

# Is de-globalisation a reality?

**TRADE WINDS.** Globalisation in services continues, even as we are past the era of hyperglobalised trade in goods



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**D**e-globalisation has become a pervasive narrative, fuelled by stories about big corporations relocating from China. Statements made by top officials (Janet Yellen and Christine Lagarde) on the need to friend shore their supply chains too have propelled this narrative. To understand if the world is de-globalising, we must first see the reality of globalisation.

China's heft in the globalised world had, in many ways, resulted in globalisation giving way to a greater degree of 'dependence' rather than 'connectedness'. The pandemic brought to fore the stark levels of dependency in areas ranging from semiconductor chips to active pharmaceutical ingredients.

Further, the costs arising from this dependency was felt more by countries that were geopolitically distant from China. In response, protectionist policies such as the Inflation Reduction Act in the US and the EU's green industrial plan were enacted to build domestic capacity in critical sectors. These de-risking strategies adopted by the world's top trading economies could result in a drag on global growth.

However, the de-globalisation rhetoric does not adequately reflect global trends. For instance, our calculations show that, with the US imposing a 25 per cent tariff on Chinese products (semiconductors, auto parts, furniture, and electronics), there was a

32 per cent decline in US imports of Chinese goods in these sectors between 2018 and 2022.

This resulted in US trade being diverted to nations such as Mexico and Vietnam. In this context, the de-globalisation narrative would have it that several sectors in these two countries are now de-coupled as a result of the policies in place.

However, there is a catch here. Research by the Bank for International Settlement (BIS) (<https://shorturl.at/uLMO3>) shows that despite its policies, the US continues to remain reliant on Chinese inputs. In fact, the rise in trade through Mexico and Vietnam is a result of Chinese firms re-routing their supply through these countries (or by locating themselves in these countries). Thus, a true de-globalisation between the two nations seems unlikely in the years to come.

However, globalisation should not be conflated for the positions taken by China and the US — which once formed the axes of globalised trade. If we view globalisation as an inter-connectedness of markets, in many ways the world is more globalised now than it was ever before.

Flows of services, international students, and intellectual property grew about twice as fast as goods flows in 2010-19. Despite the disruption caused

**Despite the disruption caused by the Covid pandemic, most global flows continued to grow — or even accelerated — in 2020 and 2021**

by the Covid pandemic, most global flows continued to grow — or even accelerated — in 2020 and 2021. Trade rebounded quickly in all regions even as the pandemic raged on. This was especially true in Asia, a region where complex value chains are common.

## SWIFT SPIKE

On the financial front, payment gateways like SWIFT which enable a smooth and secure flow of financial transactions have been thriving with continuous onboarding of countries and an increase in financial information (FIN) messages. With 6.6 per cent growth in FIN messages in 2022, now more than 11,000 institutions are connected through SWIFT as compared to 518 in 1977.

What would happen if the world were to truly de-globalise and splinter into separate trade blocs? A recent IMF study (<https://shorturl.at/kCFIQ>) looks at this counterfactual scenario and observes that there would be permanent losses to global GDP, most severely in low-income countries.

In general, literature shows that the decoupling of nations can reduce labour productivity, result in sectoral misallocations, and adversely impact knowledge diffusion. Complete de-globalisation can therefore set the world on a regressive path.

It is pertinent to acknowledge that as countries seek to reduce the vulnerabilities arising out of their dependency in terms of sourcing products from one nation, the move towards aligning with geopolitically like-minded countries through bilateral or plurilateral arrangements may exacerbate the concentration of economic relations with a few sets of countries.

It is critical to explore what these

changing paradigms mean for India. Policies need to straddle security concerns with economic considerations. India's push towards manufacturing in complex and niche sectors through schemes such as PLI and Make in India aims to balance these goals.

On the other hand, India's edge in services will catalyse our globalisation over the coming years. A recent paper by the Peterson Institute for International Economics

(<https://www.piie.com/publications/working-papers/trade-hyperglobalization-dead-long-live/>), asserts that globalisation in services is ongoing, even as we are past the era of hyperglobalised trade in goods. In turn, this implies that the global demand for India's services sector exports is here to stay.

India is simultaneously working towards unlocking the potential gains from growing integration by enhancing logistics. This is evident from the large infrastructure deals which have been signed to ramp up trade. For instance, the International North-South Transport Corridor (INSTC) is expected to shorten trade time for shipments to Russia and Europe.

Another major joint infrastructure deal, the India-Middle East Europe corridor (IMEC), will connect Asia with Europe via ports and railroads. Similarly, there is a concerted effort towards striking trade agreements with countries spanning geographies.

By being responsive to the changes in globalisation, India continues to be in lock-step with the world — which now dances to a new beat.

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