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# Will COVID-19 support the de-globalization of the world economy?

## ¿Favorecerá COVID-19 la desglobalización de la economía mundial?

Leonidas Montenegro

### Resumen

La globalización va más allá de la integración de las economías. Este fenómeno implica un conjunto de interacciones sociales, culturales y tecnológicas, entre otras, que ha tenido partidarios y detractores. Los detractores afirman que la desigualdad de la globalización obstaculiza el progreso social. En este contexto, la actual pandemia de COVID-19 ha devuelto el debate sobre la desglobalización a la escena internacional, ya que la movilidad sin restricciones de bienes y servicios ha favorecido la rápida propagación de la pandemia. Como consecuencia, los gobiernos han tomado decisiones que amenazan las cadenas de producción y el comercio mundial. Empíricamente, crisis globales como la del COVID-19 han promovido tendencias desglobalizadoras y han reforzado los discursos proteccionistas. En consecuencia, el reto consiste en repensar la globalización hacia una economía mundial más regionalizada, una desglobalización selectiva o una re-globalización selectiva, pero sin perder de vista que la globalización debe ir más allá de un entorno de libre comercio y promover una verdadera cooperación que apoye el desarrollo integral y sostenible.

Palabras clave: COVID-19; Globalización; Des-globalización; Re-globalización; Comercio; Organización Mundial del Comercio (OMC); Cadenas de suministro; Cadenas globales de valor

### Abstract

Globalization goes beyond the integration of economies. This phenomenon implies a set of social, cultural and technological interactions, among others,

that has had supporters and detractors. The latter claim that the inequality of globalization hinders social progress. In this context, the current COVID-19 pandemic has brought the de-globalization debate back to the international stage, since the unrestricted mobility of goods and services has favored the rapid spread of the pandemic. As a result, governments have taken decisions that threaten global production chains and trade. Empirically, global crises such as COVID-19 have promoted de-globalizing tendencies, strengthening protectionist discourses. Consequently, the challenge lies in rethinking globalization towards a more regionalized world economy, selective de-globalization or selective re-globalization, but without losing sight of the fact that globalization must go beyond a free trade environment and promote genuine cooperation that supports integral and sustainable development.

Keywords: COVID-19; Globalization; De-globalization; Re-globalization; Trade; World Trade Organization (WTO); Supply chains; Global value chains

## 1 Introduction

In general terms, globalization is not limited to integrating economies through trade in goods and services, financial flows and the transfer of knowledge and technology. This phenomenon implies more than just economic aspects; nowadays, globalization is a set of interactions: social, cultural, political, environmental, telecommunication interactions, etc. Throughout its historical development, globalization has had both supporters and detractors. The first

see it as a positive, dynamic, prosperous, inevitable and irreversible process, that offers an excellent opportunity for developing and advanced economies to achieve faster growth and ensure poverty reduction. On the contrary, detractors believe that globalization creates inequality within and between countries, threatening employment and living conditions and hindering social progress.

This essay will focus on the economic dimension of globalization and its critics who promote de-globalization. De-globalization is not a recent process, as it began globally, especially in the developed economies, reducing exports and increasing domestic consumption. Some of its roots lie in the tendency to sign bilateral agreements between countries interested in promoting domestic production, either by imposing tariffs on foreign goods or through tax exemptions for domestic industries. Other reasons discussed are the so-called trade war between the USA and China, protectionist measures and the lack of new global trade liberalization agreements since the Uruguay Round. In this scenario, it is pertinent to ask whether COVID-19 is an additional boost to de-globalization.

## 2 COVID-19 and de-globalization

Blum and Neumärker (Lessons from Globalization and the COVID-19 Pandemic for Economic, Environmental and Social Policy 309, 311, 316) stress that globalization has created several institutions, such as the World Trade Organization (WTO), to promote free trade and, eventually, to ensure the unrestricted mobility of goods and services around the world. Trade institutions, together with the free movement of goods, services and people, accelerated the rapid spread of the pandemic and overcame the natural barriers that prevented its spread. Consequently, COVID-19 has caused a worldwide financial and economic crisis for the current highly globalized system. In the same way, Branicki, Sullivan-Taylor, and Brammer (Towards crisis protection(ism)? COVID-19 and selective de-globalization) agree that COVID-19 has had profound implications for the global economy and society. The global nature of the crisis has created competition between countries for scarce resources and has highlighted the vulnerability of the worldwide economy in physical and human terms.

Since the World Health Organization declared COVID-19 a global pandemic on March 11, 2020, its impact on the economy has been disastrous. Gov-

ernments around the world took extreme measures to prevent the spread of the virus. Nevertheless, many countries have adopted regulations that have caused significant damage to trade and international markets. For example, borders have been closed, paralyzing international air traffic, tourism, transport, the production of non-systemically important goods, changing patterns of work, manufacturing and consumption. In addition, Hoekman (COVID-19 trade policy measures, G20 declarations and WTO reform 63) noted that “many WTO members responded to the COVID-19 pandemic with a mix of export controls and import liberalization/trade-facilitating measures for medical supplies and personal protective equipment” due to insufficient capacity and capability to manufacture physical goods, an inadequate supply of crucial skills, and lack of raw materials and /key inputs even when manufacturing capacity exists (Branicki, Sullivan-Taylor y Brammer 231).

Evidence suggests that a globally disruptive extreme event such as COVID-19 can trigger de-globalizing trends, especially when the events provoke a wholesale rejection of globalization, considering its adverse impacts on the economy and society (Branicki, Sullivan-Taylor y Brammer 239, 242, 243). In a scenario where the multilateral trading system is beset by various problems, COVID-19 has accelerated discourses towards greater protectionism, adopting measures such as the tariff and non-tariff barriers that have emerged and high taxes and export restrictions on some products. This has occurred in an international framework characterized by high levels of interdependence in the global value chains, thus challenging cross-border value chains.

In this regard, the enormous challenge for the worldwide economy posed by COVID-19 invites us to reconsider the current wave of globalization and whether it should be revived or remodeled. “The vulnerabilities of domestic economies and societies to global value chains have led to considerable debate regarding the impacts of the loss of manufacturing capacity and a broader discussion on which sectors and activities ought to be considered essential to a given country” (Branicki, Sullivan-Taylor y Brammer 236). In this sense, Enderwick and Buckley (Rising regionalization: Will the post-COVID-19 world see a retreat from globalization) propose a move towards a more regionally based world economy, seeking a better balance between national and international interests, between efficiency and resilience of supply chains, and between growth and equality. They propose that a regionally based economy could offer some of the benefits of recent globalization and would have fewer detrimental effects. Therefore, the impact of the pandemic and underlying

anxieties about globalization may push the world economy towards a more regionally focused composition.

Other authors promote selective de-globalization and selective re-globalization. In the first case, the idea is moving “the current highly globalized state towards a less-globalized state in specific areas of economy and society. Thus, selective de-globalization entails a simultaneous recognition of the benefits of globalization concerning some areas of economy and society alongside disbenefits or vulnerabilities in others.” (Branicki, Sullivan-Taylor y Brammer 243) The second “involves an increase in global coordination and cooperation about the development production, and distribution of some goods and services. Underpinning selective re-globalization is the observation that developing some capacities and capabilities requires greater global coordination and alignment than is present in the current state” (Branicki, Sullivan-Taylor y Brammer 244).

In general terms, globalization requires a free and non-discriminatory trading environment, low tariffs, efficient market processes, supporting institutions, etc. Nevertheless, during the COVID-19 pandemic, the WTO has appeared weak, largely missing in action, subject to criticism and the blocking by the United States of appointments to its Appellate Body (Enderwick and Buckley 101). Many WTO members resorted to unilaterally imposing export restrictions on medical supplies and personal protective equipment. Considerable trade powers did not play a leadership role in using the WTO as a platform to cooperate in boosting the global production and distribution of medical products. That said, the COVID-19 pandemic illustrates the challenge confronting plurilateral cooperation (Hoekman 340).

### 3 Conclusions

The process of de-globalization is not a recent phenomenon. Its development has been cyclical and non-linear. Consequently, the COVID-19 pandemic has become an additional element that reinforces the idea of the dark side of globalization. The main world institutions called upon to coordinate global efforts to mitigate the harmful effects of COVID-19 have been oblivious and absent from the problem. They have missed the opportunity, brought by the

pandemic, to reformulate the current economic system for a more social and solidary system, one that seeks a better balance between growth and equity, while recognizing the human being as its subject and its end.

The COVID-19 pandemic has called into question the benefits of globalization and the soundness of the world trading system. However, we believe that this does not mean the death of globalization. We believe it opens a window of opportunity to improve and achieve fairer and more balanced trade, provided there is the political will to provide institutions such as the WTO with the necessary leadership to limit the adverse effects of globalization.

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