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Editorial

The Perpetual Myth of Deglobalization

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ABSTRACT

'Deglobalization' has been bandied about now for almost a decade, capped off with the war in Ukraine and its geopolitical and geoeconomic impacts on global trade, investment, and finance. However, there have been and continue to be developments that run counter to the argument that we are living in a period of deglobalization. For example, China's state firms are major investors in Latin America's energy, roads, dams and other infrastructure, and space industries. In fact, China has surpassed the United States as South America's largest trading partner. Taiwan Semiconductor Manufacturing Company (TSMC) is investing $40 billion in chip manufacturing in Arizona. And Mexico's Grupo Bimbo has been actively doing business in China for over five years. Admittedly, the world economy is in a period of contraction. However, this slowdown in growth can be attributed as much to politics, in the form of nationalism and populism, as to economics. Additionally, measures of globalization and trade, in general, focus on manufactured goods, yet services comprise the most robust, fastest growing and dynamic sector of the economy worldwide. Any discussion of globalization and deglobalization must also address non-tariff barriers to international trade, the growth of startups, later-stage companies, and cross-border data flows. In essence, there has been no generalized decline in international economic activity but rather the growth rate has slowed. Globalization is here to stay.

Pronouncements of the death of globalization — the new moniker being 'deglobalization' — has been bandied about now for almost a decade, capped off with the war in Ukraine and its geopolitical and geoeconomic impacts on global trade, investment, and finance. Fold in, as well, Brexit, the former Trump Administration's trade policies, the rise of populism and nationalism, and the worldwide pandemic, and one can make a compelling argument for an increasingly inward-focused global economy.

Yet, juxtaposed upon this gloomy scenario one finds a myriad of developments that run counter to the alleged deglobalization trend. To wit:

- In 2021, Chinese state-owned companies, including China Railway Construction, China Communications Construction, and China National Offshore Oil (CNOOC), funded $11.3 billion worth of projects in South American countries. China's state firms are major investors in Latin America's energy, roads, and dams and other infrastructure, and space industries. In fact, China has surpassed the United States as South America's largest trading partner.
- Taiwan Semiconductor Manufacturing Company (TSMC) announced in December 2022 that it is building an additional chip plant in North Phoenix, Arizona, upping its investment from $12 billion to $40 billion — the largest investment in Arizona history.
- German automaker BMW announced in February 2023 that it will invest $866 million in Mexico to produce high-voltage batters and fully electric Neue Klasse models, hiring 500 additional employees. The firm also announced major, multibillion-dollar expansions in the U.S. and Hungary.

The counterarguments to globalization's death must be understood within the context of the current economic milieu, the resurgence of populist politics, the changing nature of trade, and the evolution of global production systems and supply chains.

Admittedly, the world economy is in a period of contraction. The World Trade Organization has slashed its forecast for trade growth for this year and next. World trade in merchandise is now expected to expand by only one percent during 2023 — less than half predicted previously (World Bank, 2023). In the business realm, the Institute for Supply Management reported that its manufacturing index fell to 47.8 in September, the lowest level since June 2009, from 49.1 the prior month. An indicator less than 50 means contraction that raises costs for business and consumers (Institute of Supply Chain Management, 2023).

Nevertheless, none of these numbers indicates a trend toward deglobalization. Actually, global GDP is 'growing', thanks to China; in fact, world trade overall has 'increased' from 39% of GDP in 1990 to 58% over the last few years and now represents a larger share of U.S. output, with foreign sales comprising a growing share of U.S. corporate profits. Recognizably, there has been a dip in the trade numbers since the 2008 Great Recession, from 61% to 58%, and a fall in intermediate inputs from 19% to 17%; but these declines are hardly significant.

Unquestionably, the worldwide economic contraction we are witnessing can be attributed as much to politics, in the form of nationalism and populism, as to economics. The U.S. has been in the vanguard of protectionism, according to many, while others assert that the Trump administration is merely seeking fair rules and a leveling of the playing field. President Trump tweeted in July of last year: "Tariffs are the greatest!" However, U.S. tariffs on over $300 billion of Chinese exports have triggered retaliatory tariffs of 20% by China (versus only 8% that China levies on other nations), higher prices for consumers, and the cost of welfare payments to U.S. farmers to compensate them in part for their export losses due to China's retaliatory tariffs on the U.S.

Whatever one's perspective, intensifying trade conflicts threaten jobs and livelihoods and dissuade companies from expanding and innovating. U.S. withdrawal from the Trans-Pacific Partnership, tariff wars with China and trade conflicts with Mexico, Canada, and other key trading partners — not to mention the EU's anxiety over the UK's withdrawal from the union (Brexit) — have created high anxiety and uncertainty among trading nations.

Stepping back from the numbers, any objective assessment of deglobalization — and globalization in general — must recognize that cross-border trade in manufactured goods cannot be the only, or even most important, measurement tool.

Measures of globalization and trade, in general, focus on manufactured goods, yet services comprise the most robust, fastest-growing, and dynamic sector of the economy worldwide. In the case of the U.S., foreigners who visit our country and study at our universities as well as consulting, engineering, and accounting firms operating abroad (Accenture, Bechtel, KPMG) are correctly classified as U.S. exports.

Any discussion of globalization and deglobalization must also address non-tariff barriers to international trade, such as import quotas and subsidies. These trade-distorting measures do indeed have an impact on trade statistics (Grosse et al., 2022).

The deglobalization argument also does not account for startups, later-stage companies and supporting firms, and cross-border data flows. As a number of analysts point out: we are living in a new era in which data is the new shipping container (Bloomberg, 2019).

Nor does deglobalization consider one of the most revolutionary trends of all during the last two decades — the explosion of middle- and lower-class consumers, especially in emerging markets. This economic dividend means that local firms of all sizes that focused largely on export markets have been increasingly turning 'inward' because of a growing domestic market — their own people can afford their products! Prudent economic policies, especially low levels of inflation and access to capital, have also enabled domestic manufacturers and suppliers to upgrade their capabilities, thereby facilitating local sourcing (at the expense of foreign imports). This means that the domestic producer of electrical machinery can now source a larger number of inputs for manufacturing from a local company instead of importing them.

On a cautionary note, Hillebrand's analysis utilizing the international futures model concludes that if globalization halts or recedes, the results will be profoundly negative for most countries and most income groups. Admittedly, a retreat into protectionism may improve income equality in some countries; however, it will reduce incomes of both the poor and the rich and poverty headcounts will be increased (Hillebrand, 2010). Recognizably also, a pick-up in globalization, mainly through increased trade flows, is not likely. Global trade is slowing in part due to the Ukraine conflict, and estimates are that trade will grow at a slower average rate than GDP in the coming decade, reversing the pattern of trade-led global growth that has prevailed in recent decades. Add to that Western nations' decreasing reliance on China trade and the rise of economic blocs as the ASEAN (Association of Southeast Asian Nations) as companies continue to diversify their supply chain risks (Gilbert et al., 2023).

Are we deglobalizing? Steven Dover, head of the Franklin Templeton Institute, argues that there has been no generalized decline in international economic activity but rather the growth rate has slowed. Contributing factors are failing political commitment, populism, nationalism, financial re-regulation, and national security. The world is not yet shifting production back within national borders, and regionalization is not yet replacing globalization (Dover, 2022).

No. While there may be a stall, interruptions, and setbacks in the flow of global trade, investment, finance and the migration of human capital, the juggernaut of globalization, beginning with the trade links between Sumer and the Indus Valley Civilization in the third millennium BC, will continue.

As Dartmouth economics professor Douglas Irwin concludes: "Despite the enormous difficulties that have confronted so many countries in recent years, the last few decades — the globalization era — have actually seen tremendous economic progress around the world. The recent turn away from open markets risks jeopardizing this progress" (Irwin, 2022, p. 6).

Simply stated: rumors of its demise lack foundation — globalization is here to stay. Thus, research in the field of international business should continue to address the globalization as an important and relevant topic as its nuances will continue to intrigue scholars, executives, and policy makers around the world.

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