



## **Deglobalization: A strategic trade policy for economic stability or an effect of politicism in times of economic distress?**

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### **Abstract**

The term ‘Deglobalization’ means the process of reduction of the interdependence and integration of economies of the world. Globalization, while has been overall beneficial for the economy as well as the end consumers. A number of European and Financial Institutions have been stating about the ill effects of Globalisation since a long time. In the past few years, while we have seen the rise in globalization, we have also seen a somewhat rise in deglobalization policies being undertaken by a number of states, the reasons for which vary from being to help the domestic industries, political allies and enemies, reduction in fiscal deficit, etc.

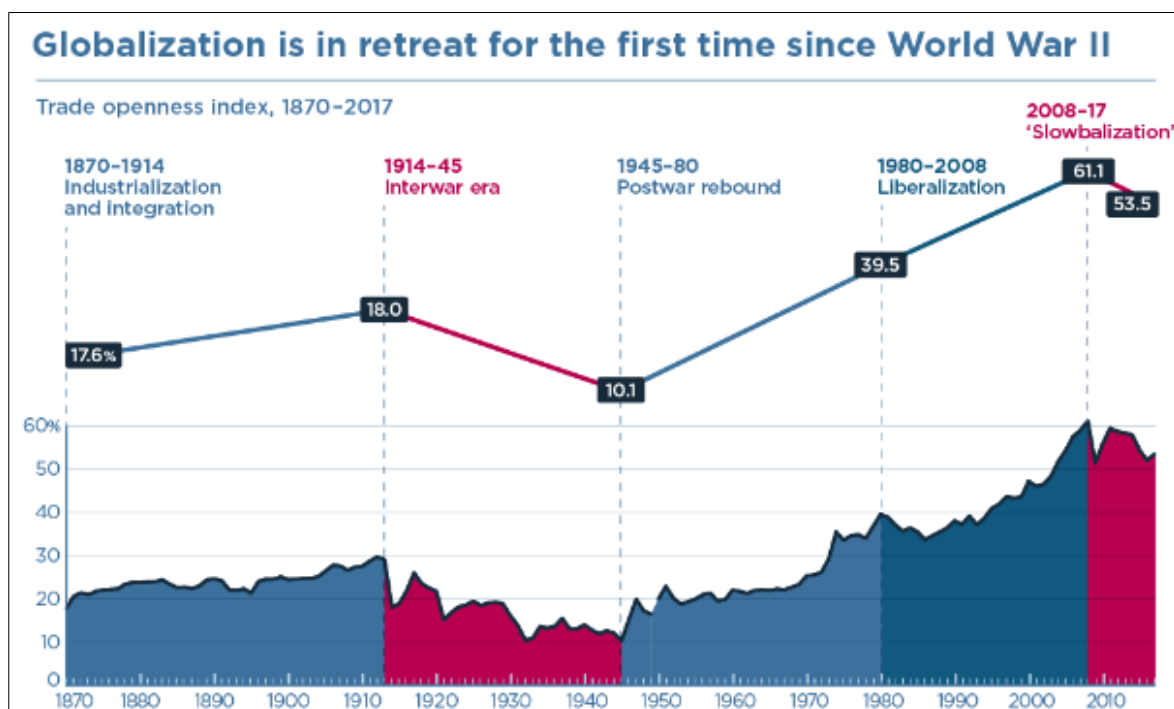
**Keywords:** globalization, economic Impact, deglobalization, world economy, US-China trade war

### **Introduction**

Ever since the World Economies started to formally integrate in the 19th Century, Globalization has grown manifold since that time. The first period herein would be the latter half of the 19<sup>th</sup> Century to the period just before the start of the First World War wherein Globalization rose rapidly, as per the standards of the time.

According to the data available, it has been established that it is only after the period between the first two World Wars i.e. from 1918 – 1945, that globalization in the world has taken a hit. Additionally, it has to be further kept in mind that during this

period, even the Great Depression played a very major role in the process of Deglobalization. However, when we look at the time after the year 2017, a downward trend is being seen in Globalization around the World, and while no purely economic factor can be attributed to this decrease, the fact is that the tide has begun to rise for the process of deglobalization. However, this does not mean it is imperative that in the future, deglobalization would be the way to go. Though, even if there is a slight chance that it might happen, then the global economy as we know will take a hit.



**Fig 1:** Globalization is in retreat for the first time since World War II

(Diagram depicting the rise and fall of Globalization in the world in the past one and a half century)

One important aspect that can be visible from the below - shown diagram is the reduction in international trade during the fiscal year of 2008. As is widely known, there was a stock market collapse in the United States in the year 2008, and the ripple effect of it was felt by the whole World. This is also one of the cons of

Globalization. If the economies of the World were not as integrated as they are today, then the crash of one economy would not have affected the other economies at such a large scale, however, because the US economy is perhaps the biggest in the World, as well as the fact that what happens in the US economy, doesn't just stay in the US economy, the effects are clear.



**Fig 2:** Global Trade in Volume

(Global Trade in Volume, depicting the decrease in trade during the 2008 US Stock market crash, as well as the decrease that may have started since the year 2017-18)

### Effect of Covid-19 on Deglobalization

Covid-19 has played a very major role in catalysing the process of deglobalization in the world. Because of the lockdown and other such measures that were by a number of countries during the initial phases of covid-19, a lot of countries felt the impact of some of the cons of globalization in international trade.

For example, country A supplies country B with raw materials. Country B then uses these raw materials to make a component of a final product. Country C makes another component of the final product. These two different components then get shipped to Country C in order to make the final product, and then this final product is shipped to a number of other countries for being sold. Therefore, as can be seen from this example, in order for a finished product to reach the end consumers in different parts of the World, a united effort of a number of countries is required, since all these countries play their own role in the furtherance of

international trader. The failure of any one country in this process would result in delay in the whole supply process, and cause loss to the stakeholders concerned. In this aspect, after the lockdown measures of Covid-19, a number of countries realized that they need to be self - reliant for a number of important goods, thereby amounting to the rise of a self - reliant economy, which can turn into a stepping stone for deglobalization. The Covid-19 Pandemic has been driving the World economy to retreat from the years of economic integration. A number of policymakers and financial experts have opined that while there certainly are benefits because of Globalization of the World economy, the supply chains may have been stretched way too far.

In addition, countries felt the need to become self – reliant in these tough times and to not always rely on other States for their needs. For example, a majority of the countries banned the export of goods such as masks, sanitizers, PPE Kits, etc, so that the people of that country would not have a shortage of the necessary goods. Thus, this prompted the nations who had no, or little domestic production of such essential goods to start producing them in their own countries, further giving rise to deglobalization.

### **The Politics of Deglobalization**

Politics perhaps play an even bigger role in deglobalization than economic factors do. And this political factor has been advancing at a faster rate in the previous years. To say that politics between nations have an effect on the process of Globalization or deglobalization is an understatement. Countries that are allies of each other further their economic interest and continue to grow the integration of their respective economies. However, this, as a first step, is done between political allies only, and after that the economic impact comes into force. In a similar way to Globalization, countries that are politically against each other, tend to come up with certain policies that give effect to deglobalization.

For example, one of the major instances of deglobalization is the political adverse interest of countries in trading with China on a number of factors. The United States of America and India are perhaps the front runners in this regard, both due to political reasons.

### **The US-China Trade War**

As has been indicated above, in recent times, this is perhaps one of the major factors that is resulting in the deglobalization of World Economies. A trade war between these two economic behemoths does not only get limited to the economies of these two nations, but rather, the effects of such a trade war is felt by a number of other economies as well. Additionally, considering the fact that by and large, a major factor between this trade war is political, and not exactly economic, allies of these countries also tend to follow in the footsteps of these countries, which further result in the deglobalization of the World Economy.

Since the year 2018, President Donald Trump of the United States had started to increase the tariffs on Chinese goods because of what he said regarding China's policies of unfair trade practices and intellectual property theft.

Analysis of this trade war suggests that countries such as Canada, Germany, as well as the whole European Union have felt the negative impact of the trade this aspect again shows how much integrated the World Economy has become. Additionally, certain Chinese Corporations such as Huawei and Byte Dance (Tik Tok) have faced the major brunt of this Trade War. While the trade war does not directly affect these corporations, however still, it cannot be said that the politics surrounding the trade have had no impact on these corporations in the United States. Not just the United States however, Huawei has faced serious restrictions from the USA as well as its allies on the allegation that it works closely with the Chinese Military, thereby raising security concerns over the use of its technology. The ban is so stringent; the Chief Financial Officer of Huawei, Meng Wanzhou was arrested in Canada, based on a request by United States.

Therefore, while the start of this process of deglobalization based on the trade war between US and China may be due to economic reasons, it is clear that a number of political agendas are on the plate right now as well.

### **Aatma Nirbhar Bharat (India)**

Aatma Nirbhar Bharat Yojna is brought by NDA Government to make India a self – reliant nation. For the same, economic stimulus amounting to Rs. 20000 Crores was announced recently to increase the consumption demand which is equivalent to ten percent of India's GDP. The Mission has Five Pillars that include

Infrastructure, Economy, Vibrant Democracy, Demand and System. The Mission is in line with the Make in Indian Campaign of India to promote the domestic industries of the country. The idea of Self-Reliance does not signify any exclusionary or isolationist strategies but involves creation of a helping hand to the whole world.

In times of the ongoing Pandemic, when global trade has suffered a huge setback, promoting domestic industries is necessary to meet the demands. The promotion of idea of "local for vocal is with the aim of curbing imports from other countries, especially China. The ultimate aim is to create the domestic demand of domestically produced goods in order to promote economic development and growth. The increase in demand will have a chain reaction to the whole economy as it will create equilibrium between demand and supply which will ultimately result in desirable GDP. The aim of the mission is not just to satisfy the requirements of India, but to increase the quality, competitiveness, and safety compliances in order to grab global attention. Another purpose of the mission is to promote small local domestic producers with the aim of global reach.

In recent times, when war is not an option, states are using international trade restrictions on countries to show its displeasure against other states. Recently, India has banned imports of palm oil from Malaysia in order to show its displeasure on its Prime Minister's statements against internal politics and matters of India. States are also imposing trade restrictions in order to fulfil political vendetta. Recently, Apple Inc has decided to shift its manufacturing units from China to India, in order to show disapproval towards China's international politics. These restrictions are necessary in the current state of politics in order to control the political moves of other countries.

### **Risks of Deglobalization**

A reduction on part of the economies as well as the World Integration of international trade "are expected to exert second round effects related to four feedback mechanisms"

Deglobalisation poses certain unanticipated risks which can prove disastrous for not only a country's overall economy, but also for its international relations. The risks which are posed by deglobalization are as follows-

1. It can bring a huge fall in the demand of international debt from the country going for deglobalization, but also in the businesses of multinational corporations and stock market trade.
2. It is a well-noted fact that most of the international trade takes place in dollars. If western countries, especially the recent trend of deglobalization shown by the US, opt for the same, international trade will suffer a lot. This would have adverse consequences like exploitation of human rights and increase in risk of climate change as every single country will push towards more and more local manufacturing, ultimately damaging the environment.
3. Globalization increased the dependence on countries like the USA, China, Japan, and Russia. If these countries shift their gears on towards deglobalization, the countries directly dependent upon them will lose a substantial amount of their trade and manufacturing. In addition to it, the countries indirectly dependent upon them, i.e. countries relying on nations importing from these super powers.

4. Recently, the move of Indian government making an exit from the Regional Cooperation for Economic Partnership (RCEP) for having certain reservations against China shows its move towards deglobalization. This step can bring many unanticipated losses for India as it is highly dependent on China for the export of raw materials for production in almost every manufacturing industry.

However, this does not in any way indicate that deglobalization does not have any positive impact. As has been mentioned above with regards to steps taken by countries during the Covid-19 Pandemic, it was seen that the countries started their own production of essential goods as hand sanitizers, masks, PPE Kits, etc., because the same were not available as imports during the necessary times. Therefore, during the pressing times, countries started to become self – reliant at least in this regard. If not anything else, this is one major advantage of deglobalization i.e. self – reliance.

#### **Deglobalization as Strategic Trade Policy?**

This is one very important question that comes out with respect to deglobalization, that whether such steps are economic decisions by the State, or only a political move on their part? The answer to that question is that it's both.

While in certain cases, as we have talked about in the case of Covid-19 Pandemic, as well as the reason for the start of the US – China Trade War, the reasons for deglobalization were economic in nature. However, it is also clearly visible that a number of reasons are political in nature, as have been mentioned above. Additionally, even the United States' embargo on trade with Cuba in the second half of the 20<sup>th</sup> Century was purely political in nature.

Though, it can certainly be said that in the current times in which we are seeing more polarization between the political aspects of the countries, that politics may even play a bigger role in deglobalization.

#### **Conclusion**

At present, about 60 % of the global trade is the shipment of intermediate goods and services that ultimately gets merged into another product. This shows the extent of Globalization that has been reached in the World.

To say that politics between nations have an effect on the process of Globalization or deglobalization, is an understatement. Countries that are allies of each other further their economic interest and continue to grow the integration of their respective economies. However, this, as a first step, is done between political allies only, and after that the economic impact comes into force.

In a similar way to Globalization, countries that are politically against each other, tend to come up with certain policies that give effect to deglobalization. The example of India's import of Malaysia's palm oil is clear in this regard. When Malaysia interfered in India's domestic matter, and supported the State of Pakistan, it prompted India to ban the import of palm oil from Malaysia, which is reportedly a big part of the Malaysian exports. Therefore, in this regard, it can clearly be seen that there was nothing economic about the decision taken by India, but only political.

However, though, in a similar way in which it cannot be said that economic factors are responsible for deglobalization, it cannot be said that politics is the sole factor either. The process of Globalization that is being monitored to have started in previous years is in fact because of a mix of economic and political factor, and therefore, no single reason may be attributed to it. Though, it can certainly be said that in the current times in which we are seeing more polarization between the political aspects of the countries, that politics may even play a bigger role in deglobalization. And the disadvantage about this aspect is that because of such political reason, countries may ignore the economic impact that deglobalization may have in an economy. On the other hand though, deglobalization has certain benefits to an economy as well. Answering this question in isolation is a difficult task, and therefore, every case of deglobalization has to be independently tested as to whether it is because of economic or political reasons and whether it is beneficial or not.

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