

Deglobalization or Reglobalization?

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Until the recent corona virus outbreak, such a situation can only be occurred in movies having well-written scenarios. Although there are many simulations for possible pandemics, the world seems not well prepared. That is, this outbreak is much beyond available predicted scenarios. Regarding the level of social and economic isolation caused by corona virus outbreak, whether this is the end of globalization (deglobalization) appears as an important question. However, from a different point of view, this process has some consistent features with the third great unbundling. Third great unbundling is not a deglobalization, rather it may be a reglobalization process with a different algorithm from ordinary globalization. Thus, whoever wants to understand the possible effects of this outbreak on economy shouldn't confine or limit his/her mind with certain ordinary understandings of the contemporary world.

Deglobalization

According to some views, this outbreak is the latest movement of one of the main parts of the economic wars. At first, some conspiracy theorists directly blame the USA for the corona virus outbreak in China. These views changed after the spread of the corona virus around the globe, mainly in the USA and the European Union, especially when China started to end lockdown and to return to normalcy. Thus, whether this outbreak is a counter attempt of China arise as an alternative argument for some conspiracy theorists, as well.

When trade wars first begin, main argument is the trade deficit of the USA with China. But leading economists emphasize that this deficit is in gross terms. Regarding the global value chains, exports of countries include value added of many others even more than domestic value added. A gross trade deficit between two countries means value added trade deficits with many countries. Thus, the trade deficit between the USA and China is much lower in value added terms. Then, another argument appears as a reason for these economic wars: the changing role of China in the global economy. China's increasing outward foreign direct investment is one of the important signs of this change. But much important signs are radically increasing intellectual property rights and step by step increasing exports of royalty and licenses. China is account for the half of the all patent applications in 2018 according to the 2019 report of the

World Intellectual Property Organization (WIPO). As a result of the above reasons, we witness a considerable increase in protectionist sentiments in last years.

Regarding the protectionist sentiments as a result of the economic wars people start to think that there is a deglobalization process, when they see the isolation and the closing borders of countries due to COVID-19 pandemic. An important point is that the protectionist sentiments are also available after the 2008 crisis. That is, world has been witnessing a halt in production fragmentation, especially after 2011. The production fragmentation is the main characteristics of the second great unbundling. As a result, the world economy gives some signs of going somewhere else from the second great unbundling.

Reglobalization

I want to start with a question: Are protectionist sentiments tools for breaking the available global value chains in order to access a new algorithm for globalization? To discuss this part, I want to focus on the concept of third great unbundling¹. The first great unbundling was the separation of the production and the consumption (19th century). The second great unbundling was the fragmentation of production (the rise of global value chains after 1990s). Third great unbundling is the separation of workers and machines. Regarding the third great unbundling, machines will be controlled by workers without physical presence of workers. Another important dimension of this unbundling is the robotic machines. We may witness the transformation of ordinary machines into robots by the 5G, big data, machine learning, internet of things (IoT) and Industry 4.0. Of course, artificial intelligence is in the core.

What is the relationship between third great unbundling and corona virus?

From one point of view, the corona virus will accelerate the transformation from the second great unbundling to third great unbundling. Table 1 summarizes the algorithms of these two great unbundlings. The corona virus outbreak results in closing borders and stopping flights. However, shipping trade is not as vulnerable as flights in this high level of isolation. It can be expected that shipping trade may return to normalcy easier than flights. This means less

¹ See Richard Baldwin's two important articles: <https://www.economist.com/finance-and-economics/2007/01/18/the-great-unbundling> & https://harvardpress.typepad.com/hup_publicity/2016/11/globalizations-three-unbundlings-richard-baldwin.html

movement of human resources and consistent with the separation of workers and machines expected by the third great unbundling.

The effort of North for making radical innovations or redefining available products by incremental innovations to restructure value chains (breaking the available chains for constructing new ones) may be in the core of this transformation. Especially, to sustain the leading position in the knowledge economy and to be able export royalty and licenses have specific significance to be able to construct or transform value chains. But just redefining a product may not enough for triggering demand for it. The cultural value chains play vital roles in changing consumer preferences. Despite such a level of isolation in every place, people are in very connected by the online environment. Thus, cultural value chains are still very active by the online tools. From a point of view corona virus outbreak is the breaking point between this transformation. See Table 1 for more details about the second and third great unbundlings.

Before finishing to discuss alternative scenarios, it is necessary to state here that such a pandemic, whether man made or not, is a really huge problem for humanity. Thus, all nations should work together for fighting against this virus.

Table 1. The Algorithms of The Second and The Third Great Unbundlings

The Algorithm of The Second Great Unbundling	The Algorithm of The Third Great Unbundling
<ul style="list-style-type: none"> • The North (developed countries) make foreign direct investments in South (developing countries) • These foreign owned enterprises (mainly entities of The Multinational Enterprises (MNEs)) <ul style="list-style-type: none"> ○ Make royalty and licenses payments to North countries for production ○ Import capital and intermediate goods from the North countries. ○ Value added from various source countries is imported for making production (production fragmentation or production sharing) • These products <ul style="list-style-type: none"> ○ can be Imported by the North Countries from the producer South Countries ○ can be sold in domestic markets of the South ○ can be exported to all other countries • The movement of the human resources around the globe for the cross country economic and trade relations (mainly flights) 	<ul style="list-style-type: none"> • Domestic production instead of the production fragmentation (both North and South) • The effort of North for making radical innovations or redefining available products by incremental innovations to restructure value chains (breaking the available chains for constructing new ones) <ul style="list-style-type: none"> ○ To sustain the leading position in knowledge economy and to be able export royalty and licenses are among main points to construct or transform value chains. • The North wants to be the main seller of the capital goods and intermediate goods again by sustaining the leading role in science and technology. <ul style="list-style-type: none"> ○ Although each individual economy can domestically produce its products, where they will buy the capital goods and intermediate goods for these productions is important question. If the North can sustain its leading role in selling the capital and intermediate goods, the rising domestic productions mean the rising gain for the North in a different algorithm. ○ The capital goods will be much automated products and even we may witness the big transformation of the machines to robots. Whoever has this technology wants to gain from royalties and export such capital goods to gain more. • Less movement of the human resources due to robotics machines and distance controlling of the machines (even)

<ul style="list-style-type: none"> • The movement of the goods (mainly by the shipping trade) 	<p>accessories can be produced in 3D printers by distance access) (mainly related with flights)</p> <ul style="list-style-type: none"> • The movement of the capital and the intermediate goods (mainly related with the shipping trade)
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