Slowing down or changing track?

Understanding the dynamics of 'Slowbalisation'

IN-DEPTH ANALYSIS

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Slowbalisation – understood as the slowdown in global integration – is said to have started in the aftermath of the 2007-2008 global financial crisis. The coronavirus pandemic brought about a further dramatic fall in cross-border movement of goods, services, capital and people, to the extent that commentators have proclaimed the beginning of deglobalisation. This paper examines whether the phenomenon described as slowbalisation is a myth or reality, by looking at five different pathways of globalisation: international trade, financial openness, increasing inequality, cross-border social movement, and digital exchanges. The key conclusion is that slowbalisation has not been a uniform trend. While international economic globalisation has indeed slowed down, the digital leap and continued inequality suggest that globalisation is merely changing form, not disappearing.

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Executive summary

The period from the fall of the Berlin Wall to the global financial crisis of 2007 marked an era of fast-growing interdependence between different economies and cultures, brought about by cross-border movements of people, goods, services, capital and data. Far from being the first 'globalisation' wave, it is considered to be a period of 'hyperglobalisation'. The decade which followed the financial crisis of 2007-2008 was marked by a slowdown in global interconnectedness. In 2019, the term 'slowbalisation' spread, to signify the waning of globalisation as we know it. For instance, international trade and investment relative to gross domestic product (GDP) started to decline. Supply chains began to contract after years of global outsourcing and offshoring. In terms of international cooperation and multilateralism, the pace of the world’s economic integration waned. For some governments, notably the Trump administration in the United States of America (USA), it is no longer evident that international institutions such as the World Trade Organization or the World Health Organization are fit for purpose. Rising nationalist and populist leaders in several parts of the world began questioning the ideological doxas of globalism and, in some cases, neoliberalism. Nevertheless, globalisation in other areas, such as international data flows, migration and tourism, continued to expand, indicating that perhaps globalisation was merely changing shape. In 2020, the coronavirus pandemic dealt a profound shock to global trade, investment and travel. The disruption to the physical movement of people, goods and services brought about by the pandemic has been so severe that the thesis of 'slowbalisation' merits thorough analysis.

Globalisation has been evolving over time, becoming increasingly complex and multi-faceted. In this paper, five pathways of globalisation have been selected to illustrate the contrasting ways in which global integration has been slowing down, accelerating or continuing. Each exhibits a different development pattern:

- Cross-border trade in goods and services slowed in terms of volume and relative to GDP, in spite of record low average tariffs. This slowdown can be traced to variation in supply chains, accounting principles, escalating protectionism, and most recently Covid-19.
- Global financial openness slowed after the financial crisis in terms of cross-border capital flows and bank lending. However, international regulatory cooperation in the realm of global finance continued to increase, only recently showing a trend towards some reversal.
- Deepening inequality has been a by-product of hyperglobalisation, has continued during the slowbalisation phase, and is likely to continue after Covid-19. The causes are rooted in government policies affecting income distribution, including taxation and the strength of multinational corporations.
- Globalisation of social interactions, reflected in rates of tourism and migration, did not slow until the sudden arrival of the Covid-19 pandemic.
- International digital exchanges, measured by cross-border data flows, have continued expanding throughout the 'slowbalisation' period. Social distancing and restrictions on international travel are likely to accelerate globalisation in the digital realm.

As a result of the Covid-19 crisis, the future could be one of patchy globalisation, characterised by more immaterial exchanges, and posing further challenges to the future of global governance and international cooperation. The EU could lead the way towards a more sustainable and considered form of globalisation in each of these realms.
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1. From 'hyperglobalisation' to 'slowbalisation'

Globalisation refers to the growing interdependence of different economies, people, and cultures brought about by cross-border movement of people, goods, services, capital and data. Economic globalisation refers to the interdependence of nations through international trade and investment. Globalisation has brought about economic growth, raised millions out of poverty, fostered productivity gains for firms, and facilitated the spread of people, technological development and new ideas. Globalisation has also been accompanied by rising inequality, encouraged production offshoring, citizen dissatisfaction, disease transmission and challenges to democracy.

1.1. Hyperglobalisation

The end of the Cold War set the scene for a period that is sometimes referred to as the golden era of globalisation, or hyperglobalisation.¹ Far from being the first 'globalisation' wave, it has some specific characteristics.² One of the most influential contributors to this narrative, the economist and New York Times columnist Thomas Friedman famously declared the post-1989 world ‘to be flat’. According to Friedman, various ‘flattening forces’ (e.g. new technologies, such as the internet, global supply chains, offshoring) converged into a sort of open global platform for economic competition. This was ‘the inexorable integration of markets, nation states and technologies to a degree never witnessed before – in a way that is enabling individuals, corporations, and nation states to reach around the world farther, faster, deeper and cheaper.’³ After the end of the Cold War, new realities of economic integration and growing contacts between countries, businesses and people became the main framework for a new master discourse, in which global economic integration was the central definitive concept. Hyperglobalisation represented the fusion of US-led market globalism, economic neoliberalism and consumerist individualism.

The 1990s wave of economic integration, spearheaded by the USA, was expected to bring global benefits, including an impetus for international cooperation. The end of the Cold War gave a new impulse to the aspiration towards global governance institutions (e.g. the World Trade Organization (WTO), the Kyoto Protocol). The mandate of the International Monetary Fund (IMF) on cross-border capital flows was strengthened.⁴ European integration proceeded with subsequent treaties, and the deepening of the single market. Bilateral and plurilateral preferential trade agreements proliferated, and hundreds of trade deals were concluded between the years 1990 and 2010. As a result, the average level of tariffs fell worldwide, further boosting cross-border trade. Offshoring production abroad contributed to the expansion of economic globalisation. Companies began

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⁴ J. Pisani-Ferry, Should we give up on global governance?, Bruegel 2018.
extending value chains across the globe, and the composition of individual countries’ manufacturing industries became less differentiated. In ‘criss-crossing globalisation’ two-way flows of components and parts as well as foreign direct investment (FDI), became prominent, in particular in Asia. In the 1990s, cross-border mergers and acquisitions increased in terms of value and growth rate. All this was fuelled by political ideology, technological development and innovation, falling transportation and communication costs. In part, globalisation was also expanded by rising government debt in G20 economies, as well as the intensive use of natural resources, as demonstrated by rising CO2 emissions.

1.2. Slowbalisation

Globalisation started to slow down after the pivotal moment of the 2007-2008 global financial crisis and failed to regain its previous speed. In quantitative terms, the volume of international trade and the value of cross-border investment by multinational corporations slowed down. This was influenced by the fact that exchange costs were no longer falling at earlier rates. In addition, it became clear that external shocks, from currency fluctuations, trade tensions or climate catastrophes could suddenly disrupt global value chains, thus driving up costs. Slowbalisation as a concept even spilled over into academic literature on supply chain management. After the financial crisis, cross-border banking contracted, in particular in the EU, leading commentators to note financial 'deglobalisation'. In many countries, mindsets towards global openness also hardened following job losses due to relocation of factories, the austerity measures taken after the financial crisis, and the tepid and unevenly distributed recovery in global demand. The USA, a former figurehead of multilateralism, is exiting the Paris Agreement on climate change in November 2020, and has expressed scepticism towards a number of global governance institutions, from the Universal Postal Union to the International Criminal Court. The ideologies of globalism and neoliberalism have been questioned by rising nationalist and populist political movements (e.g. in France, India or Brazil), which have sometimes renounced them and sometimes combined them with new discourses. At the same time, civil society organisations and grass-roots campaigns demand urgent action to address tragedies of the commons. In the EU, the discourse shifted towards free and fair trade, and an emphasis on strategic autonomy in a globalised world. Nevertheless, by the end of the 2010s, this trend had become so noticeable that it received a name – slowbalisation. At the beginning of 2020, the world was then set to experience slower growth and

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8 See Tragedy of the commons, Investopedia, September 2020.
9 Term coined by Dutch trend-watcher Adjiedj Bakas, and popularised by The Economist, Globalisation has faltered, January 2019.
global trade volumes were drying up.\textsuperscript{10} As the Covid-19 crisis exacerbated these trends, the term slowbalisation increasingly became replaced by ‘deglobalisation’.\textsuperscript{11} 12 What does slowbalisation mean in this context? Do the devastating lock-down effects of the pandemic mean that the world has entered a new state of deglobalisation?

Eurostat has estimated that EU GDP fell by about 12 \%\textsuperscript{13} in the second quarter of 2020, which represents a sharper decline than during the previous global financial crisis. The OECD countries’ collective GDP declined by 9.8 \% in the second quarter of 2020, which is also the most severe drop in the OECD area ever.\textsuperscript{14} The collapse in oil and other commodity prices has put pressure on commodity-exporting countries, and countries with external debts denominated in dollars. A credit crunch in China would in turn put many developing countries at risk.\textsuperscript{15} Both monetary policy and fiscal policy action are called for, and the most effective action would be \textbf{internationally coordinated}: rescue packages with a global reach, including coordinated action to address the financing gap that many developing countries are facing imminently. This economic contraction will enhance the trends involved in slowbalisation, spilling over into less cross-border trade, reduced financial openness, rising inequality as unemployment rates increase, and a more digitally interconnected world. At the same time, in the long-term, the very fact that the \textbf{global health pandemic} is in itself a ramification of globalisation has fuelled a deeper debate about the structure of the global order. The world remains interconnected despite the slowdown, and is vulnerable to the current organisation of global production. Intensive practices of large-scale farming have altered ecosystems, created a loss in biodiversity and, according to some accounts, contributed to cross-species transmission.\textsuperscript{16}

The aim of this paper is to assess the \textbf{assumption that globalisation is slowing} and to understand what slowbalisation has meant so far, its origins, and what could follow in its stead. The main question posed is whether, instead of slowing down, the initial process of globalisation is changing track altogether by taking various new turns, for example towards local alternatives, and if so, how the EU could position itself or react. The heterogeneous patterns of development in different realms illustrate how a single neologism can hardly cover the complex reality of today’s globalised world. Five different pathways show the consequences of the slowdown in globalisation, but are not necessarily measures of it. Rising inequality has been selected as an under-studied variable of slowbalisation, demonstrating elements of continuity in the global order even as digitalisation makes globalisation appear thoroughly altered. A deeper look into each case unmask the ways in which forces of globalisation play out in contemporary life and deepen our understanding of the perceived trend of slowbalisation.

\textsuperscript{10} PwC, Predictions for 2020: \textit{Slowbalisation is the new globalisation}, January 2020.
\textsuperscript{11} R. Haass, \textit{Have we reached peak globalisation and where do we go from here?}, World Economic Forum, May 2020.
\textsuperscript{13} Eurostat, \textit{Preliminary flash estimate for the second quarter of 2020}, 31 July 2020.
\textsuperscript{14} OECD GDP growth, August 2020.
\textsuperscript{15} UNCTAD, \textit{The coronavirus shock: a story of another global crisis foretold and what policymakers should be doing about it}, March 2020.
\textsuperscript{16} R. Wallace, Big Farms Make Big Flu: Dispatches on Influenza, Agribusiness, and the Nature of Science, 2016.
Table 1 – Summary of the divergent five pathways of slowbalisation

<table>
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<th>Cross-border trade in goods and services</th>
<th>Open and globalised financial system</th>
<th>Deepening income inequality</th>
<th>International physical interactions (tourism and migration)</th>
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<tr>
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<td>Slowing down</td>
<td>Accelerating</td>
<td>Accelerating</td>
<td>Accelerating</td>
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<td><strong>2007-2019</strong></td>
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2. Five pathways of slowbalisation

2.1. Slowing international trade

International trade collapsed during the global financial crisis, and growth in trade has remained relatively weak since then. Total merchandise trade by value dipped in 2009, grew in the following five years, and again decreased in 2015.\(^{17}\) Since the aftermath of the global financial crisis, the year-on-year annual growth in international trade has been falling (see Figure 1). This trend was exacerbated by the onset of US-China trade tensions in 2019. Following the Covid-19 pandemic, world trade fell abruptly, and global manufacturing export orders fell below the lowest point of the global financial crisis.\(^{18}\) In real terms, global trade has barely grown in line with global GDP. This is striking, given that trade has consistently outpaced GDP since the mid-1800s, with the exception of the interwar years. In nominal terms, trade appears even weaker, failing to keep up with GDP growth owing to the fall in the relative prices of traded goods and services, particularly commodities. The financial crisis also brought a halt to the rapid rise in standard balance of payments based measures of financial openness.

Figure 1 – Growth in trade in goods (yearly % change)

Data source: International Monetary Fund.

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\(^{17}\) World merchandise exports by product group and destination - annual (million US$), accessed 17.6.2020.

\(^{18}\) OECD Economic Outlook, Volume 2020 Issue 1, Chapter 1: General assessment of the macroeconomic situation.
The shift away from hyperglobalisation has also been visible in the realm of trade governance. The cumulated number of trade restrictive measures has been increasing to historically high levels among the G20.\(^9\) The European Commission has also reported a record high number of protectionist barriers to trade around the world, reflecting a wider shift from liberal to managed trade.\(^9\) In late 2019, the higher instance of the WTO two-step dispute settlement system ceased to function, following the blockage by the USA of replacement of Appellate Body Members. In 2020, the US administration announced it would attempt to renegotiate US tariff ceilings in the WTO.\(^1\) This could mark a departure from the downward trend in customs tariffs among WTO members after the establishment of the WTO in the mid-1990s and after China joined the WTO in 2001 (see Figure 2). World average applied tariffs declined from 8.57% in 1994 to 2.57% in 2017.\(^2\)

Figure 2 – Applied weighted mean tariff rates on all products (%)

Several factors account for the slowdown in international trade. For one, the reduction of tariffs, as well as transport (e.g. sea freight, shipping containers, passenger air flights) and communication costs (e.g. international calling costs) had long supported increases in particular of intra-industry trade.\(^3\) However, by the early 2000s, the fall in transaction costs began to level off. According to the McKinsey Global Institute,\(^4\) as demand in China and developing countries grew, increasingly more goods were consumed where they were produced. Development of domestic or regional supply chains in emerging markets further decreased reliance on imports. Technological developments made labour arbitrage (lower labour costs) a less congruent reason for offshoring production. Finally, data collection issues mean that services trade as well as intermediate goods trade, which have been expanding, are downplayed in accounting terms. In the context of

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\(^1\) Bloomberg, US weighs higher tariff ceilings in a bid for more sway over WTO, February 2020.


\(^3\) E. Ortiz-Ospina and D. Beltekian, Trade and Globalisation, Our World in Data, 2018.

Interconnectedness, countries have begun to make choices to secure strategic autonomy that result in trade restrictions (data localisation requirements, forced technology transfers, and export restrictions). As the current global organisation of production has contributed to the spread of the coronavirus, efforts to reconsider economic globalisation may well increase among policy-makers.

Following the Covid-19 pandemic, global trade is set to fall between 10 and 16% according to the European Commission, and by 13-32% according to the WTO (on the basis of a different methodological approach). This exposes the vulnerability of the EU export-led growth model. Compared to key trade partners the USA and China, the EU is far more reliant on international trade as a proportion of its GDP (see Figure 3). For the EU, the trade proportion of the economy has also been increasing in the ‘slowbalisation’ period.

Figure 3 – Trade in goods and services as a proportion of GDP

Reorganisation of value chains after major disruption requires global governance efforts. The manufacturing sector is hit by a triple crisis: supply-side, demand-side, and value chain contagion. Inventory minimisation strategies have led to just-in-time distribution practices that make value chains vulnerable to external shocks. As fewer workers are available during widespread quarantines (e.g. truck drivers), trade in goods and services is impacted, even if critical societal functions are safeguarded. Among the hardest hit economies have been the biggest world economies (the G7 and China), which are at the heart of a myriad of international supply chains (especially China, South Korea, Japan, Germany and the USA), where each is an important supplier of industrial inputs to each other and to other countries.27 On the demand side, the coronavirus pandemic has decreased spending and translated into behavioural changes, as consumers shifted from high street to online shopping. Overall, the slowbalisation trend in trade has been heavily exacerbated by the Covid-19 epidemic.

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2.2. Discrepancies in financial openness

The liberalisation of international trade went hand in hand with the opening up of the financial system during the phase of hyperglobalisation, with financial links enabling trade, and trade in turn resulting in stronger financial links. Financial openness can be broken down into three main layers. First, at the most basic layer, trade in commodities and finished goods required cross-border payments, which usually involve foreign exchange transactions and trade finance, because of the time taken to complete transactions, shipping and customs processing. Second, global value chains, which are characterised by trade in intermediate goods and services, required more complex financing, such as cross-border financing, often in foreign currencies. In addition, longer production chains involved more working capital and considerable foreign currency exposures. International finance helped reduce these risks, for example through derivatives or borrowing in foreign currency to match corresponding in- and outflows. A third, more complex, layer concerns the financial transactions that were increasingly used to actively manage balance sheet positions and exposures created by the first two layers, as well as the allocation and diversification of savings, not necessarily related to trade. Intricate financial links established exclusively for financial purposes have brought about some decoupling between real and financial openness: financial openness has substantially overtaken real openness since the late 1980s, most notably for advanced economies (see Figure 4). Financial openness has accelerated significantly compared to trade openness in advanced economies since the mid-1990s, while for emerging economies (EMEs), financial openness has developed only slightly faster than trade openness, but the composition of external liabilities has changed substantially to support greater risk-sharing. One common element of these processes is the use of global currencies, with the US dollar playing a dominant role so far.

29 Ibid.
The hyperglobalisation period also saw the rise of **globally active financial institutions**. These banks and intermediaries operate in many countries across multiple continents. Through their international presence and sophistication, they facilitate the global transfer of funding and financial risks. Balance sheets that are managed at a consolidated level create close international financial links. Just as multinational corporations play a key role in trade, large internationally active financial institutions increasingly dominate global finance, particularly in advanced economies. They not only engage in cross-border financial transactions, but also in local borrowing and lending, which are not classified as international transactions in the balance of payments (BoP) accounting framework. As a result, standard BoP-based measures of financial openness tend to under-estimate the degree of global interconnectedness, just as they do for the non-financial sector, where multinationals' subsidiaries produce for their local market.
From the early stages of the global financial crisis, however, more restrictive financial conditions amplified the sharp drop in trade and also affected the degree of financial openness. Exports of more financing-dependent consumer durable and capital goods fell, and the need to borrow and the availability of funds decreased. In turn, the fragility in trade-intensive physical investments induced by the reduction in demand, depressed the corresponding international financial flows, with cross-border capital flows declining by 65% in the decade following the 2007 peak. More generally, the slowdown in commercial and financial openness was the result of a desire to reduce risks, most noticeably on the part of financial institutions, but also by non-financial companies, as the decrease in disruption-sensitive global value chains showed. This halted the rapid rise in standard BoP-based measures of financial openness: the global stock of external assets and liabilities in 2015 was little changed from its 2007 peak of just over 400% of global GDP, in sharp contrast to the nearly 190 percentage point rise between 2000 and 2007. Nonetheless, the apparent reduction in globalisation on the financial side deserves a more cautious interpretation.

First, it must be noted that conventional metrics tend to over-estimate the reduction in openness. In fact, the apparent anomaly that, while being stagnant at the global level, the ratio of external liabilities to GDP has continued to increase for both advanced economies and EMEs after the crisis, is explained by the much lower level of financial globalisation of EMEs compared to advanced economies, so that EMEs’ growing share of global GDP dampens the global measure of financial globalisation. The expansion of financial openness for advanced economies has slowed considerably since the crisis, whereas that for EMEs globalisation has largely continued.

Second, the slowdown in financial openness has mainly affected certain types of flows, such as cross-border bank lending, a component that had boosted the rapid pre-crisis expansion in the highly pro-cyclical third layer of globalisation. In this perspective, at least part of the reduction can be seen as the smooth re-composition of unsustainable pre-crisis exposures. Furthermore, the contraction in cross-border lending was partially compensated by a recovery in portfolio debt flows

due to low and sometimes negative yields, which allowed bond markets and asset managers to occupy the gap left by banks. FDI and portfolio equity have also continued to grow.

Finally, the **contraction in bank lending** is not as large as it appears if measured using alternative metrics of financial openness to the 'residence of the economic units' used for the BoP statistics. For example, the Bank for International Settlements' (BIS) international banking data organised by the 'nationality of ownership', provide a clearer picture of international financial integration. From that perspective, what appears to be a global decline in international banking is actually limited to European banks, which responded to credit losses after 2007 by massively disposing of assets, in particular lending, to meet prudential requirements. Furthermore, EME banks, many of which are not captured by the BIS data, have substantially increased their international presence through foreign offices, in particular at the regional level.

The 2007-2008 global financial crisis saw large spill-overs between national financial systems, and particularly emphasised the global dimension of financial instability. To tackle the crisis, the 2008 G20 summit agreed on a common roadmap for **financial regulatory reforms**, including the formation of international coordination mechanisms such as the Financial Stability Board (FSB). Since then, the intensity of international cooperation on financial regulation has increased, and has essentially been substantiated in seeking regulatory convergence through standards set by international bodies that different countries have to transpose in their national laws. In this context, the Basel Committee on Banking Supervision (BCBS) adopted the Basel III framework, i.e. a comprehensive review of international standards on prudential requirements for banks aimed to ensure consistent implementation and help strengthen global banking system resilience. At the same time, the FSB proposed standards on bank crisis management aimed at reducing the use of public resources to rescue ailing banks, and at breaking the 'doom loop' between sovereigns and banks that had threatened financial stability in the aftermath of the financial crisis. At the EU level, banking union was created as a response to ring-fencing and financial fragmentation brought about by the financial crisis. In this sense, globalisation – understood as international cooperation and creation of global governance institutions – deepened after the financial crisis.

In recent times, however, this mechanism is showing some trend reversal. First of all, many jurisdictions have raised an issue of proportionality and lowered requirements imposed on local banks compared to internationally active institutions. Next, in December 2019, Randy Quarles, member and vice-chair for supervision of the Federal Reserve Board of Governors, and the head of the FSB, told a US Congressional hearing that overall capital levels at US banks should not rise, in spite of the additional charges required by the finalised Basel III framework. On the other side of the Atlantic, the new EU rules on capital requirements adopted in May 2019 generate significant capital relief compared to the final Basel III global banking standards, which they are supposed to implement. Furthermore, in its annual report on the banking union in 2019, the European

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36 See Masera R., *Community Banks and Local Banks: Can we bridge the gap between the two sides of the Atlantic?*, ECRA, 2019.


Parliament stated that the final Basel III standards should be transposed into EU law ‘... taking proper account of the specific characteristics of the European banking system, where appropriate, and the proportionality principle’.\(^{39}\) This suggests a trend towards financial deregulation, as jurisdictions show signs of diverging from unified standards.

The outbreak of the coronavirus pandemic is likely to accelerate the ongoing processes. On the one hand, trade-related financial openness, while registering an increase in digital financial services due to the wider use of e-commerce by retail consumers, is bound to suffer from the breakdown in global value chains. On the other, regulatory convergence will be challenged. To tackle the economic consequences of the pandemic, not only did regulators worldwide decide to make full use of the flexibility allowed by existing international financial standards,\(^{40}\) but fears are rising over breaches in these standards. Bretton Woods institutions have warned about growing divergence in capital and accounting requirements for banks stemming from unilaterally enacted prudential and provisioning rules in the USA, as well as in Brazil, Russia and many other emerging economies.\(^{41}\) As adherence to international standards ensures international banks compete on a level playing field and enhances mutual trust, significant deviations from these standards could negatively affect the global activity of these players and contribute to the transition of the current financial system from a global network to a net of macro-regional clusters.

2.3. Continuing rising inequality

A major trend that characterised the period of hyperglobalisation and that has spilled over into the period of slowbalisation is increasing inequality. One of the main features of the narrative that dominated during the hyperglobalisation phase was the expectation that economic growth and improved economic welfare would have ‘trickled down’ to all of society and that economic openness and greater capital mobility would have benefitted everyone, with little need for redistributive policies. To the contrary, the evidence shows that these benefits have been very unequally distributed.\(^{42}\) If in some cases, inequality between countries has declined thanks to the very strong economic performance of some actors (e.g. China), however a number of factors have exacerbated inequality within countries.

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\(^{39}\) See European Parliament resolution on Banking Union – Annual report 2019, (2019/2130(INI)).


\(^{41}\) See C.G.W. Towning, Fears rise over breakdown in Basel and IFRS standards, Central Banking, 15 June 2020.

The drivers of this increase in inequality can be found in economic globalisation, technological change, the growth of financial services, changes in pay norms and the reduced role of trade unions, as well as the scaling back of redistributive policies, including through austerity measures but as Atkinson clearly points out – identifying such drivers should not make us think that these are ‘natural forces’ over which policy has no say. Governments have often been unable to balance the shortcomings of globalisation with its benefits. A case in point is the localised effects of offshoring operations. Experience in France shows that, despite the effect of delocalisation on employment appearing quite small at the national level, it is more pronounced at local level and contributes to regional and territorial disparities that public policies have only partly been able to anticipate and rectify.

One of the most widely used indicators of this increased inequality is the declining share of national product that goes to labour income and the increase of the share that goes to capital. Between 1995 and 2011 there has been a decline of about two percentage points in the share of national income going to workers. This has been a result of the interplay of two forces: the rise in capital/income ratio and the increased ‘bargaining power’ of capital, thanks, among other factors, to its cross-border mobility ‘and heightened competition between states eager to attract investments’.

Critically, hyperglobalisation has spilled over into national taxation regimes, which have been characterised by a ‘competition for capital’ at the global level. This has led to a reduction in the tax bases that, in turn, decreases the financial space for nation states to deal with the challenges posed by globalisation. Corporate income tax rates decreased by almost 50% since 1990, because of competition between countries to retain domestic, and attract foreign, firms and investment in a context of increasing capital mobility (see Figure 7).

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Similar ‘competition’ can be observed among top income earners.48 Another characteristic of hyperglobalisation is indeed the increased inequality between labour income earners, especially due to the rise in top income levels. Especially at the very top (the top 0.1 %), this concerns the incomes of top managers and ‘star’ professionals who benefit from stock-based pay whose value is driven up by the rise in finance.49 These are also often highly mobile individuals, able to change countries or to move their wealth. Indeed, OECD countries displayed a strong decrease in the income tax rate for the top 1 % income earners, in parallel to an increase in the tax rate for the median taxpayer.50 This resulted in a decrease in tax progressivity and has been explained as a government choice in a context of ‘footloose’ globalised capital, especially from the mid-1990s onwards.51

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51 Egger et al., ibid.
During the period of hyperglobalisation, a new actor emerged at the centre of the global stage: the multinational enterprise. The UN Conference on Trade and Development (UNCTAD) reports that within the very restricted circle of exporting firms, the top 1% accounted for 57% of country exports, on average, in 2014.52 As major actors in the recent global economic dynamic, multinational corporations also consolidated monopolistic positions due to 'intangible barriers to competition', such as intellectual property rights (IPR) and the broader scope of intangible intra-firm trade. In recent decades, the share of income transferred from labour to capital earnings has gravitated to the top corporations, both financial and non-financial.53

According to many analysts, inequality plays a negative role in our economies, and the increase in inequality observed during the 'hyperglobalisation phase' is one of the root causes of the 2008 financial crisis.54 Despite this observation, and the role played by rising inequality in fuelling citizens' discontent regarding hyperglobalisation, the trend has not been reversed. On the contrary: taxation patterns have shown no relevant changes overall and patterns of unequal distribution of income regained momentum soon after 2008 (Figure 8). According to UNCTAD, payment for foreign use of IPR is one possible technique multinational corporations employ for profit-shifting. In recent years, the trend of payments for IPR directed towards some major financial centres with low-tax jurisdictions has been increasing, which does not correspond to any actual increased innovation.

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53 Ibid.

capacity of such centres.55 This trend started in the early 2000s and shows no signs of reversing. This problem may be exacerbated by other characteristics of the ‘slowbalisation phase’, including disinvestment from global governance arenas. Slowbalisation in the realm of taxation could also mean less global cooperation to manage tax havens, something which would on the contrary be needed to tackle inequality.

In the absence of policy intervention, the Covid-19 crisis, may deepen these inequalities. At a global scale, the International Labour Organization (ILO) estimated that there will be between 9 and 35 million new working poor56 in developing countries in 2020 (mostly in middle-income developing countries).57 According to the European Commission, the coronavirus pandemic has caused novel employment challenges, and measuring the unemployment rate is increasingly challenging due to extended short-time work schemes and difficulties to enlist as a job-seeker due to lockdowns.58 Unemployment rates are expected to rise across the EU, in particular for those in more precarious employment, who have often been the first to lose their jobs, and young cohorts now unable to find their first jobs.

2.4. Cross-border social movement

Initially, the overall trend of slowbalisation did not appear to extend to the social realm, where digitalisation and the emergence of new middle classes in Asia have widened and deepened global integration. The tourism industry has for decades been one of the key engines of globalisation, contributing to social exchanges and physical movement, as well as economic globalisation. Tourism represents an important export service for many economies and about 10% of global GDP and jobs.59 Between 2000 and 2018, the number of international tourists worldwide has more than doubled (see Figure 9). At the same time, economic crises have negatively impacted tourism, as seen in 2003 and 2009. In general, travel, transport and related services represented an important share of global service exports, and were, at 5% on average, growing faster than the annual real growth of global economy.60

55 UNCTAD, 2018, p. 55.
56 At the higher World Bank poverty line of US$3.20 per day.
58 European Economic Forecast, Summer 2020.
60 PwC, Will ‘slowbalisation’ snowball into the global services trade?, March 2020.
The onset of the Covid-19 pandemic and social distancing measures reversed the trend in cross-border movements dramatically. The pandemic had a proportionately greater impact on international tourism than other global economic shocks of past decades. In the first quarter of 2020, international tourist arrivals already fell by 22%, and according to the World Tourism Organization (UNWTO), international tourism is set to decrease by 60-80% overall in 2020. As many tourists are opting to travel closer to home, the intercontinental air and cruise ship sectors are being severely affected and will likely take a longer time to rebound compared to most other economic sectors, marking the beginning of a slowdown in the arena of social exchanges.

While international tourism represents a cross-border social exchange of a few weeks or months, migration usually implies a longer and often deeper social integration. In the slowbalisation period, international migration continued to grow in absolute terms, peaking in 2019. International mobility, whether for voluntary or humanitarian reasons, was on the rise. In addition to quantitative growth, the global governance frameworks for migration were also developed in the same period, running counter to the predictions of the slowbalisation assumption. In particular, the Global Compact for Safe, Orderly, and Regular Migration represents an ambitious plan to develop a normative framework for the multilateral governance of migration.

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62 Ibid.
The annual growth rate of migration had already begun to slow after 2010. This is mostly due to increasing immigration restrictions introduced by various governments, which can also be attributed to the rise in anti-immigration political discourse. In the USA, for example, there was a rapid increase in visa denials.64 In Europe, a heated political debate on migration issues was ignited during the EU migration crisis and also featured strongly in the 2016 Brexit referendum. Since the immediate and ongoing consequence of Covid-19 pandemic measures was to close borders, this could strengthen the slowing trend in global migration.

2.5. Digital exchanges on the rise

If international trade in physical goods has been slowing, in the digital realm, globalisation is speeding up. Technological development has been a key driver behind hyperglobalisation, not least thanks to declining transportation and communication costs. The scale of digital globalisation is easy to grasp intuitively, but it can escape many of the traditional globalisation accounting metrics such as trade in goods. In the slowbalisation period, services trade was growing at a far faster rate than goods trade. Part of the growth did not reach trade statistics, particularly free cross-border digital services such as video-conferencing, mapping and social media.65 In addition, distribution channels

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have shifted, as e-commerce replaces high street shopping and online banking grows at the expense of branches. At the same time, international data flows and cross-border bandwidth continued increasing exponentially after the 2007-2008 global financial crisis (see Figure 11). Several commentators have understood this to indicate that globalisation is not over, but is merely changing in shape and form.66

During the Covid-19 crisis, digitalisation has deepened, which seems to partially contradict the premise of slowbalisation. Following limitations on physical movement, the rate of teleworking, use of online communication platforms and video-streaming have increased significantly.67 The increase in online social exchange before and after the Covid-19 crisis has diverged between various digital platforms and activities, but the overall trend points overwhelmingly towards more social interaction online. As a consequence of Covid-19 measures, people have been forced to adapt to more online interaction, both for private and professional use, and have discovered new digital possibilities, of which some will become a part of their way of life and work, continuing even after the crisis.

Figure 10 – Growing cross-border bandwidth

Figure 1168 shows that the general trend in the volume of data crossing borders rose 64 times between 2004 and 2019. This exponential trend in online data flows and interactions for various purposes includes the online purchases of goods; online email exchanges, social media and video

68 Globalisation has faltered, The Economist, January 2019.
communications, it includes downloads and streaming of music and videos online; as well as increasing use of sharing economy platforms, personal and work-related use of search engines, as well as teleworking. Digitalisation has potential positive consequences for financial interconnectedness, but also carries risks, due to the lack of a global governance framework for digital issues, from e-commerce to data flows. Plurilateral negotiations for a digital trade agreement are progressing slowly in the WTO. A potential risk is the expansion of the 'splinternet', where the internet is limited to national borders. In both cases, the new nature of globalisation will need to be well understood by policy-makers in order to achieve key EU policy objectives, namely sustainable growth underpinned by economic openness, but also to ensure strategic autonomy in the digital field. Digital sovereignty for Europe would require regulatory and financial instruments in areas such as data protection, cybersecurity and ethical AI. As the Covid-19 pandemic disrupted much of the physical economy, it also intensified the underlying trend towards virtual integration. The onset of machine learning and artificial intelligence has the potential to strengthen this even further.

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3. Conclusions

Has the thesis of slowbalisation in 2007-2020 proven to be myth or reality? When compared to the high point of hyperglobalisation, there has in particular been a slowdown in terms of cross-border merchandise trade, capital flows and bank loans. However, a broader analysis shows that the onset of the slowdown is more nuanced and path-dependent than highlighted by the numbers alone. International trade statistics miss out parts of services trade and also aspects of value-added trade. Cross-border bank lending has in part declined due to a desire to decrease risks and regulatory reforms, but balance of payments statistics still tend to underestimate the degree of interconnectedness in the financial sphere.

Table 2 – How has Covid-19 affected the five pathways of 2007-2020 slowbalisation?

<table>
<thead>
<tr>
<th></th>
<th>Cross-border trade in goods and services</th>
<th>Open and globalised financial system</th>
<th>Deepening income inequality</th>
<th>International physical interactions (tourism and migration)</th>
<th>Movement of data and digital exchanges</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-2019</td>
<td>Slowing down</td>
<td>Slowing down</td>
<td>Accelerating</td>
<td>Accelerating</td>
<td>Accelerating</td>
</tr>
<tr>
<td>2020 (Covid-19)</td>
<td>Steep slow-down</td>
<td>Slowing down</td>
<td>Accelerating</td>
<td>Steep slow-down</td>
<td>Accelerating</td>
</tr>
</tbody>
</table>

Expert predictions for the future of globalisation post-coronavirus range from optimistic to alarmist. A number of thinkers have posited that Covid-19 has triggered the start of deglobalisation and that the period after the pandemic will see a gradual unfolding of global integration. Another thesis is that globalisation is not waning, but is merely changing shape and form:

*Economic theory and history both suggested this was an unsustainable kind of globalisation, and so it has proven. International economic integration came at the expense of domestic disintegration, deepening pre-existing economic, spatial and cultural divides between winners and losers. It was also predicated on the unrealistic and unfulfilled approaches of countries with very different economic and social models, such as the US and China, would tend to converge. – A complete collapse seems unlikely. But we will have to settle for a thinner model of globalisation that leaves nations room for rebuilding domestic social contracts.*

The backtracking of globalisation has included both a slowdown in cross-border exchanges, as well as an ideological shift in policy-makers’ approaches to openness. In the USA, the Trump administration has prioritised protecting US interests over multilateralism, has launched a protectionist trade policy, and threatened to withdraw from a number of multilateral institutions such as the WTO, WHO, Open Skies Treaty and the Universal Postal Union, as well as sanctions against investigators of the International Criminal Court. Partially underlying this movement has

71 I. Olivie, M. Gracia, *Is this the end of globalisation (as we know it?)*, February 2020.
been a sense of grievance about unfettered globalisation, where in the last decade one of the key players, China, follows its own economic model of state-led capitalism. As a response, the EU set up the European Globalisation Adjustment Fund to rectify the consequences of structural job losses due to globalisation, for instance, redundancies due to relocation. With regard to rising inequality, the EU is attempting to improve international tax governance by maintaining a list of non-cooperative jurisdictions (tax havens) for tax purposes. Since the coronavirus outbreak, the calls for deeper strategic autonomy have increased, including with regard to supply chain self-reliance, and in adopting tools to level the playing field. Tools such as the FDI Screening Regulation, the modernisation of trade defence instruments in the 2014-2020 term of the European Parliament, as well as instruments for countering foreign subsidies, are key to adapting to the new realities of globalisation.

After the coronavirus crisis, companies will have to assess and put a price on disruption risks with regard to global value chains. Cost-cutting in production efficiencies will increasingly need to be balanced against these risk assessments. This could well result in shorter supply chains, diversification and more regional or local sourcing, and reduce dependence on specific regions or countries, in particular for essential goods and medical equipment. The EU can be a crucial actor in promoting global governance for these new challenges and to pursue a global environment that brings benefits to all, supporting both internal and external policies that allow sufficient productive capacity in strategic sectors, supporting sustainable production practices, to put the economy on the path to sustainable growth.

While Covid-19 has in part slowed globalisation in quantitative terms, at the same time it has highlighted the need for global governance and cooperation, which is where a slowdown occurred in recent years. In particular, the coronavirus crisis is a reminder that health is a global public good: it is highly vulnerable to the emergence of epidemics in any part of the planet and it requires 'patient' investments that produce important externalities. The added value of coordinated public action and international cooperation is therefore high, especially in scaling up research investments and healthcare systems worldwide. The depth of the economic crisis that we will face crucially depends on the extent of public action that will be deployed, such as the planned €750 billion Next Generation EU stimulus package, and the extent of global coordination of these policies. The crisis has exposed the vulnerability of health systems worldwide as well as highlighting that the most effective action would be coordinated internationally. At the same time, the development of coordinated common approaches to the ‘digital leap’, whether in the fields of taxation or privacy, will be critical to ensure that elements of slowbalisation do not spill over into the realm of global governance.

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Slowbalisation – understood as the slowdown in global integration – is said to have started in the aftermath of the global financial crisis of 2007-2008. The coronavirus pandemic brought about a further dramatic fall in cross-border movement of goods, services, capital and people, to the extent that commentators have proclaimed the beginning of deglobalisation. This paper examines whether the phenomenon described as slowbalisation is myth or reality, by looking at five different pathways of globalisation: international trade, financial openness, increasing inequality, cross-border social movement, and digital exchanges. The key conclusion is that slowbalisation has not been a uniform trend. While international economic globalisation has indeed slowed, the ‘digital leap’ and continued inequality suggest that globalisation is merely changing form, not disappearing.