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Globalization beyond the Pandemic: Opportunities from a Great Reset

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Abstract

The article discusses the state of global interconnectedness in trade and investment and to a lesser extent in information, travel, and migration. It provides insights on evolving trends that are shaping future globalization and how these shifts would impact global business and consumer markets. The article also highlights possible winners and losers from the current reset of globalization, as well as pinpoints arising opportunities, helping businesses build long-term strategies and win in the new global economic era. International trade and foreign direct investment growth have slowed down since the 2010s, on the back of shifting global demand, rising labor costs, technological advances, and other factors such as protectionism policy and changing consumer value. Global travel and migration have also been severely disrupted since the COVID-19 pandemic. Digital connectivity, meanwhile, becomes an important driver of global economic integration. The global economy is entering a new phase of globalization, as business efforts to reshuffle supply chains, digitalize, and enhance sustainability are reshaping the global manufacturing, trade, and investment landscape. The future globalization will become more people-centered and less geographically concentrated, as more countries would join the global value chains. Nevertheless, geopolitical risks and protectionism continue to pose a threat to global trade and investment. Economies with large internal markets, e-commerce, education services, high-tech companies, and local brands are likely the winners of the new globalization. Meanwhile, small and open economies may be under stress. Consumers may face higher product prices due to manufacturers' production relocation. The income gap between consumers in advanced and developing countries may also rise, creating a more fragmented global consumer market. In order to mitigate risks and better secure access to supplies and markets in the new global era, companies will need to accelerate digital transformation, focus on people and the planet, and diversify both their end-markets and the supply of raw materials, labor, and manufacturing across the value chains.

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1. Introduction

International trade and foreign direct investment growth have slowed down since the 2010s, on the back of shifting global demand, rising labour costs, technological advances and other factors such as protectionism policy and changing consumer value. Global travel and migration have also been severely disrupted since the COVID-19 pandemic. Digital connectivity, meanwhile, becomes an important driver of global economic integration.

The global economy is entering a new phase of globalisation, as business efforts to reshuffle supply chains, digitalise and enhance sustainability are reshaping the global manufacturing, trade and investment landscape. The future globalisation will become more people-centred and less geographically-concentrated, as more countries would join the global value chains. Nevertheless, geopolitical risks and protectionism continue to pose a threat to global trade and investment.

Economies with large internal markets, e-commerce, education services, high-tech companies and local brands are likely the winners of the new globalisation. Meanwhile, small and open economies may be under stress. Consumers may face higher product prices due to manufacturers' production relocation. The income gap between consumers in advanced and developing countries may also rise, creating a more fragmented global consumer market.

In order to mitigate risks and better secure access to supplies and markets in the new global era, companies will need to accelerate digital transformation, focus on people and the planet and diversify both their end-markets and the supply of raw materials, labour and manufacturing across the value chains.

2. Problem Statement

Issues related of globalization are of considerable interest in scientific and professional circles. Karpenko (2020) determines that the national security of each country is an important component in the system of international security as a whole, respectively, the presence of common interests will determine the directions of international cooperation of countries, and the development of integration cooperation between them. Popov and Popova (2019) explore three interrelated social processes: informatization, globalization, and multiculturalization. Kopytova and Fedorenko (2020) explore the information impact in the field of strategic management in the context of the philosophy of globalism. Pereguda (2020) investigates the impact of the coronavirus pandemic on the development of globalization processes. Kramchaninova and Vakhlakova (2021) explore that public expectations for political and economic cooperation in the field of national and global security require the government to make significant changes and transform the view on important aspects of the organization of social, economic and political life of society, in accordance with global challenges. Bokov (2020) describes the theoretical foundations of globalization, the impact of globalization on the development of the national market, and problems in the system of functioning.

Bohun (2021) considers the phenomenon of globalization as an exogenous factor in the development of socio-economic systems. Turchak (2021) considers the globalization of society as one of the main factors in the formation of the latest business communicative discourse. Dyba and Dyba (2019) substantiate the place of globalization in the innovative process of development. Sharov (2020) explores economic globalization in the general theoretical and historical-philosophical context. Kravchuk and Yaroshik (2019) consider financial globalization, the factors of financial globalization, the main ways of measuring financial globalization, and the consequences of financial globalization, the threats of financial globalization, which have a very diverse nature of origin and can be transmitted through different transmission channels.

Morozova (2020) found that in the context of globalization of international information business, inequality of economic development has increased, which has intensified international competition and redistribution of spheres of political and economic influence in world markets. Tubolec and Tkalich (2019) explore international financial institutions, which together form the international financial infrastructure and the main actors of financial globalization; segments of the global financial market (global debt capital market, global stock market, other global financial markets (precious metals, real estate insurance), the global foreign exchange market). Bilorus et al. (2020) emphasize that the only criterion for a new course among the rapid waves of globalization can only be the unconditional priority of national interests over the group and personal interests of individual "centers" of political, economic, and financial power in the country and abroad.

3. Research Questions / Aims of the Research

The aim of the article is to study the assessment of the impact of the pandemic on the globalization.

4. Research Methods

The information base consisted of official data and periodicals. The methodological basis of the study: analysis and synthesis; systematic approach – theoretical and methodological foundations of the globalization; economic and statistical methods – analysis of data in the period of pandemic; monographic – the study of processes occurring on the globalization and pandemic; abstract-logical – formulation of conclusions and proposals.

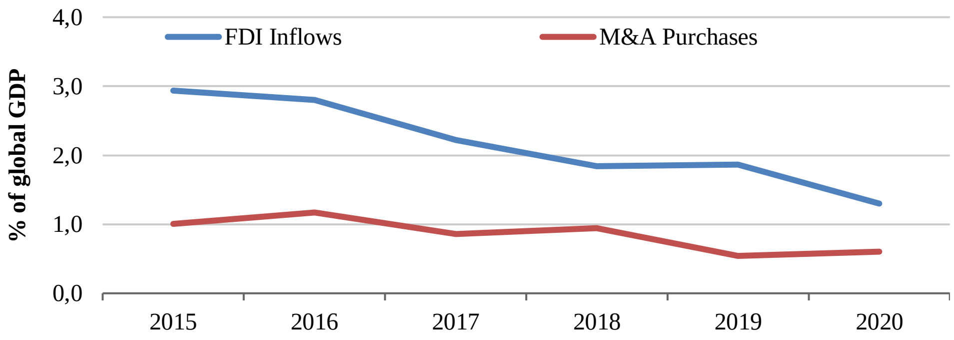
5. Findings

Globalisation – the integration of the global economy through international trade, investment and migration – has much described the world development in the last few decades. Economies, companies, and consumers globally have benefited for years from globalisation, while also witnessed the risks and negative impacts it can bring.

Well before the COVID-19 pandemic, globalisation was already in the midst of a profound change, driven by technology, the rise of emerging economies, and increasing geopolitical uncertainties that boosted nationalism and protectionism. Global trade and multinational businesses have also been put under stricter scrutiny, as consumers increasingly request more transparent and socially responsible supply chains of goods and services.

COVID-19 has turbocharged the transformation of globalisation as it revealed the fragility of global connectivity, prompting countries and business to rethink their trade, investment, and operation policies. Globalization reset can be impacted by different factors (Figure 1).

Figure 1. Global FDI and M&A as % of GDP 2015-2020



Source: Euromonitor International from trade sources, 2021.

As globalization is shifting, there will be new directions in the flow of goods, capital, data, and people globally. This will happen along with the shifts in global economic power, leading to changes not only in global supply chains and capital movement, but also in global migration and education. And like in the last periods of globalization, there will be potential winners and losers from this new wave of global connectivity.

With uncertainties on the rise, building resilience across the supply chains, markets, and operations is now high on the business agenda. In order to stay ahead of future changes, companies need to understand the factors shaping the global new business landscape. Identifying evolving trends and learning how these would transform the global manufacturing, trade, finance, and movement of people will help businesses to mitigate risks and secure better access to supplies and markets globally. International trade continues to expand robustly in absolute terms, reflecting the ongoing high level of global trade connectivity. However, the proportion of international trade in relation to the global economy has declined significantly during the last decade. The trend is particularly noteworthy for emerging economies, as they become less dependent on external markets and their domestic consumption plays a more important role in economic growth. Overall, the decline in trade intensity reflects growing industrial maturity and rising consumption power in emerging and developing economies.

Meanwhile, emerging economies continue to enjoy increasing importance in global trade. Since the Global Financial Crisis in 2008/2009, China has already taken over the US to become the world's largest exporter and Germany to become the second largest importer in the US dollar terms. India, Mexico, and Russia are now also among the world's top exporters and importers.

Along with the rising power of China and other emerging markets in global trade and a slowdown in trade intensity, geopolitical risks in the form of populism, local sourcing and protectionism – as it manifests in Brexit in the UK, the US – China trade war and the Russia – Saudi Arabia spat over oil production – have resulted in tensions and threatened a reversal in global trade. In some countries, tariff and non-tariff barriers have risen again. COVID-19 accelerates this trend, as many countries now seek security in areas beyond food.

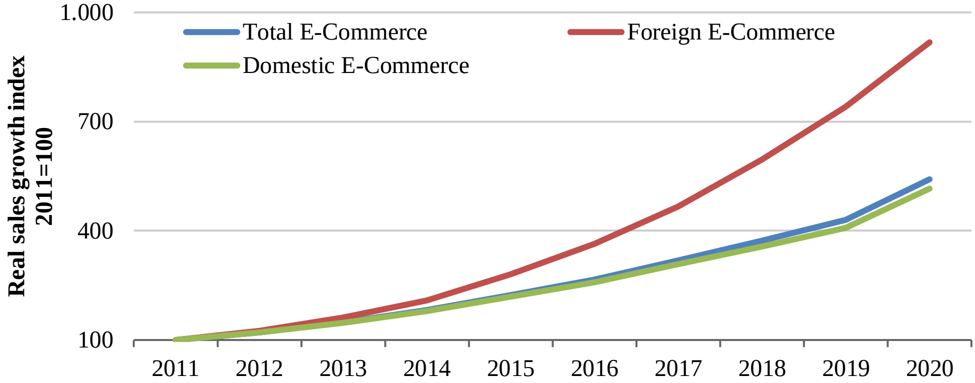
Even before the pandemic, global foreign direct investment (FDI) flows have already been gradually falling, due to rising labour costs in developing countries (which led to lower FDI returns), as well as to intensifying protectionism and nationalism which favour local investments. The COVID-19 pandemic had a heavy impact on global FDI flows as global economic activities were disrupted. Total FDI inflows dropped by 35% on a year-on-year basis in 2020. The decline was more severe in developed countries, which accounted for slightly more than half of the global fall. While this decrease resulted mainly from corporate restructuring and intrafirm financial flows, developing countries faced a decrease in FDI of only around 8%, thanks to steady flows in Asia. China recorded an increase of 6% in FDI inflows due to a smooth recovery from the pandemic.

While FDI outflows from the US remained stable, investment by Japanese companies – the largest outward investors in the past couple of years – decreased by as much as half, as large mergers and acquisitions (M&A) purchases were not repeated in 2020. The outward FDI from China, despite a 3% decline, remained high at USD133 billion in 2020, making China the largest investor globally.

Digital technology has become a key driver of the new globalization, enabling global innovation and productivity, connecting consumers and suppliers, and transferring information quickly. Digital advances have led to a spike in global internet traffic in the last two decades. B2B digital trade is growing fast, while B2C cross-border retailing is booming. The share of foreign e-commerce accounted for 10.7% of global total e-commerce in 2020, up from 6.9% in 2011 (Figure 2).

Global migration and travel are a symbol of the interconnected world that we live in. Greater people mobility has changed the face of economies, societies, labour, and consumer markets. Immigration was the main source of population growth in developed countries, as it made up 67% of population growth in these countries between 2010 and 2020. Overall, global migration has fostered the global flows of ideas and innovation and helped boost income in low- and middle-income economies via remittances.

Figure 2. Global E-Commerce Growth: Foreign vs Domestic 2011-2020



Source: Euromonitor International from trade sources, 2021.

Belove are listed evolving trends resetting globalization. With the objective to build supply chains that are more flexible to global disruptions, localisation is gaining a stronger momentum. This is especially unique for the apparel industry as it has traditionally focused on cost advantage. The commitment to diversify production and localise would boost the sustainability goals as supply chains would shorten, thus reducing carbon footprints (Figure 3).

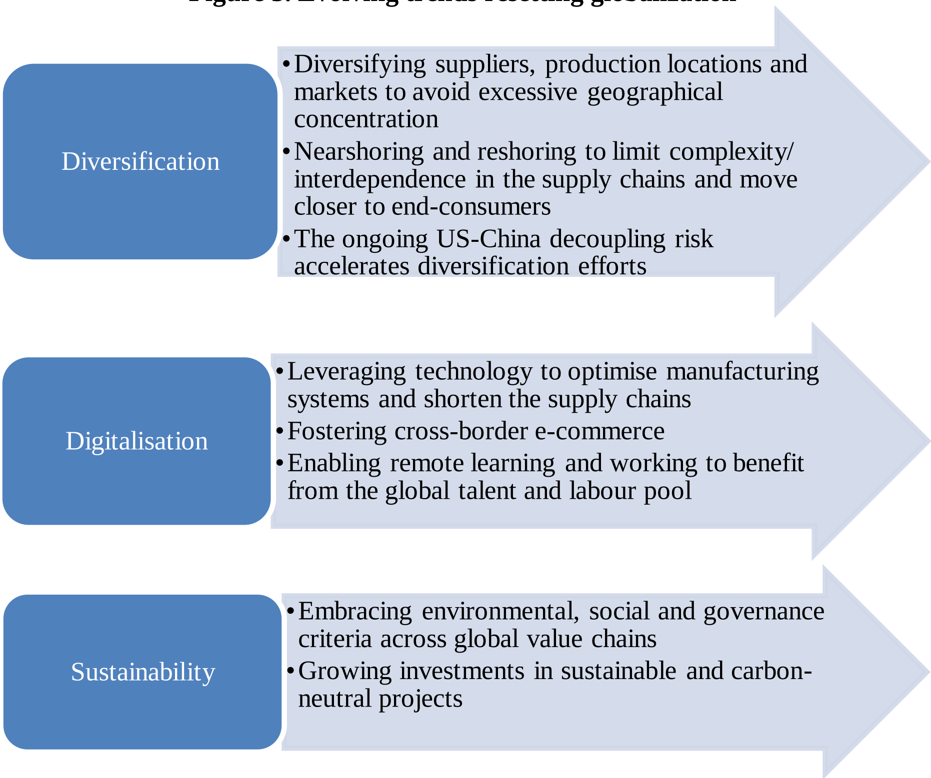
Some of China's neighbours provide attractive alternatives as manufacturing locations, given their proximity and lower labour costs. Nevertheless, a lack of appropriate infrastructure or skilled labour are factors that may add costs to business relocation. The rise in e-commerce sales during the pandemic has triggered investments in development of automated distribution and fulfilment facilities. The development of these facilities is allowing businesses to reduce delivery time and add to efficiency in supply chains when consumer mobility is restricted while making the supply chains more efficient and reliable.

With consumers spending more time under home isolation, there has been an increase in the contribution of sales coming through the online channel. This has resulted in retailers focusing on expanding their warehousing capabilities to fulfill orders in time, thus smoothing the supply chain. Retailers will continue to invest in automated fulfilment/micro-fulfilment centres to stay ahead of the curve.

It has become apparent for business during the last decade that resilience in supply chains goes hand in hand with sustainability. Environmental, social, and governance (ESG) issues such as pollution or poor health and safety conditions, represent systemic risks in the supply chain, which can directly impact global business and investors' reputation and profit.

Along with consumers' push for higher corporate environmental and social responsibility, global companies will need to enhance sustainable-business practices throughout their global supply chains. Companies will carry out greater due diligence on their suppliers, while countries have also reinforced their ESG criteria for investment projects in an effort to accomplish sustainable goals.

Figure 3. Evolving trends resetting globalization



Source: Developed by the authors on the basis of Euromonitor International from trade sources, 2021.

Meanwhile, a global effort to fight climate change and to achieve the United Nation's Sustainable Development Goals (SDGs) will drive future investment demand into SDG and low-carbon projects. Rising global commodity prices is another strong push for more investments in resource-efficient technologies and solutions.

The future flows of capital are expected to be much driven by green, sustainable initiatives. The United Nations Conference on Trade and Development (UNCTAD) estimates that sustainability-dedicated investments – investment products targeting sustainable development-related themes or sectors – amounted to USD3.2 trillion in 2020, up more than 80% from 2019.

As global trade growth is likely to continue to slow down, income and productivity growth could decelerate, compared to the previous rise witnessed during the peak of globalisation in the 1990s and 2000s.

Increased trade could enhance productivity and thus per capita income via various channels including economies of scale, competition, and innovation. All of these positive effects of trade could be reversed with slower global trade growth, reducing productivity and average income gains. Some econometric models estimate that a 10% reduction in the volume of global trade would reduce global real GDP per capita by 2-7.5%.

Globalisation and trade growth can impact income inequality via the same channels through which trade boosts productivity: Greater specialisation of production across different locations, reallocation of production across firms or industries and greater competition create economic winners and losers inside industries and countries, with spill-over effects on workers and households' income (Figure 4).

Figure 4. Impact of globalization to business

Future globalisation

- Global manufacturing and capital flows will become less geographically concentrated. More smaller countries will have the opportunities to join the global value chains.
- Regional trade and regional supply chains will rise.
- Global digital integration will continue to surge, with manufacturers, suppliers and consumers increasingly connected by technology.
- ESG criteria will gain importance, making global investment more people-centric and sustainable.

Impacts

- Diversification can lead to higher production costs and lower profit margins for firms. This can in turn result in inflation and higher prices for consumer goods and services.
- Demand for automation will rise to offset labour shortages due to production relocation, and enhance productivity.
- Trade slowdown will have mixed impacts on income distribution. Business will face a more fragmented global consumer market, while domestic consumer markets can become less unequal.

Source: Developed by the authors on the basis of Euromonitor International from trade sources, 2021.

Based on this tendency, there can be possible globalisation winners and losers.

I. Possible winners:

- *Economies:* Countries with large internal markets (e.g., China, India, and Turkey), low production costs, and adaptable economic systems are in a favourable position. Smaller frontier markets (e.g., Indonesia, Vietnam, the Philippines, Bangladesh, Sri Lanka, and Morocco) have immediate opportunities to enhance manufacturing capacity as alternative production hubs for China.

- *Sectors:* Higher-value-added industries including e-commerce, high-tech sectors (e.g., biotech, semiconductors, robotics, 3D manufacturing, and artificial intelligence) and green innovations (e.g., electric vehicles) will continue to thrive. The education sector will also expand due to demand for new skills and re-skilling.
- *Companies:* Businesses that can leverage global digital marketplaces continue to see advantages.
- *Brands:* Smaller, local brands will see growing opportunities among consumers in emerging and developing markets as their preference for local products grows.

II. Possible losers:

- Economies: Small, open economies could come under stress if protectionism heightens, since they are more dependent on external markets and external financing (eg several economies in Latin America and Africa).
- Sectors: On a country level, any sectors or industries in an economy that are heavily dependent on imports or exports can be at risk in case of any sudden change in trade relations/ policies or other disruptions.
- Companies: Large, multinational companies that move their supply chains to more expensive locations, or back to their home market, would likely suffer from lower profit margins in the medium term.
- Brands: Global brands are prone to geopolitical tensions and boycott risk. Also, they can lose shine if they fail to respond to local consumers' evolving values.

So, China and the developing world will be an increasingly important source of demand for advanced economies and the world. Digital platforms, logistics technologies, and data-processing techniques will be widely used to reduce cross-border transaction costs. Rising raw materials and food prices will continue to drive sustainable consumption and more investments in green solutions.

6. Conclusions

These investigations deal with the key takeaways for business to get opportunities from a Great Reset. There are three vectors we see possible opportunities. Building resilience and agility: as uncertainty is on the rise, companies should diversify their end-markets, distribution channels, and across the supply of raw materials, labour, and manufacturing; resilience often comes with a cost, so diversification measures need to be cost effective in the long term. Accelerating digital transformation: leveraging digital technology in manufacturing and distribution channels in order to reduce costs, shorten the supply chains and reach more consumers including those across borders; manufacturers in advanced economies can enhance automation to raise productivity and address labour shortages. Focusing on people and the planet: going green across the supply chains is essential for businesses to secure future growth and success, sustainability has a direct impact on company profitability and image; companies will need to put people at their core and invest in human capital, helping employees build the skills for the jobs of the future.

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