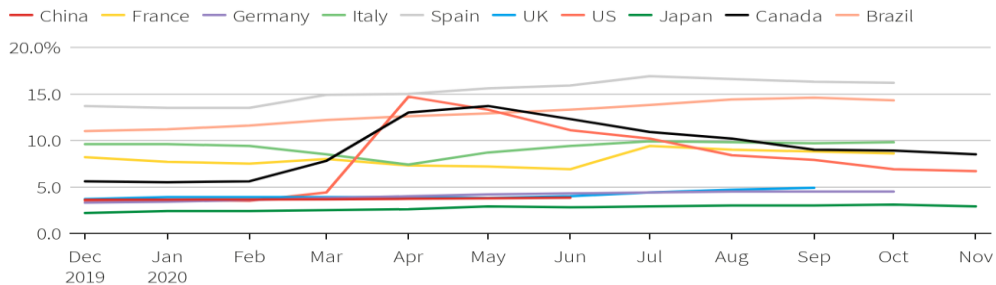
Source: IMF staff estimates. Note: AEs = advanced economies; EMDEs = emerging market and developing economies; WEO = World Economic Outlook.

Unemployment Rate

As the COVID-19 pandemic has slowed down the economic activities the employment rates are going to be affected. There is positive relationship between human capital and economic growth. The number of unemployed people has increased dramatically across the world. In emerging economies unorganized sector is worst hit and thus the unemployment rate has soared as this sector employ masses. When economies are suffering from higher unemployment countries will prefer to protect the jobs at home. With sluggish growth countries with larger labour force are feeling pain of engaging huge population rendered jobless and could look inward. As for developed economies immigration and outsourcing will diminish in order to protect and give jobs to their own citizens of the country. Businesses are also resorting to production techniques of less human contact further stressing employment. It can further strengthen the tendency of reverse globalization.

Global unemployment in the pandemic

Unemployment rates rose in most countries after the COVID-19 outbreak. It may take a year or more for jobless rates to return to pre-pandemic levels in many countries.



Note: End point of each line is that country's most recent reported unemployment rate Source: Refinitiv DataStream



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Trade

Trade was already slowing in 2019 because before the virus struck, weighed down by trade tensions and slowing economic growth. As a result of the COVID-19 pandemic, many countries have banned or impose restrictions on interpersonal interactions, social, cultural, and international trade exchange. According to WTO 2020 press releases world merchandise trade has registered a slight decline in the year of -0.1% in volume terms and after rising by 2.9% compared to the previous year. The dollar value of world merchandise exports in 2019 fell by 3% to US\$ 18.89 trillion.

Factors underlying reverse-globalization

The push toward reverse-globalization can be understood from different perspectives.

Economic factor

Globalization of production is the product of capitalism. In the search for efficiencies, Multinational's in order to minimize the cost of production and access larger share of markets centralized at low-cost production locations. Moreover, technological advancements enabled global value chains where China, emerged as the world's factory with its hard work ethic and then seemingly inexhaustible supply of cheap labor. The crisis has highlighted the risk of geographic dependence on China, which could either result in strategies to diversify the location of suppliers, without negatively impacting aggregate trade, or trigger a wave of re-localization, with the associated drop in trade volumes (I. Olivie and M. Gracia,2020) In order to revive the economy from the disastrous pandemic of COOVID-19, innovation of new production, transportation and communication technology for supplying goods and services with less human contact is indispensable. The focus is to be shifted from low-cost production to safe and ensured supplies. In advanced countries new combinations between human resources and machines can already being found, such as increases in remote work and automation. Innovation in production methods and processes may consolidate the Global value chain, which has expanded up until now for utilizing the abundant labor force. The focus on cost optimization, ruthless cost cutting and just in time production, holding sizable inventories are perceived as wasteful in new normal.

According to the Global Trade Alert database from 1Jan 2020 to 25 April 2020, a total of 184 imports restrictions have been imposed this year compared to 323 over the same time frame last year suggesting that pandemic has not resulted in an unusually high level of policy induced curbs on imports.

Economic policy uncertainty affects global value chain as it reduces trade indirectly by reducing GDP growth as firms postpone investment decisions, consumers may cut back spending and banks may increase the cost of finance. Also, it affects trade directly by affecting firm's decision to invest to serve foreign market. thus, investment decision affected by economic policy uncertainty affect GVC trade compared to other trade.

Social factors

Economic Theory of comparative advantage, favor globalization and gives precedence to economic factors over social factors, which has resulted in the movement of production in other low-cost countries from Western economies. Though over the years widening income equalities have come at a high societal cost, not just in terms of lost jobs and meager employment opportunities. The powerhouses China and the United States continue to vie for economic supremacy, employing restrictive import and export measures and prompting a major shift away from global free trade. Britain's Brexit from the EU in January 2020 has heightened insecurity in European policy, the outcomes of which are sure to be felt in the UK, on the continent and internationally. With the world still gripped by the COVID-19 pandemic, the Coronavirus threat could impact how countries interact across borders and national boundaries, including the potential slowing of global trade amidst amplified fears of recession in several advanced economies. The social fragility accelerates the downside of globalization, the resultant frustration and anger offering fertile ground for populist policies. COVID, has affected low-income communities reflected in undesirable living conditions, loss of jobs, or the need to work in low-quality jobs risking exposure to the virus, and access and quality of the health system. Regarding reverse globalization and the provision of social benefits, the main predictions are based on relative factor abundance. If the economy is relatively capital abundant compared to the rest of the world, as the degree of trade globalization weakens and outward capital flows recede, the provision of social benefit declines. In contrast, if the economy is relatively labor-abundant economy compared to the rest of the world, as the degree of globalization weakens and inward capital flows recede, the provision of social benefit rises. (M. A. Ruiz Estrada and A. Khan)

Political factors

The government interventions such as government subsidies to nationalized companies in China, and the introduction of retaliatory tariffs in the United States and China cause distortions and biasedness in international trade. The government fund in Japan to support the increase of supply capacity in home market may have a trade distortive effect if it intends to change the production location from foreign market to domestic market. (WTO Secretariat (2020)) Trade growth has been abnormally weak in the past few



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years and world trade volumes have actually declined in 2019 despite the fact that world economy grew fairly steadily. More interest is shown in analyzing the concept of regionalism as it has been noticed that countries own consumption has increased which could be the answer of the above trend. China has begun to turn inward; the indigenous development of leading industries suggests the trend. Though known as world factory the share of its export as share of its GDP has fallen from 31% in 2008 to just 17% in 2019. American First policy of former US president Donald Trump shifting away from trade liberalization and moving towards protectionism. The pandemic has added fuel to the trend away from globalization We are in a context in which integration processes are going into reverse and national identities are strengthening, while the spread of the health crisis is global in nature. Even before the pandemic we were witnessing a trade war between US and China largely driven by technology race now intensified by the response to the health crisis. (Estaben 2020)

Technological factors

Technological advancements were the impetus for the rise of global value chains characterizing globalization. It seems that the same would foster the reverse. With the rise of robotics, artificial intelligence and other developments in today's digital economy, increasing capital-labor substitution has increased productivity. Firms need to diversify their supplier base to protect against disruptions affecting a producer or a particular geographic location. There may be some reshoring as automation has reduced the importance of labor cost. With the global crisis and resultant pessimism interest rates may drop making the financing of robots less costly. As machines were replacing workers, production as well could take place in high wage countries. Firms may compare the savings from global supply chain, the difference in wages in their country inclusive of transportation cost -with the cost saving from using robots instead of workers in production. (Kemal Kilic, Dalia Marin)

Conclusion

The World experience in dealing with the pandemic has proven that, national governments are the dominant player in coordinating epidemic activities. In view of public health and economic development countries had to decide the counter strategies to curb pandemic, the timing and pace and depth of action thus varied with countries. The key difference is between more radical solutions used in China, India, South Korea, Italy, Poland, and less resolute actions in the USA, Great Britain and many other countries. At present, with second wave of pandemic it seems that public policy of countries choosing pre-emptive, radical and largescale actions is more effective. Much depends on social discipline, the effectiveness of the healthcare system, as has proven previously and the effects of the pandemic that will show up in the economy. Therefore, the question arises whether strengthening the central government will give impetus to the tendencies of reverse globalization. Especially that it seems the effect of a pandemic may be recession and structural changes in many economies that may strengthen tendencies towards economic nationalism (Ł. Sułkowski ,2020). But the increased focus on economic sovereignty in wake of pandemic should not come at the expense of international connectedness as this will weaken productivity and incomes reducing resilience rather enhancing the same. (S. Kircher,2020) International trade and GVC will be largely influenced or even controlled by the aftereffects of many reverse-GVC factors such as the COVID-19 pandemic, global protectionism, the U.S.-China conflict and decoupling, rapid development of digital technology, and others. The COVID-19 pandemic has accelerated digitization, expedited reshoring, and subsequently encouraged the phenomenon of reverse-GVC. What is needed is not a policy to stimulate the reverse globalization of production, but a policy to encourage new innovations to optimize the combination between labor force and capital goods and to lead to automation. Such policies will make the GVC more productive and may accelerate the return of production processes overseas to the domestic market. Protectionism and its related beggar-thy-neighbour policies are not the good policy to follow. In fact, they will lead to the exact results that they seek to avoid. For example, in the context of dealing with the COVID-19 crisis, protectionist export controls will raise prices, depriving states with essential goods they are in desperate need for. (Amin R. Yacoub and Mohamed S. El-Zomor)

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