

DEGLOBALIZATION AND THE TRANSITION TOWARDS A NEW GLOBAL ECONOMIC CYCLE

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Abstract: The current stage of the world economic system, which has gone through four industrial revolutions, is in deep crisis. Deglobalization threatens to set back the process of economic development around the world by decades. The World Economic Order, established after the Second World War, is also jeopardised. What are the reasons, and what measures should be taken to avoid a collapse of the global economy? Questions that we try to answer in this article based on the fundamental laws of societal development. Firstly, we refer to the need for permanent re-alignment of the level of development of relations (interdependencies) between the subjects of the world economic system to the level of development of the forces of production at the basis of which technical and scientific progress lies. The imbalances and instability that have become so frequent in the world economic system are primarily due to man's inability to act in accordance with objective economic laws, man's inaction in the sense mentioned, and the necessity of which human society does not always consider.

Keywords: deglobalization, reshoring, economic cycle, slowbalization, autarchy, reglobalization

JEL Classification: F1, F4

INTRODUCTION

Recently, the world economy has been going through a heterogeneous and complex period. It is only in recent years that the global economic environment has undergone extraordinary changes driven by health, humanitarian, and military crises. Namely, these changes highlight the deepening of the concept of deglobalization or globalization, notions that signify the slowdown of the globalization process. Thus, in this article, the authors aim to analyze the current global economic situation through the prism of several determining factors, analyze the evolution of the phenomenon of globalization through its metamorphosis into various concepts, and identify the advantages and challenges of globalization.

Several factors influence and characterize the course of global phenomena. The most significant are:

- The COVID-19 pandemic, in particular the new strains (Kraken, XBB 1.5, Erin) that are constantly emerging, directly influencing global supply chains and economic flows;
- Russian-Ukrainian military conflict with global impact, generating inflation, disruptions in regional trade flows, and overspending in the military industry;
- The World Bank's difficulties in achieving poverty reduction goals. Until 2030, there will still be 574 million people living below the threshold of \$2.15 a day, which is 7% of the world's population; (Friedman, 2022, p.7)
- The Biden-Putin-Zelensky era of adversarial;
- Terrorism, military conflicts - Israel, Syria, Afghanistan, Ukraine. For instance, because of these conflicts, there are disruptions in the supply process and access to raw materials or vital food products.;
- International migration and its impact on the labour market;
- Innovations, online activities, artificial intelligence and metaverse.

1. THE TRANSITION FROM GLOBALIZATION TO DEGLOBALIZATION

Before talking about "deglobalization," we should define the concept of "globalization," which developed and became an influential global trend after the 1980s of the 20th century. It was the "century of extremes" in which humankind experienced the most spectacular developments, succeeding both in "compressing time" and "shortening distances" as well as experiencing the highest level of economic and cultural development, and therefore of civilizations. (Bari, 2004, p. 27-29). In general, globalization refers to the increasing interdependence of the world's economies, cultures, and populations, driven by international flows such as international trade in goods and services, technological, investment, and migration flows, and the free movement of people through the exclusion of various barriers.

Several authors have proposed a wide variety of definitions for the notion of globalization. For example, the director of the London School of Economics and Political Science, Anthony Giddens, has said that *globalization is a consequence of modernization*. (Kiogora, 1999). A more comprehensive definition of the phenomenon of globalization derives from the well-known phrase of the *planetary village*, proposed by Marshall McLuhan, a great Canadian professor and philosopher who surprised a few decades ago by moving from the concept of *Homo oeconomicus* to *Homo Globalus*, a person who knows no borders and local feelings. At the same time, he spoke about information technologies that connect us faster and more often, the compression of distances through new technologies, interconnection and increasing mutual dependencies, the integration of financial and capital markets, the growing internationalization of production through transnational companies, the emergence of planetary phenomena that require global approaches (environmental protection, global warming, massive illegal migration). (Bari, 2004, p. 29-30). British sociologist Martin Albrow, known for his studies on globalization, believes the concept refers to all those processes by which nations of the globe merge into a single world society, a global society. (Albrow, 1990).

Thus, summarising several definitions of the process of globalization, we can conclude that this phenomenon is highly complicated, heterogeneous, and encompasses all aspects of life. Therefore, globalization being a multidimensional and interrelated system determining the world economic order, impacts not only the social and economic aspect but also the political and cultural one.

In Figure 1, we can see the main determinants of the globalization process for each specific area.

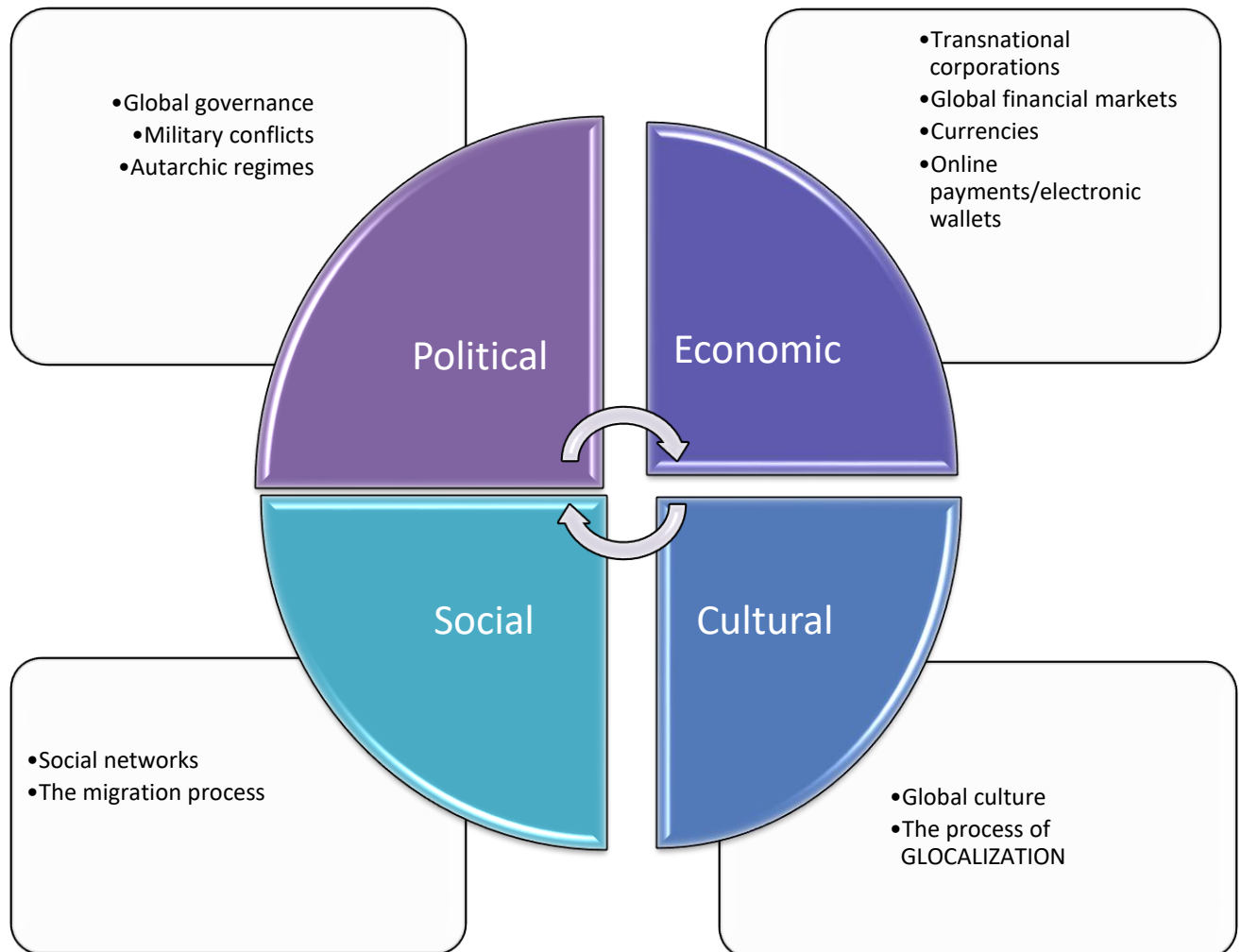


Figure 1 Determinants of the globalization process for four specific areas

Source: authors own study

Through these factors, globalization has evolved in different periods, metamorphosing into different concepts, from hyperglobalization to deglobalization. Christian Keller, Managing Director, Head of

Economics Research, Barclays, presents a diagram (Figure 2) demonstrating the evolutionary stages of the transformation of globalization to *deglobalization* or *slowbalization*.

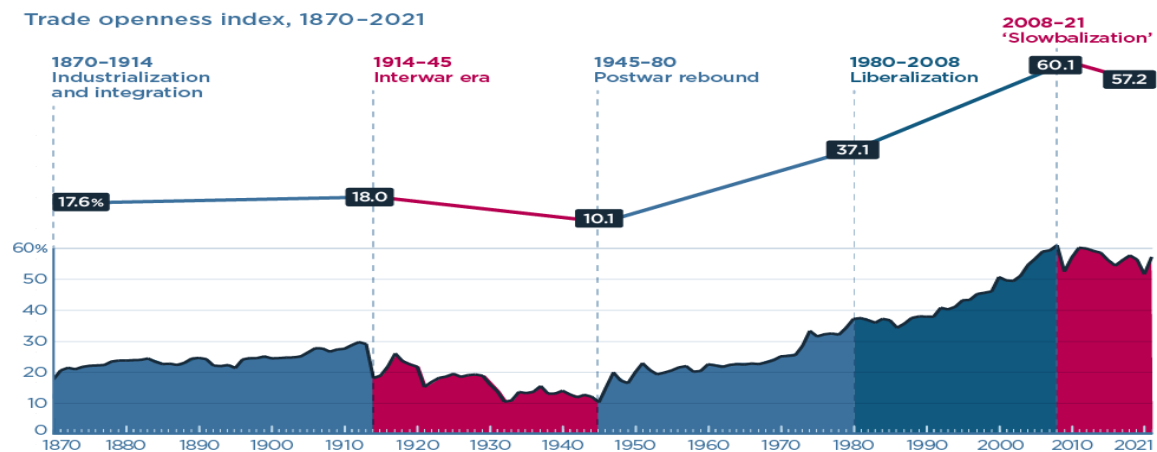


Figure 2 From Globalization to the slowbalization or deglobalization

Source: taken by the authors (Keller, 2023)

Looking at the evolutionary stages, particularly in recent years, the COVID-19 pandemic, active military conflicts, growing ideological contradictions, and massive disruptions in global supply chains are challenging globalization and shaping the path to deglobalization. At the same time, we can mention that the process of *deglobalization* refers to the reduction of interdependencies between states, the focus on national or regional characteristics, and, last but not least, it is a phenomenon that occurs when trade and investment flows are reduced. Figure 2 shows the process of deglobalization has intensified since the global financial crisis of 2008-2009, with the protectionist policies adopted in its wake by the United States and other countries. While the combined efforts of many countries, including the rising powers in the so-called BRICS grouping of five major emerging economies - Brazil, Russia, India, China, and South Africa - have helped to dissipate the financial crisis, but at the political level, tensions have been steadily rising between the developed countries and this group. The financial crisis was only the beginning of the crack in the globalization process, as the COVID-19 pandemic, which engulfed every corner of the world in 2020 and has continued ever since with the emergence of different strains of the virus, has further deepened the global economic difficulties. Global interconnectivity has been affected physically by imposing travel restrictions, and disruptions in supply chains have occurred, thus resulting in high levels of inflation, the cost of living has risen in all countries, especially in the West. In the global south, millions of people who had previously been raised out of poverty by the benefits of globalization have now returned to a lower standard of living. Furthermore, severe tensions arose between the global development centers, particularly China, the USA and Russia, manifested in trade and military wars. Hence, by choice or necessity, deglobalization has become a movement towards a less integrated world, characterized by local solutions, the emergence of concepts such as *onshoring* or *nearshoring*, the introduction of tariffs and border controls. For instance, buying "Made in America" goods and imposing tariffs on imported goods would be examples of deglobalization. Another example of deglobalization could be Brexit, where voters in the United Kingdom chose to leave the European Union. UK citizens opted for political autonomy over the free movement of goods, services, and people. (Weiss, 2023)

To explain the concept of *onshoring* more clearly, it is a term that defines the process of supplying or relocating a company's production operations within national borders. The term onshoring is often used with other prefixes, but the differences are insignificant:

- Reshoring – applies to companies that already have production operations abroad and are in the process of transferring the production back to their home country;
- Nearshoring – is the process of establishing production close to national borders, often in the same region or continent. E.g., a US-based company may have its production plant in Mexico or Canada; (Ross, 2020)

If the notions specified above occur in 2020, today, we have a new concept connected with the deglobalization process, namely *Friendshoring*. This concept is a consequence of recent economic crises and tensions in global supply chains caused by various shocks to the global economy. These include the COVID-19 pandemic and Russia's invasion of Ukraine. In essence, friendshoring is about redirecting supply chains to countries perceived as politically and economically safe or low risk to avoid disrupting business flows. These have raised concerns in the international community about the possibility of further geo-political fragmentation and deglobalization of the world economy, i.e., the decline of interdependence between nations, global institutions, and businesses. Just as we see allies in current military conflicts, such as countries friendly to Ukraine or enemies of Russia, or allies of Israel and supporters of Palestine, we see similar approaches in international trade. The US government, for example, has emphasized its intention to acquire components and raw materials from 'friendly' countries with shared values in order to increase the security of domestic production. (Ellerbeck, 2023)

ADVANTAGES AND DISADVANTAGES OF DEGLOBALIZATION

The process of deglobalization comes with several advantages, albeit short-term. It protects domestic industries, creates local jobs, and thus makes it possible to reduce economic inequalities within a country. This is because deglobalization policies, such as protectionist trade policies and import restrictions, can limit the foreign competition faced by domestic businesses, allowing them to be competitive and protect jobs. In addition, these policies can encourage local production and consumption, contributing to the growth of a more resilient and sustainable local economy. It limits external dependence, educates a sense of patriotism, and encourages the consumption of national and local products. Developing local tourism likewise is a central benefit of the deglobalization process, as it would allow this industry to be fully exploited in all national economies.

On the other hand, deglobalization also comes with several drawbacks. Restricting the flow of goods, services, and people and limiting innovation threaten many forms of international cooperation and interaction, making countries more interdependent and less inclined to resort to armed conflict. There are great risks of the rise of autarchies, the outbreak of frozen military conflicts, the division of the world into spheres of influence, the risk of nuclear war, increased inflation, and other misunderstandings between states.

THE TRANSITION FROM DEGLOBALIZATION TO REGLOBALIZATION

Given the current global environment, there are still no signs that the world will return to the way it was. Deglobalization is deepening, and a new model for reconfiguring the world economy needs to be identified to mitigate the negative effects of this process. It is imperative to consider how the entire

global economic system should be reorganized in line with the economic conjuncture without harming national economies while boosting the welfare of the world's population. *Reglobalization* would best describe the current pattern of economic integration and fracturing across different economies and sectors. Globalization is far from over, but will increasingly focus on greater regional connections and the formation of economic blocs for sensitive and strategically important sectors. At the moment, several changes should not be ignored but taken into account. For example, the trend towards total decoupling from China's economy by stopping the relocation of foreign assets is not easy to achieve, nor is it short-term. The disruptions in supply chains from 2020-2023 will slowly ease, even if some will disappear entirely. Another important issue affecting the global economy is climate change. With extreme weather events posing the greatest threat to global production networks, resilience and supply chain diversification efforts will persist, with an additional focus on developing trade in organic products.

Thus, in order to better understand how we can shape the globalization process through transformation and adaptation to current needs, the **5Rs** model of reglobalization is proposed, which means:

- **1R – Redefining** clearly the phasing of globalization, or in other words, clarifying how globalization should be phased;
- **2R – Reframing**, which refers to adapting to new global power centers but without excluding world economy players from the equation;
- **3R – Reform**, which means working towards substantial changes in the mechanisms of action of globalization, taking into account current requirements;
- **4R – Reconsideration** that implies giving globalization a broader spectrum of action in several fields, not only economic, social and political, but also technological, spiritual, demographic, etc.;
- **5R – Review**, meaning a thorough investigation of the globalization process through its advantages and disadvantages, as this could indicate the importance of the phenomenon for the world economy or, on the contrary, the damage and harm it brings. (Benedikter, 2019)

For the coming years, some scenarios for the transformation of deglobalization are proposed, either humanity will go towards a new form of globalization, such as Globalization 5.0, or the fragmentation of the world economy into autarchic systems will continue, which can become very dangerous for society. Four scenarios for the evolution of the global economic system are presented (Figure 3). The given scenarios are based on the physical and virtual integration and reconnection of systems or, on the contrary, their increasing fragmentation.

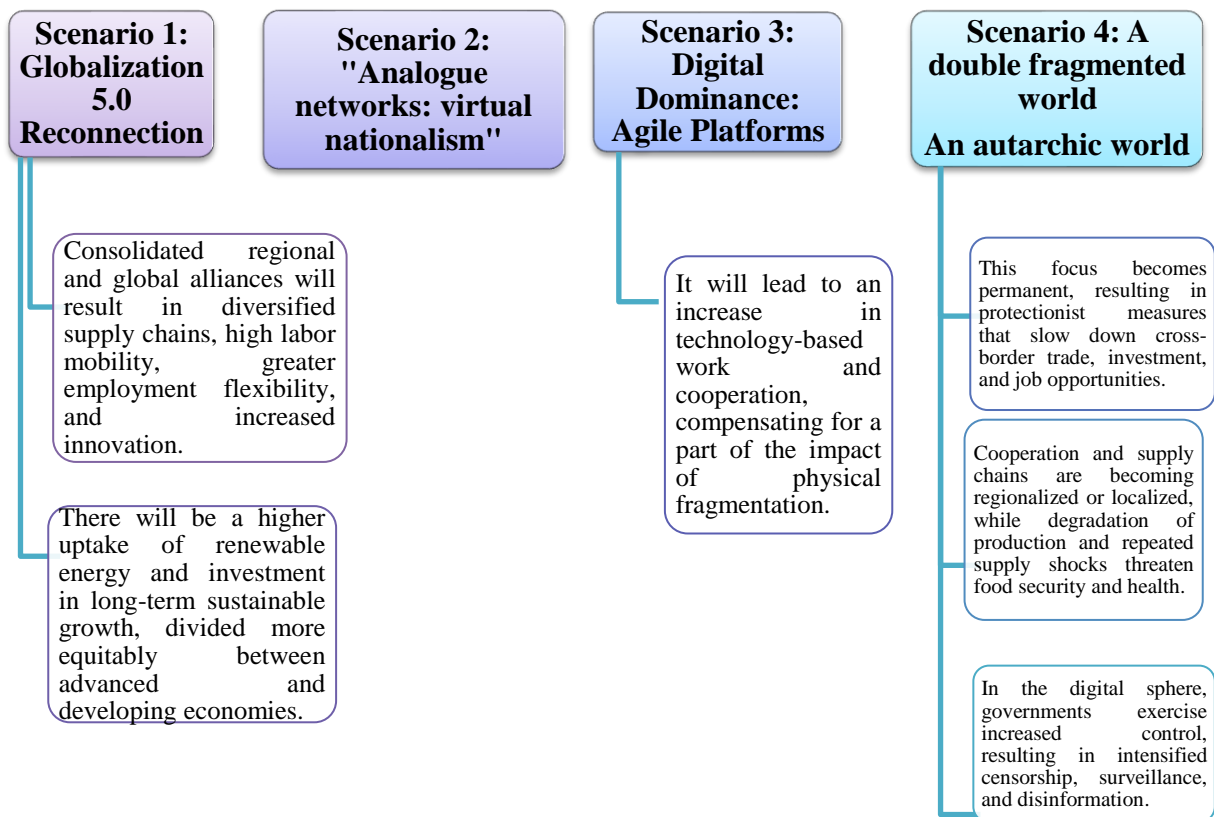


Figure 3 Four scenarios for the future of economic globalization by 2027

Source: adapted by the authors (Keller, 2023)

Scenario 1 – Globalization 5.0 talks about the major role of innovations and adoption of new technologies such as blockchain, artificial intelligence, fintech, edtech, greentech, and healthtech, to the needs of national economies, as well as the interconnection of countries through this know-how. Virtual global connectivity will have tremendous effects on the world economy, especially as this could generate an increase in global GDP by another \$100 trillion.

Scenario 2 – Analogue networks: virtual nationalism refers to the fact that not all countries will be permanently connected to the network, leading to ruptures in economic cooperation. Virtual fragmentation can mean long-term stagnation in innovation, services, and production. A fracturing of digital financial services would sabotage the movement of international economic flows. Many developing economies without a strong digital infrastructure are disadvantaged from the outset by a lack of connectivity to global information and resources. Thus, in this model, the gap between developed and underdeveloped countries will widen further, the latter becoming even more isolated.

Scenario 3 – Digital dominance: Agile platforms refer only to a strictly virtual world based on advanced technologies.

Scenario 4 – Autarchic world, which is about the concentration of the global economy into isolated blocs, economic closure, and the abandonment of collaborative activities between states. (WEF, 2022)

Looking at all the potential scenarios, we can see that none of them is perfect or suitable for the global future as long as the world conjuncture is constantly changing. On the one hand, we can see that the traditional engines of globalization have reached a critical stage but, on the other hand, economic and social results will be achieved on condition that virtual and physical collaboration are effectively linked, with political leaders willing to maintain global peace and promote free and fair trade.

Conclusion

1. After decades of increasing globalization in world trade, financial, and people flows, trends have reversed toward deglobalization caused by health, financial, and geopolitical crises in the world economy.
2. In this article, the authors analyze the globalization-deglobalization-re-globalization triangle, explaining the causes, effects, and future scenarios that would facilitate the transition to a more resilient, just, and sustainable world.

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