

WEEKLY FOCUS



GLOBALISATION ENDING OR TRANSFORMING?

INTRODUCTION

Globalisation as a concept fundamentally deals with flows. These flows could be of various kinds - ideas moving from one part of the world to another, capital shunted between two or more places, commodities being traded across borders, and people moving in search of better livelihoods to different parts of the world. The crucial element is the 'worldwide interconnectedness' that is created and sustained as a consequence of these constant flows.

Access to global products, transformation of consumer and business technologies, and falling barriers to trade and travel have redefined life over the last 20-30 years. However, there is a growing feeling around the world that globalization has come to an end and that a new order is coming. The slowdown in financial and investment flows, the rise of nationalism & protectionist policies, trade wars, disputes over control of foreign investment, anti-immigration policies and the most recent disruption in supply chains and focus on self-reliance by various countries due to global lockdown as a result of COVID pandemic are being termed to be manifestation of ending globalisation. Other factors include people's discontent, based on rising unemployment and inequality in the globalization era.

It is true that nationalism and protectionism are on the rise; however, Globalization isn't ending, it's changing. In order to understand this transition, we will have to look into the details of various questions like- What defined the Globalisation so far, How globalisation is changing from the past, and What challenges and opportunities are there for India in this new wave of Globalisation?



WHAT DEFINED THE GLOBALISATION SO FAR?

- ▶ People have been trading goods for almost as long as they've been around. Starting from the Indus Valley civilisation times to the Silk route trade to the modern age of exploration and discoveries, people and goods have been moving to places.
- ▶ A brief overview of the progress of globalisation since the 19th Century is depicted in the figure below.

Globalisation Era	Age of Discovery (15 th -18 th century)	Globalisation 1.0 (19 th century -1914)	Globalisation 2.0 (1945-1989)	Globalisation 3.0 (1989-2008)	Globalisation 4.0
Leading Exports	Raw Material/ Basic Goods	Textiles/Industrial Goods	Factories	Global Supply Chain	Digital Goods/ Services
Leading Nations					
Exports as % World GDP	<5%	6 → 14%	5 → 15%	15 → >20%	
Enabling Era	Scientific Revolution (15 th -17 th century)	1 st Industrial Revolution (1780s-mid 19 th century)	2 nd Industrial Revolution (1870s-1910s)	3 rd Industrial (1960s-1990s)	4 th Industrial Revolution (2000s-2010s)
Enabling Innovations					
Characterizing GDP Trend	Europe ↗	Britain ↗↗	World ↗↗	United States ↗↗↗	China ↗↗↗↗

- ▶ Although each phase of Globalisation till the beginning of 21st century i.e. Globalisation 3.0, was different from the previous one, **all were based on the same model of globalization**. This model consisted of **five forces**:
 - **A new technology** that was leveraged by a country or a set of countries to boost productivity and output.
 - **One or more countries serving as an economic “pole”** (Western Europe, the US, and China, respectively, in each of the three phases) that became the global growth engine—driving 20% to 25% of GDP growth and around 15% of the growth in global trade—and that, in turn, fueled growth in other countries, especially trading partners.
 - A **favorable system of global governance (Multilateralism)** that facilitated cross-border financial and trade-led GDP growth through stable rules of the game.
 - **Domination of flow of goods over services** as it was difficult to move services across the border as compared to finished goods.
 - **Globalisation is mainly a west dominated phenomenon** where flow of ideas, goods and capital has been mostly from the West to the East. At the political front also, **global multilateral architecture has been led by the West** such as Bretton Woods Institutions, UNSC, G20 etc.
- ▶ However, the advent of internet **during the Globalisation 3.0** connected people all over the world in an even more direct way. The internet also allowed for a **further global integration of value chains** which resulted into a rapid globalization. And the current phase of Globalisation being termed as **Globalisation 4.0** is being driven by **profound structural shifts** in the world economy that have been **set in motion by internet and digitalization**.
- ▶ **On the other hand**, over the period of time, certain events across the world has led to a feeling around the world that globalization has come to an end and that a new order is coming.



WHAT ARE MAJOR EVENTS CREATING APPREHENSIONS OF ENDING GLOBALISATION?

As the new wave of globalization is spreading out, many of the world's people are becoming resistant to it. In the West particularly, many middle-class workers are fed up with a political and economic system that resulted in economic **inequality, social instability**, and – in some countries – **mass immigration**, even if it also led to economic growth and cheaper products.

There have been **five major geopolitical shifts** creating suspicion of ending globalisation.

- First, **protectionism is growing**. A number of trade barriers have been introduced since mid-2018, the most significant of which have been higher tariffs on bilateral trade between the US and China.
 - **As a percentage of GDP, global exports have stalled** and even started to go in reverse slightly. This increase in protectionism has contributed to the slowdown in global growth, both via the direct effects on trade flows, supply chains and import costs, and via the wider indirect effects on business sentiment, uncertainty, and investment around the world.
- Second, the **ability of multilateral institutions to establish and enforce shared rules seems to be weakening**. As a political ideology, “**globalism**”, or the idea that one should take a global perspective, is **on the wane**. **Bilateral agreements** based on national interests are **taking precedence over multilateralism**. This is especially evident in current ongoing COVID pandemic which is causing the demand to reform various multilateral organisations such as WTO, WHO etc.
- Third, the **dominant role of Western countries** in the multilateral financial institutions that have provided global capital **appears to be receding** as new financial institutions emerge, such as the China- backed Asian Infrastructure Investment Bank and the New Development Bank.
 - Internationally, the United States - the power that propelled the world to its highest level of globalization ever - is backing away from its role in the world order.
- Fourth, **state capitalism is on the rise**: Examples include the growing economic role of state-owned enterprises & sovereign wealth funds (e.g. India's NIIIF) and the increased direct government support of domestic industries.
- Fifth, with the **current COVID pandemic**, global value chains got disrupted as a result of lockdown. In the response, various countries such as India are now focussing on self-reliance and curbing their imports.





IS GLOBALISATION REALLY ENDING?

- If we measure economic integration and interdependence among countries—the main features of globalization—against trade flows of goods and services and against financial and investment flows, we may be witnessing an interruption. However, if we use metrics that are more in line with the economic dynamics of the 21st century, then there would be **signs that globalization is accelerating rather than subsiding**.
- Following are the **indicators of 21st century economic integration and interdependence** among countries that transcend trade and financial flows.
 - **Technical and regulatory standards:** In recent decades we have seen true globalization of standards, protocols, certifications, processes and monitoring in areas such as communications and phytosanitary, safety and quality issues, among others.
 - ✓ This **standardization reduces time, increases predictability**, allows identification of risks and mitigators, streamlines value chains, thus expediting processes, stimulating investments and flows of factors, and allowing the integration of production and markets.
 - An **unprecedented massification of access to digital services** and e-commerce platforms is being observed. This connection is possible through standardized operating systems and internet protocols that allow billions of users to communicate at near-zero cost, have simultaneous access to digital content, and do business from virtually anywhere in the world.
 - **Financial and capital markets** are increasingly united by products & services due to standardizing of routines, processes and standards of financial, risk management and payment systems policies.

To better embrace this new wave of Globalisation, there is a need to understand the changing nature of the Globalisation in current times.



WHAT ARE THE FEATURES OF THE NEW WAVE OF GLOBALISATION?

- **Global value chains are undergoing five structural shifts:**
 - **Goods-producing value chains have grown less trade-intensive:** Trade is still growing in absolute terms, but the trade intensity (that is, the ratio of gross exports to gross output) has fallen from 28.1 percent in 2007 to 22.5 percent in 2017 due to rising domestic consumption in China and other emerging economies.
 - **Trade in services has grown more than 60 percent faster** than goods trade over the past decade with some type of services such as telecom and IT services growing two to three times faster. But they often go unpriced and untracked due to their intangible nature.
 - **Share of trade based on labor-cost arbitrage** (i.e. companies searching for low cost labour) **has been declining** (forming only 18 percent of goods trade) especially in labor-intensive goods manufacturing. Other factors such as access to skilled labor or natural resources, proximity to consumers, and the quality of infrastructure are increasingly becoming more important.



- **Global value chains are growing more knowledge-intensive** as companies are spending more on R&D and intangible assets such as brand, operational processes and other intellectual property.
- **Value chains are becoming more regional and less global.** The intraregional share of global goods trade has increased by 2.7 percentage points since 2013, most noticeable for Asia and the EU countries as companies prioritize proximity to customers and speedy deliveries.
- **Change in the geography of global demand:** By 2030, developing countries such as India, Indonesia etc. are projected to account for more than half of all global consumption due to rising middle class population. These nations continue to deepen their participation in global flows of finance, people, and data.
- **Technological developments:**
 - Digital platforms, logistics technologies, and data-processing advances **will continue to reduce cross-border transaction costs**, bring together far-flung participants, make Delivery of services more efficient, reduce transit times & speed payments. These technologies together **could potentially boost overall trade by 6 to 11 percent by 2030.**
 - On the other hand, **automation, AI, and additive manufacturing (3D printing) could reduce global goods trade** by up to 10 percent by 2030. However, this reflects only the direct impact of these technologies on enabling production closer to end consumers in advanced economies. It is also possible that these technologies **could lead to nearshoring and regionalization of trade** instead of reshoring in advanced economies.
 - The advent of ultra-fast **5G wireless networks opens new possibilities for delivering services.** Remote surgery, for example, may become more viable as networks transmit sharp images without any delays and robots respond more precisely to remote manipulation.
- **Fundamental shift in the definition and behaviour of a customer:** Earlier the global customers are defined by the local geographic coordinates, but today with digital connectivity, every customer is a global customer. Customers demand outcome, solution to their problem, better experience and not just a product. Thus, for businesses across the globe, it is not important where the customer is, more important is who the customer is and their requirements.
 - For eg- Companies such as Netflix are dividing the customers on the basis of Taste Communities, where each community consumes content in a certain way and based on the consumption patterns they all get similar kind of recommendations irrespective of their physical locations.
- **Digital Hegemony and new profit pools:** As we go forward, global profits are going to come from data and digital connectivity in which US and Chinese companies dominate the world. There is a **huge public policy implication** if these countries dominate these digital profit pools too as not enough local value addition, assets and jobs will be created in the countries from where data is coming. This is already happening in sectors such as financial services, health care etc.
- **Contrasting cultural narratives:** Globalisation narrative is changing from a win-win political business narrative to a narrative that is increasingly being defined by the society. On one hand, the countries are thinking more on development of their own country first and creation of jobs for its own people through economic nationalism, tribalism, ethnocentricity. On the other hand, individuals are becoming more and more globally connected than ever before. These two seemingly contradictory forces, **one of economic nationalism and geopolitical competition that divides, and digital technologies that integrates**, is shaping a radical new model of globalisation.
- **Mutual learning among nations and societies:** During the COVID pandemic, nations have responded differently, taking a variety of measures against the pandemic and its consequent economic challenges. For example, strong interventions in some Asian countries have played a critical role in the containment of the pandemic. Initially those measures were criticized by some Western countries as undemocratic and a violation of human rights. But the United States and Europe took even more stringent measures when they emerged as new epicenters.

Thus, going forward, new wave of globalization will need to be built on exchanges and learning on a more equal footing, stressing more on diversity, rather than single mindedly pursuing identity and homogenization.



WHAT ARE THE CHALLENGES AND OPPORTUNITIES FOR INDIA IN THIS TRANSFORMED PHASE OF GLOBALISATION?

Indian exports as a percentage of the GDP has been going down since the late 2000s and India has seen a decline in global value chain integration since 2013. Two recent studies (Economic Survey of India, December 2019, and the World Development Report (World Bank), 2020) suggest that **India has many opportunities to benefit from an enhanced participation in the world economy** and from a higher participation in global and regional supply chains.

India's current position in the global economy offers **opportunities to strengthen itself** even in the current phase of more fragmented global economy:

► Skill development and employment for the future workforce:

- In this new phase of Globalisation, large manufacturing companies are not creating jobs as they replace people with machines, but, at the same time, the gig economy and SMEs are creating more jobs. Finally, the potential for **'consumption of mass services'** creating millions of service-jobs is growing from a combination of digital technologies, competition and good regulations that drives down the cost of services by anywhere from 3x to 10x as we have seen in the telecom sector in India.
- India's workforce need to be skilled and trained accordingly. According to the World Economic Forum's report "The Future of Jobs 2018", **more than half of Indian workers will require reskilling by 2022** to meet the talent demands of the future.

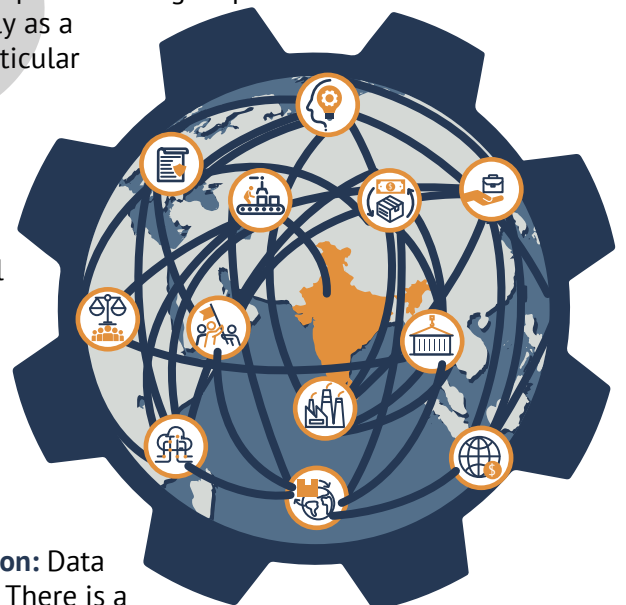
► Servicification of manufacturing:

- **Services are increasingly essential for the competitiveness of manufacturing** as product differentiation, speed to market and responsiveness to changing consumer preferences gain prominence even for low-end manufactured products. Today, any product is not seen only as a product, but as a 'service' in the form of a solution to a particular problem.
- India has a unique selling point in the global market—a comparative advantage in services and has run a trade surplus in services since the early 2000s. The **service sector should play a key role in strengthening the ability of manufacturing** and help improve their position in global markets.

- ## ► Deepening International Trade :
- India needs to reconsider its tariff and non-tariff barriers, strengthen its supply chains, increase export competitiveness, product and market diversification, bring in innovation specially in the sectors like agriculture and manufacturing.

► Legal and Institutional infrastructure:

- **Regulatory regime for personal data protection and localisation:** Data is the new oil and India is one of the largest data generators. There is a need to ensure early passage of Personal Data Protection Bill, 2019, and thus creating an enabling infrastructure to implement data localisation policies.
- **Cyber security policy:** With the increasing complexity and instances of cyber threats worldwide, there is need to assess the cyber security infrastructure readiness of India. **Government must effectively implement the National Cyber Security Policy** in co-ordination with the state government, Cert-In and other entities to ensure that public and private entities are well equipped to tackle the cybersecurity challenges of a connected world.





► Leadership:

- **At domestic level:** Given the fundamental development & changes in industry & governance globally—emergence of startups, sunrise technologies, upskilling talent, and millennial leadership—it is of vital importance that **political and corporate leadership evolve** accordingly in order to safeguard and deepen democracy of thoughts, innovations, rights and liberties in India.
- **At international level:**
 - ✓ In recent years, **India has pitched itself as an emerging destination** for manufacturing and supply of medical devices, arms, ammunition and mobile.
 - ✓ India **needs to emerge as a leader** in international data governance movements and sustaining the rules based global order in platforms such as UN and WTO.
 - ✓ India **must step up its diplomatic strength in South and Southeast Asian region** and leadership role in south-south co-operation as there is scope of new opportunities.
 - ✓ In the emerging multipolar world order, **India is a natural leader in the Indian Ocean region**. By turning eastwards and focusing on building an Indian Ocean Bloc, it can aspire to rise as a guiding pole for many countries in the region.

► National Integration

- Poverty, inequality, unemployment etc are among the major hurdles in reaping the optimum benefits of globalization. **India should proactively build resilient local and regional systems** that can participate in the next wave of globalization, making sure regions have the right mix of education, employment, infrastructure & culture.
- Programs like Make in India , Atmanirbhar Bharat, GST, Aadhar, Ayushman Bharat, Ek Bharat Shreshtha Bharat have the **potential to draw people throughout the country towards a common national goal**. It reinforces our National Integrity, thus overcoming the regional identity and reinvigorating India's efforts to place itself among the leading countries in the globalised world.

CONCLUSION

Globalization has been a powerful force in shaping modern human history. The world economy has become increasingly connected and interdependent over recent decades, and conventional wisdom suggests that this will only continue in the years ahead. But while it's tempting to extrapolate the past effects of globalization into the future, such a leap may also be a mistake. That's because there is growing evidence that globalization itself is quietly transforming – and how it ultimately evolves may be markedly different from what might be expected.

The essential thesis is that major shifts underway in technology, geopolitics, environment and society are combining to give birth to a new phase of globalization – Globalization 4.0 – whose trajectory will depend in large measure on how well governance at multiple levels – governmental, corporate and international – adapts to these changes. Strengthening our governance architecture to ensure its effectiveness in this new era will require deeper engagement and heightened imagination by all stakeholders, beginning with robust and sustained dialogue among them.





COVID-19 AND GLOBALIZATION



Coronavirus pandemic (COVID-19) is a systemic global event. The health, economic, social and political crisis created by the pandemic will have significant consequences for people's well-being & lifestyles, national economies, political leaderships on every continent and will also reconfigure international relations as well as the process of globalization. The year 2020 is likely to be a low point for many globalization metrics.

But how deep will the plunge really be? Which facets of Globalization will be negatively affected? And how this could permanently alter the current geopolitical positions and leaderships? The process of Globalization always remains in a flux i.e. some aspects of Globalization strengthen, and some weaken overtime as was seen with the emergence of Globalization 4.0. This pandemic has altered this process & given Globalization a different direction in following ways:

Flows of Globalization decelerated by COVID-19

- **Global Trade and Investment:** The World Trade Organization (WTO) had predicted that global trade volumes could decline by 13-32% in 2020 and a 30-40% reduction in foreign direct investment (FDI). This trade and investment shortfall not only affects global growth collectively but disproportionately affects the developing countries dependent on their exports.
- **Global Supply Chains:** The disruptions caused by the pandemic has opened up a debate for nation states- Should companies and countries seek greater safety in international diversification, or should they try to foster domestic self-sufficiency? The immediate aftermath of the pandemic is forcing states to move towards the latter.
- **Collapse of international travel:** WTO has estimated a 44-80% drop in international airline passengers in 2020. This hinders a critical facet of Globalization i.e. flow of people across national boundaries.
 - Also, a drop in international passengers has a cascading effect on several parts of global economy such as airline industry and the tourism sector.

Flows of Globalization accelerated by COVID-19

- **Increased cooperation within scientific community:** Cross-border cooperation is progressively increasing as they seek solutions to the current crisis. In this sense, the world may well be becoming more **globalized in terms of the flow of ideas and solutions**, if not necessarily products.
- **Increased pace of technology adoption:** The ongoing technological shifts such as the adoption of e-commerce, video conferencing, and robots have all been exponentially accelerated by COVID-19.
 - For instance, more remote forms of work have spurred the cross-border flow of data and of dispersed but easily exchanged professional services.

Effect of COVID-19 on Geopolitics and indirectly on Globalization

- **Possible rise of regionalism:** As the global economy weakens and job opportunities decrease, the public opinion may start shifting towards protectionism. This has the potential to tilt national policies towards import substitution leading to deglobalization and regionalization of the global economy.
 - Increased Regionalization could lead to **weakening of the Global Institutions like World Trade Organization**, creating a vicious cycle of deteriorating global financial systems and transactions.
- **Possibility of a 'first mover advantage' scenario:** In the post COVID-19 world, nature of Globalization may change but it may not completely recede. In that context, the country which recovers faster will have a chance to capture the global trade gaps created by the pandemic. Thus, potentially altering the pre-COVID-19 geoeconomic balance.

The pandemic has brought about structural changes in the way nations operate, forcing policymakers to re-evaluate the current nature of Globalization. What will be its result? This depends on how long the pandemic endures and what sides the national economies choose as a collective.



TOPIC AT A GLANCE

Traditional facets of Globalization

- 1
 - ▶ A new technology was leveraged to boost productivity and output.
 - ▶ One or more countries served as an economic “pole”.
 - ▶ A favorable system of global governance (Multilateralism) facilitating cross-border financial and trade-led GDP growth through stable rules.
 - ▶ Domination of flow of goods over services.
 - ▶ Flow of ideas, goods and capital has been traditionally from the West to the East. Also, global multilateral architecture has been led by the West such as Bretton Woods Institutions, UNSC, G20 etc.

Trends threatening the current form of Globalization

- 2
 - ▶ Growing Protectionism: A number of trade barriers have been introduced since mid-2018.
 - ▶ The ability of multilateral institutions to establish and enforce shared rules seems to be weakening.
 - ▶ The dominant role of Western countries in the multilateral financial institutions appears to be receding as new financial institutions emerge.
 - ▶ The idea of State Capitalism is gaining traction. E.g.- Encouragement of State-Owned Enterprises.
 - ▶ Global Value chains have been disrupted due to COVID-19 lockdown.

Trends encouraging a new form of Globalization

- 3
 - ▶ Globalization of Technical and Regulatory standards through likes of protocols and certifications.
 - ▶ An unprecedented growth of and access to digital services and e-commerce platforms.
 - ▶ Financial and capital markets are increasingly getting united through products and services.
 - ▶ Growing multilateral trade agreements.

Facets of the new form of Globalization: Globalization 4.0

- 4
 - ▶ Structural shifts in the Global Value Chain (GVC):
 - Goods-producing value chains have grown less trade-intensive.
 - Trade in services has grown faster than trade in goods.
 - Share of trade based on labor-cost arbitrage has been declining.
 - GVCs are growing more knowledge intensive and are becoming more regional and less global.
 - ▶ Geography of global demand is continuously shifting towards developing countries.
 - ▶ Technological developments like growth of digital platforms, 5G technology, 3D Printing, artificial intelligence could boost trade and simultaneously change the nature of trade.
 - ▶ Fundamental shift in the definition and behavior of a customer in a highly digitized world.
 - ▶ Globalization will need to be built on exchanges and learning on a more equal footing, stressing more on diversity, rather than in contrast to erstwhile single-minded homogenization of societies.

Challenges and Opportunities for India in Globalization 4.0

- 5
 - ▶ It creates need for Skill development but also employment potential for the future workforce.
 - ▶ India has the potential to become a part of global manufacturing chain via servification of manufacturing.
 - ▶ Need for a Regulatory regime for personal data protection along with a new Cyber Security Policy.
 - ▶ It may act as a catalyst in India’s emergent international leadership especially in South and Southeast Asian Region and Indian Ocean Region.

COVID-19 and Globalization: The pandemic has altered the process of Globalization and has given it a different direction by accelerating and decelerating some trends.

Trends accelerated by COVID-19

- 6
 - ▶ Increased cooperation within scientific community.
 - ▶ Increased pace of technology adoption.

Trends decelerated by COVID-19

- ▶ Decreased Global Trade and Investment.
- ▶ Disruption in Global Supply Chains.
- ▶ Collapse of international travel.

Effect on Geopolitics and indirectly on Globalization

- ▶ Possible rise of regionalism as the global economy weakens and job opportunities decrease.
- ▶ Possibility of a ‘first mover advantage’ scenario in the post COVID-19 world.