Does COVID-19 threaten globalization?

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May 2021
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Abstract

We analyse the impact of COVID-19 on the world economic system through the three components of globalization: economic, social and political globalization, respectively. The pandemic and the economic policy response have hit these aspects to different degrees.

- Economically, the quick recovery of world merchandise trade stands out.
- Socially, the reduction in tourism is the largest shock but here a sharp recovery is possible.
- Politically, the end of US membership of the WHO and the difficulty of global economic coordination in the G20 are key drivers for 2020. The election of a new US President allows for a quick reversal.

Keywords

Covid-19, world trade, globalization, deglobalization.

Affiliations and acknowledgement

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1 Introduction

Globalization has been referred to as a multifaceted concept that describes the process of creating networks of connections among actors at intra- or multicontinental distances (Gygil et al. 2019). According to these authors, it is a more holistic concept that captures the increased interdependence of national economies, and the trend towards greater integration of different varieties of flows such as information, goods, labour and capital. Because of this broad definition of globalization, continuous attempts have been made, starting with Dreher (2006) to develop a more comprehensive composite index such as the KOF Globalization Index that encompasses three main dimensions of the process of globalization, namely, economic, political and social dimensions. Increased globalization has been a constant feature of the world economy since the 1970s and especially since 1990 after the fall of the Iron Curtain and with China gathering speed.

More recently, however, there has been growing discontent and negative sentiments about the effect of globalization (Stiglitz 2002, 2018). These negative sentiments have manifested in different ways through the election of President Donald Trump, the Brexit and attacks on the World Trade Organization (WTO). Under the aegis of then-President D. Trump who not only staged an attack on the WTO by refusing to appoint new members to the WTO’s Appellate Body, but also launched trade wars against China, North American Free Trade Agreement (NAFTA) and the European Union (EU), putting further strains on world trade and international cooperation. Afesorghor and Beaulieu (2021) argue the Trump presidency strained diplomatic relationship with close allies and undermined the rules-based global system, and this therefore created uncertainty for global trade.

These occurrences that constitute a major setback to the pace of globalization set the stage of growing protectionism and nationalism in the world. These actors were political, but more recently the outbreak of the COVID-19 pandemic introduces new – medical – threat to globalization emanating from health risk posed by the contagious nature of the COVID-19. In a sense the pandemic reflects both globalization (a virus went global in a few weeks thanks to high level of globalization and interconnectedness (Lipsy, 2020) and deglobalization (the breakdown of international cooperation and the re-emergence of zero-sum thinking and raw beggar-thy-neighbour polices on the markets for medical productive gear, medical machinery and vaccines).

The COVID-19 outbreak provided a threat to both lives and livelihood (UNCTAD, 2020) which are the basic foundation for national economies to thrive and thereby triggered an effect for the global economy. Because of the strong and interdependent global production value and linkages coupled with the closure of international borders, businesses, and factories, the economic expectations and forecasts were generally pessimistic. The prospect of the world plunging into another major and long-term economic recession comparable to
the Great Depression in 1929/30 and the Great Recession of 2007/8 was on the mind of many economists and international organizations.

Figure 1
Forecasts for real world trade growth in 2020

Indeed, in April 2020, the outlook for the world economy and especially the world trading system was dismal. The outbreak of the COVID-19 pandemic came on top of that and led to an unprecedented dive of world trade by 15 percent in April 2020 and the trade collapse initially was stronger than previous episodes of downfall. During the first wave of the Covid-19 pandemic projections for the contraction of the annual volume of world trade in 2020 ranged from minus 10 to minus 32 percent (see Figure 1). The outlook for globalization was grim. The pandemic at the same time highlighted the importance of global interdependence and the awareness of the need to develop a collective global strategy (Committee for Development Policy - CDP, 2020). Initially, the occurrence of the viral infection was thought to be only a problem for China but within a couple of weeks the outbreak of the novel COVID-19 virus became first an international problem and soon afterwards a global issue and was officially announced a pandemic. By symmetry, the eradication of the viral spread will require international cooperation and a global effort such that no single country is left behind to form a pool for new variants and future outbreaks. Vaccines must be made available and affordable to all countries. Just as globalization has ramifications for all countries, the health of different nations is intertwined as a pandemic is a ‘public bad’: the health of one nation affects the health of the other (van Bergeijk, 2013; CDP, 2020).

The reports of the expected death of globalization, however, were – with hindsight – grossly exaggerated. Admittedly, the fall in world trade had initially been exceptionally strong indeed. Recovery, however, set in early compared to the two major historical episodes of trade collapse during the Great Recession and the Great Depression suggesting stronger resilience of world trade than anticipated by the international organizations. Figure 2 compares the developments of the world merchandise trade volume during the three major
world trade collapses that occurred during the Great Depression in the 1930s, the Global Financial crisis in 2008/9 and the lockdowns during the first wave of the COVID 19 pandemics.

Figure 2
Comparing the COVID collapse to the 2008/9 world trade collapse and the Great Depression

The comparison starts half a year before the peak level of trade just before the collapse that we use to identify period ‘zero’. The contractions in 2008/9 and 2020 both started to bite after a quarter but in the fourth month of the COVID collapse world trade was already 15 percent below previous peak level, while this was ‘only’ 8 percent during the 2008/9 World Trade Collapse. Global merchandise trade in May 2020, however, bottomed out, and full recovery was achieved in November 2020. At the comparable point of the 2008/9 trade collapse the volume of world trade was still 17 percent below pre-crisis peak level. In the 1930s world trade one year into the collapse was 28 percent below pre-crisis peak level. Clearly, the world trade collapses before the COVID-19 contraction were both deeper and much more protracted (van Bergeijk, 2019; 2021).

The resilience of world trade during the ‘natural experiment’ of the Great Recession is remarkable and the starting point of research into factors determining its elasticity (van Bergeijk et al., 2017). The COVID-19 trade collapse adds a second ‘natural experiment’ with even stronger resilience of real-world merchandise trade. However, as will become clear in this working paper,
2020 was a bad year for globalization and therefore we need to be careful in our conclusion about the pandemic threat for globalization and the future outlook.

We will first discuss the developments during the COVID-19 Pandemic. We organize this discussion of developments into separate sections, that recognize that deglobalization, like globalization, has several dimensions (Dreher et al., 2008; Gygli et al., 2018). This is important as the threat of COVID-19 would have heterogeneous effect on different dimensions of globalization. In addition, the effect would also differ for different regions or countries depending on their level of exposure to the viral infection and the integration of the region or country in the world economy. Apart from that, the COVID-19 effect would also have differential effect on different industries, sectors or products. For instance, UNCTAD (2020) shows that there was upsurge (as would be expected) in global merchandise trade of medical production in the second quarter of 2020 during the peak of the pandemic. Clearly, in analysing the effect of COVID-19 on globalization, one must take different dimensions, products and countries into perspective. UNCTAD (2020) further highlights the heterogenous effect of COVID-19 crisis on different dimensions of economic globalization such as trade, FDI, global production and employment as well as the effect for different countries.

This working paper is organized as follows. Section 2 discusses the economic dimension that relates to interaction between the private sectors in different countries (or within multinational firms) and covers such items as foreign trade (exports and imports of goods and services), private capital flows (including bank lending, portfolio investment, mergers and acquisitions, Foreign Direct Investment - FDI). The social dimension is discussed in Section 3 and covers interactions between (groups of) individuals from different countries as being shaped by tourism, migration, remittances as well as cultural and personal exchanges. Section 4 focusses on the political dimension of globalization, that is the interactions between States (both bilaterally and multilaterally) as observed by (changes in) their membership of international institutions, involvement in Treaties, participation in peace-keeping missions and development assistance. Having sketched the developments during 2020 we analyse the post-COVID 19 outlook in Section 5.

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1 We deviate from the common procedure in the literature on globalization to include remittances and (official development) assistance.
2 Economic globalization and COVID-19

Economic globalization has been conceptualized by means of flows of goods, services, capital and information in connection to long distance market transactions (Dreher 2006). For the economic dimension of globalization, Gygli et al. (2019) further distinguish between trade and financial globalization. They measure economic globalization using de facto variables such as foreign trade (exports and imports of goods and services) and de jure factors including trade regulations, tariffs and trade agreements. Similarly, private capital flows (including bank lending, portfolio investment, mergers and acquisitions, FDI) were used as de facto measures of financial globalization while the restriction on capital flows, capital account openness and international investment are de jure measures of financial globalization.

How the outbreak of COVID-19 would affect these different indicators under economic globalization can differ. Already, van Bergeijk (2019, 2021) argued that prior to the COVID-19, many developed countries were experiencing lower levels of economic globalization as a result of the anti-globalization wave that has engulfed Global North. The pandemic would likely deepen the impetus of the deglobalization trend and could even have future implications. The onset of the COVID-19 crisis created panic buying in many countries resulting acute shortages of products on shelves of most retail companies. Such occurrences create the notion of over-dependence of the domestic supply chain on foreign suppliers. This could, consequently, be used as a subtle call to enact protectionist policies in order to build the capacity of domestic industries to promote self-sufficiency in the production of agricultural and manufacturing goods (Kerr, 2020).

Although the pandemic is global, different regions and countries experienced differential effect on various indicators of the economic dimension of globalization. In particular, different regions or countries are exposed differently as they are integrated into the global economy at different intensities. The level of integration determines the size of the impact of the pandemic on international trade, capital flows and FDI. Therefore, regions or countries that are well integrated in the global economy experience higher rate of infections. This seems to be the case as many less developed countries (LDCs) especially African countries that are less integrated in the world economy have significantly low rate of infections.

Merchandise trade

Figure 3 shows the heterogeneity of merchandise exports and imports before COVID-19 outbreak and during the pandemic. Although the figure shows a general decline in growth rates for merchandise trade for all countries, the rate of decline was most pronounced for the advanced economies.
Trade in services

Figure 3 deals with merchandise trade only and misses an important part of the puzzle: international trade in services, as it accounts for 25 percent of total trade (Shingal, 2020). The COVID-19 pandemic could be expected to be less deleterious for trade in services based on the argument that service trade is less sensitive to demand shocks and less dependent on supply finance (Arui, 2020). However, Shingal (2020) argues that social-distancing and contagion-related fears would hinder trade in services as services transaction such as health and education services, movement of workers (IT professionals requiring to work onsite) and especially tourism require some form of physical proximity between buyers and sellers. Preliminary statistics from UNCTAD (2020) also shows a greater negative effect for services trade. The statistics shows that globally services trade contracted by 21 percent in the second quarter of 2020 compared to 18 percent decline in trade in goods within the same period.

Trade by product

Breaking down the effect of decline in merchandise exports across the different products or sectors shows that effect of pandemic was heterogenous. In particular, sectors such as automotive and chemical sectors declined significantly in major trading economies like the US, Europe and China while sectors within the textile, office machinery and precision instruments actually witnessed an increase in exports from China (UNCTAD, 2020). Trade in medical related products including personal protective equipment, sanitizers and ventilators witnessed a particularly sharp increase of 186 percent in the second quarter of 2020 and there was similar growth in home office equipment such as Wi-Fi...
routers, laptops and portable storage. It is often said that globalization has winners and losers; clearly the same can be said at the sectoral level for the COVID-19 pandemic.

**Foreign Direct Investment**

The heterogeneity of the COVID-19 impact on international flows is not limited to merchandise and services trade and also occurs for FDI flows (Figure 4). Although the trajectory of falling FDI predates the COVID-19 pandemic reflecting that deglobalization was already predating the pandemic, the rapid and significant decline in 2020 stands out and exceed the decline of the Great Recession. According to UNCTAD (2021), the impact of COVID-19 on FDI was immediate, as global FDI flows declined almost by nearly half in 2020.

![Figure 4](image)

**Figure 4**

FDI inflows: global and by group of economies

Source: Demena (2017) and UNCTAD (2021).

Notes: All FDI figures are billions of US dollars at current prices and current exchange rates.

Figure 4 shows that COVID-19 bit into FDI inflows by about 42 percent globally (see also Figure 5). This can be compared to the global financial crisis that started in September 2007, but global FDI contracted largely later in 2009 by 39 percent, plummet at an accelerated rate lately (Demena, 2017). Figure 4 also shows the immediacy of the COVID-19 impact on the global FDI. Clearly, the impact of the COVID-19 on FDI contraction is both deeper and more immediate as compared to the Global Financial Crisis. Again, this decline was mostly concentrated in developed countries, with only marginal decline for the group of developing countries. As forecasted by UNCTAD (2021), the latter is less than expected.
Figure 5 shows the decline in FDI across different regions of the world. Developed nations experienced 69 percent decrease in 2020 compared to 12 percent decline for developing economies. Unexpectedly, the impact among the transition economies were very sharp (about 77 percent), and UNCTAD suggested that this is mainly due to the decline of the flows to the Russian Federation. Looking ahead, according to the forecast of the UNCTAD (2021), the pattern of FDI is expected to remain weak to recover in 2021, indicating the outlook remains dire. Thus COVID-19 impact will continue to provide a downward pressure on FDI flows.
3 Social globalization and COVID-19

There are three different sub-dimensions of social globalization and these include interpersonal, informational and cultural aspects of globalization (Dreher, 2006). According to Gygli et al. (2019) interpersonal globalization involves personal links and/or interaction with foreign nationals through events such as migration, international telephone calls and international remittances paid or received by citizens. Informational globalization measures the actual flow of ideas, knowledge and images and it is measured using key variables such as internet bandwidth, international patents and technology exports. The cultural aspect of social globalization also relates the penetration of foreign cultural products such as franchise acquisition or foreign trademarks applications. Keohane and Nye (2000) argue that social globalization is the most pervasive aspect of globalization. Relating the COVID-19 to social globalization is thus important and also because the sub-dimensions could be affected differently. First, COVID-19 reduces interpersonal globalization. Many countries impose travel restriction on both residents and foreign nationals moving in and out of the country. The border closure would directly hinder the temporary migration, especially tourist and foreign students’ movement in and out of countries.

Figure 6
International (World) tourist arrivals
(monthly per cent change comparison between 2020 and 2019)

Source: UNWTO: https://www.unwto.org/
Figure 6 confirms the possible negative effect on international tourist arrivals in the world. Comparing the percentage growth month-over-month for 2019/2020, Figure 6 shows 96 – 97 percent decrease during the peak of the COVID-19 pandemic and lockdowns. Although this has reduced marginally over the years the percentage decline remains substantially large even by December 2020 (85 percent lower than as compared to December 2019). It were not only the travel restrictions imposed by many governments that dissuaded tourist travels; most people may have also voluntarily decided to cease travels for personal safety reasons because even when the travel restrictions or border closures were removed as suggested by the reported developments in the fourth quarter of 2020: there was still limited number of tourist travels in 2020 compared to 2019. According to the World Tourism Organization (UNWTO) world tourism barometer, at the beginning of 2021 the demand for international travel remained very weak (87 percent below the January 2019). At the time of writing, amid new outbreaks and tighter travel restrictions along with the slower and quite uneven distribution of vaccination roll-out across countries and regions a continued slowdown was expected. The UNWTO outlined two scenarios for recovery in 2021 as compared to the historic lows of 2020. In the optimistic scenario international travel would rebound in July 2021, leading to a partial recovery by 66 percent. In the pessimistic scenario, the recovery sets in September 2021, resulting to a 22 percent recovery. On balance international arrivals remain 50 to 70 percent below the 2019 level of international arrivals.

![Migrant remittance inflows (US$ Billion)](https://www.knomad.org/)

Migrant remittances were also affected not because of any formal restrictions on remittances but mainly because of a negative labour market shock on immigrant employment. The latter is confirmed by Demena et al. (2021), finding that overall COVID-19 negatively impact various labour market outcomes, in particular the effect is larger for developed countries, where remittance flowing essentially from the Global North. Orozco (2002) argues that
migration represents an important dimension of globalization and family remittances constitute a major factor in integrating. Borjas and Cassidy (2020) find that in the US labour market, COVID-19 related labour market disruptions severely affected immigrants. They explain that joblessness was higher among immigrants because they were less likely to work in jobs that could be performed remotely. This stylized fact was also confirmed by Capps et al. (2020) and they explained that COVID-19 severely affected industries that had higher concentration of immigrants especially Latinos in the US. Figure 7 shows the long-term increase in remittances inflow worldwide and also for developing countries, as well as the sharp decrease during COVID-19 era. There was a similar decline for remittances following the global financial crisis in 2008/9. It is unclear when recovery sets in although recovery after vaccinations could be quick.
Political globalization and COVID-19

Political globalization captures the ability of countries to engage in international political cooperation as well as the diffusion of government policies (Gygli et al., 2019). Key variables used in measuring political globalization include membership of international institutions, involvement in Treaties, participation in peace-keeping missions and development assistance. These various indicators measure how much a government is influenced by foreign counterparts and resources.

The initial outbreak of COVID-19 pandemic affected international cooperation negatively mainly because of the blame game between the two largest economies in the world, the US and China. The Trump administration blamed China of being less transparent and for failing to contain COVID-19 virus and allowing it to spread to other countries. This was also followed by counter accusations from China who also blamed the US of mismanaging and failing to take the pandemic seriously (Horsley, 2020). In addition, the Trump presidency undermined global cooperation and global public health when the United States cut financial support to the World Health Organization (WHO) during the middle of the pandemic. Brown and Susskind (2020) link the rising anti-globalization sentiments and nationalism (Make America Great Again, Brexit) as impediments that undermined the willingness of countries to cooperate their responses effectively in fighting the pandemic.

Global public good

This notwithstanding the occurrence of COVID-19 also presents an opportunity to correct the earlier skirmishes and for a more global cooperation as the world presents a concerted effort under the aegis of the WHO in combating the virus. Brown and Susskind (2020) have argued that the COVID-19 pandemic should be treated as global public good through international cooperation and that will be an effective and efficient strategy to control the pandemic. The increasing level of globalization and interdependence of nations make it imperative for the world to treat COVID-19 as a global public good because if a single country fails to control the virus within its borders, it is possible the infection could spread beyond its borders to the rest of the world (Brown and Susskind 2020). Additionally, comparative and competitive advantages in vaccine development and the production of personal protective equipment would be important.

In response to COVID-19, there was not a significant decrease in the commitment of countries to their mandatory and voluntary contributions to the United Nations (UN) as indicated in Figure 8. Consistently, there was only a marginal decline across the different months in 2020 compared 2019 terms contribution of members of the United Nations (UN) regular budget. The UN honour roll shows that 144 members paid their regular budget assessment in full in 2020 compared to 146 members in 2019. This is also significant considering the fact the United States which is a major contributor to the WHO announced

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the cut of financial support to the WHO. The US cut of financial assistance to WHO will have major implication for the global health response to the pandemic.

![Figure 8](image)

**Figure 8**
Number of Member States contributed for the United Nations regular budget in 2019 and 2020

Although global cooperation did not start immediately with the outbreak of COVID-19, there were many efforts later by different countries to cooperate in fighting the pandemic. European countries provided medical gear to China in the early phase of the pandemic. Later, China supported adversely affected countries like Italy which became the epicentre for the COVID-19 in Europe. The medical assistance and supplies aid from China to Italy amounted to about 31 tons of medical supplies during the peak of the crisis.[^3] Medical assistance from China was received with mixed reactions mainly because it was also believed that the gesture was divisive for the Europe and such acts would play to Chinese geopolitical advantage within the region.[^4] Medically, the Chinese scientists role in the sequencing of the genome and development of tests that were shared with the health facilities across the world also helped in detecting the cases and manage the spread of the virus (Horsley, 2020).

Equally, international assistance of medical aid from countries like Russia sent to Italy (Biscop, 2020) and even the US signals the importance of global partnership in eradicating the pandemic. Similar medical aid has been observed from Cuba in which they send medical personals to Italy. These gestures of medical assistance also point to a concerted global effort in curbing the spread of the COVID-19 virus.

Politically, the outbreak of the corona virus could be used as a building block to reinforce international cooperation in the world and strengthen the pillars of political globalization. Brown and Susskind (2020) cite the EU-led global health pledging conference that was committed to raise $8 billion to fund the activities of global institutions such as the Global Alliance for Vaccines and Immunization (GAVI) and the WHO that are responsible for coordinating the global response to the virus. In coordinating their efforts, many leaders of the G20 group of countries made commitments, including China who made a pledge to contribute $20 million to the fund. In March 2021, the head of the WHO together with a group of world leaders initiated a discussion calling for international treaty aimed at enhancing pandemic preparedness and pandemic response with a view to new diseases in the post COVID-19 world.

Development cooperation

The other sphere of political globalization is development related foreign aid or assistance. Given that the COVID-19 pandemic negatively impacted other sources of development finance as presented above, such as FDI, remittances and trade, countries in Global South were likely in need for foreign aid.

According to the OECD, external financing flows to developing economies fell by US$ 700 billion in 2020 as compared to 2019, representing a drop by 45 percent. The report further argued that this reduction in external financing greatly exceeds the immediate impact of the global financial crisis by about 60 per cent. Another recent study by Adam et al. (2020) indicated that aid in development assistance require to double in order for sub-Saharan Africa to recover. Responses to the substantial gap in development finance highlighted by COVID-19 impact appear to be promising. The World Bank has pledged $160 billion in grants and financial support to 100 developing countries to help them address the health, social and economic impacts of COVID-19. Apart from this, individual countries are also extending economic and development assistance to poor countries. For instance, the Netherlands expanded its development financing to developing countries by US$ 354 million in September

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2020 and plans to contribute a further US$ 548 million for the upcoming years. On March 2021, the U.S set to lead the world in filling the financial aid gap by allocating US$11 billion in international aid in the latest COVID Bill.

Brown (2021), however, has argued that the COVID-19 pandemic has greatly accelerated significant positive trends, destabilizing the perception that foreign aid essentially flows from the Global North to the Global South and reinforcing awareness of the importance of joint efforts for global public goods and humanitarian assistance. He further argued that the renewed emphasis on self-well-being as the result of COVID-19 places aid in development finance central once again. There is also a need to consider the international fiscal and financial system. Van der Hoeven and Vos (2021) argue that the global consequences of COVID-19 would have been less severe and that much of the increase in global poverty could have been prevented and propose a combined package of international tax reform, sovereign debt restructuring and relief, a reform of policy conditionality and an increase in the IMF’s special drawing rights geared towards developing countries and emerging markets.

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8 https://borgenproject.org/the-netherlands-foreign-aid/ accessed on 1 April 2021.
5 Outlook for globalization after COVID-19: Why are we optimistic?

The first reason for optimism is the noteworthy resilience of world merchandise trade and investment during previous global crises. Multinational enterprises have already had their stress test during the 2008/9 collapse of world trade. That collapse kickstarted the process of deglobalization, but as illustrated in Figure 2 global merchandise trade and industrial production recovered to previous peak quickly and even quicker during the COVID-19 crisis. This is the big and fundamental difference with the Great Depression of the 1930s and it may be related to the fact that world trade is governed and supported by the multilateral trading system. The shock was sharp and immediate, but so was the recovery. The so-called invisible flows (FDI, remittances, tourism, official development cooperation) have been hit harder and recovery is not to be expected before vaccination is sufficiently ‘truly global’, but the expectation of a speedy recovery is realistic at the time of writing.

The attacks on supranational governance and international cooperation were a symptom of an underlying disease that paradoxically may have been cured by the pandemic. The deglobalization process was driven by increasing inequality and a dreary lack of trickling down of the benefits of internationalization. We have learned that inequalities are the breeding ground for the spreading of disease and the suffering that may follow. Reducing epidemic vulnerabilities requires reducing such inequalities. The fight against potential next pandemics, however, implies that we cannot limit ourselves to domestic developments only, because the inequalities around the world – within and between countries – provide the breeding grounds and disease pools from which new variants, viruses and other contagious diseases emerge. SDG 10 (Reduced inequalities) thus is a high return investment project.

And last but not least, the outlook for openness of the world economy is still very much better than in the 1930s. Yes, deglobalization exists. Yes, overall globalization will probably be lower for the foreseeable future. Our societies will, however, remain much more open than at the start of the globalization wave in 1990, connected via the internet with an intensity never seen before in history.
References


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