



GLOBALIZATION AFTER COVID-19: WHAT'S IN STORE?

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COVID-19 represents the epitome of globalization in its blind disrespect for borders, but might trigger the most significant reversal of globalization we have seen in decades.

COVID-19 has burst onto the scene at the end of a decade in which global integration has been constantly challenged by the rise of economic nationalism and protectionism.

The economic tailspin resulting from COVID-19 is expected to be at least as devastating if not more so than that of the financial crisis. With unemployment levels in the US taking two weeks to reach what took 6 months in the 2008 crisis, there is no doubt we are facing a global recession which some predict could reach 10% or more of GDP. It is still up for debate how quickly a V-shaped recovery could take place. But whatever the economic contraction, globalization in the form of the flows of goods and services will be negatively impacted.

The drop in global demand will be compounded by the effect of governments protecting their own and implementing policies to boost local employment at the expense of imports. Many of the government assistance programs being introduced are expected to have built-in conditions obliging the money to be spent domestically as was the case with the Recovery Act following the 2008 crisis. As such, trade in products, as well as services such as shipping which support them, are expected to suffer in the short- to medium-term, not only with regards to volumes but also prices.

It should not come as a surprise if as a result we see more consolidation on a global basis in certain industries. Sectors which will be particularly hard hit include the tourism and hospitality sectors as well as airlines. In their case and others that involve the movement of people, it is unclear whether a return to the previous status quo will ever take place, as the acceptance of and comfort with digital technologies may result in a new equilibrium. By contrast, consumer goods and durables are expected to enjoy a quicker recovery.

As with all forms of volatility, there are both losers and winners, and the case of COVID-19 is no different. While globalization may be negatively impacted in the form of the trade of goods and certain services such as travel, other sectors may experience heightened demand. More remote forms of work will only spur on the cross-border flow of data and of dispersed but easily exchanged professional services. As such, not only the suppliers of these services but also the enablers such as Zoom and broadband providers will be the beneficiaries.

Humanity is indeed finding new and innovative ways of connecting and cooperating under COVID-19. These range from global hackathons to address COVID-19, to people connecting on LinkedIn in order to cooperate in designing and 3-D printing ventilator parts. In this sense, the world may well be becoming more globalized in terms of the flow of ideas and solutions, if not necessarily products.

So these are the macro changes we are seeing. But how about changes at the company level? When it comes to company operations, COVID-19 adds to those pressures on supply chains

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that have been mounting ever since the beginning of the US-China trade war, with firms pondering the need to avoid being dependent on single-source supply chains. Furthermore, when it comes to the healthcare sector, governments are trying to guarantee domestic supplies of critical products; as such, they may begin to treat them as strategic goods, turning to firms for their local production in the future.

Globally centralized supply chains in low labor-cost countries are also being challenged by the increased use of robotics and automation, allowing firms to keep production in relatively expensive countries. COVID-19 has highlighted the importance of automation, as the threat to operations posed by “non-essential” business closures is based on the need to keep people at home. As such, operations that leverage robotics will be less affected. Ironically, among those countries that have weathered this pandemic the best are many with high levels of robotics usage such as South Korea.

How will changes in supply chains impact the overarching strategies of firms? Whereas centralized globally efficient hubs have been the dominant approach of many large multinationals, the pressures of more dispersed supply chains, combined with increased protectionism, will have a fundamental impact on the global vs. local decision firms face. We will likely see a greater dispersion not only of assets but also of decision making, in order to accommodate increased local demands.

On the positive side, a greater dispersion of supply chains could potentially allow countries that have lost their productive capacities to China in the past 15 years to slowly recapture some of it, and allow purely domestic firms to be more viable.

While trade flows and FDI have grown over recent decades, the same cannot be said for the authority of the global institutions that govern them. As Pankaj Ghemawat says, we are living in a semi-global world, where markets are global but regulatory institutions are still, for the most part, national. Seen in this light, what will the impact of COVID-19 be on sentiments towards and the power of global institutions of cooperation such as the WHO, UN and OECD? Will it be a repeat of the era which followed WWI and the formation of weak institutions such as the League of Nations? Or, will there be a recognition that global problems require global solutions with credible institutions to support them?

The reality is that the rise of populism over the past decade has resulted in a weakening of institutions of global cooperation, fostered by an us-first approach to national politics. The direction we take will greatly depend on the leadership styles exhibited by dominant powers across the globe. Will such leaders strengthen nationalistic and, in some cases, xenophobic tendencies, playing the blame game and labeling COVID-19 a foreign virus?

As the UN Secretary General Antonio Guterres has implied, we have gone from a bipolar to a unipolar to a no-polar world, where global powers, be they traditional friends or foes, are unable to work together. This lack of hegemony currently threatens any chance of a global solution.

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As a result of COVID-19, borders have been resurrected to keep foreigners out. They are so far temporary but will people come to prefer the new status quo? Will governments continue to block the exports of essential medical products? Or will we realize that global pandemics and other such challenges require global solutions and cooperation? Many questions remain. One sign of optimism is the level of cross-border cooperation among the scientific community as they seek solutions to the current crisis. At the community level, further examples abound of assistance and cooperation, even when governmental actions lag. In the UK for instance, when the NHS asked for volunteers to help with the crisis, it hoped to receive 250,000 responses, but instead had over 500,000. It remains to be seen whether this sense of civic unity can be transposed to the international arena.

The world today finds itself at a fork in the road. Which path we take towards globalization has broad and long-lasting implications not only for business but for how we confront future challenges to humanity.