End of Hyperglobalisation

Why in news?

Two wars raging in 2022 have upended the assumption of "doux commerce", and ended the age of hyper-globalization.

> *Doux commerce is the idea that trade makes men less prone to violence or irrational behavior.*

What is hyperglobalisation?

- The term 'Hyper-globalisation' is used to describe the dramatic increase in international trade witnessed for about a decade and a half from the early 1990s.
- It led to an unprecedented movement of capital and of people. Capital and labour flowed across the world.
- This concept believes that globalisation is happening and there is an emergence of a homogenous global culture.

> *According to the International Monitory Fund (IMF), Globalization is not just a recent phenomenon. Some have argued that the world economy was just as globalized 100 years ago as it is today.*

What happened in the past?

- The World War-I that broke out in 1914 ended the first "golden age" of globalisation between 1870 and 1914, when world trade in goods surged from 9% to 16% of GDP.
- This was a period of internationalization of economic and social life.
- By the time World War-II began in September 1939, the share of merchandise trade in global GDP had collapsed to 5.5%.
- It recovered gradually thereafter to reach the pre-World War-I levels only towards the late-1970s.

What is happening now?

- In 1996, journalist Thomas L Friedman said that "no two countries that both have a McDonald's have ever fought a war against each other".
- He propounded this "thesis" just when the world had entered a new era of what Arvind Subramanian - who became Chief Economic Adviser to the Indian government - termed "hyperglobalisation".

Between 1990 and 2008, global trade in goods soared from 15.3% to 25.2% of world GDP. Inclusive of trade in services, the increase was from 18.8% to 31.7%.

- That era formally ended in 2022, which has seen two wars.
    1. Russia's invasion of Ukraine.
    2. Geopolitical confrontation between two superpowers.
- Both have upended the assumption of "doux commerce".
- In early-October 2022, the US issued rules restricting exports of high-end semiconductor chips, and the equipment to make them, to China.
- Further, it has pressurised the Netherlands, Japan and other countries to bar their chip gear manufacturers from supplying to China.

What propelled the second golden age?

- In a hyperglobalised world, not only were wars out-of-date, but economies broadly followed the principles laid down by the late-18th/early-19th century economists Adam Smith and David Ricardo.
- What mattered was "comparative advantage". In other words, producing what they were relatively least bad at.
- Belief in comparative advantage is what also propelled the second golden age – of "hyperglobalisation" – after 1990.
- It confirmed to Ricardo's principle of each country devoting its resources "to such employments as are most beneficial to each".

Who is the chief protagonist?

- Hyperglobalisation's chief protagonist, however, was China that emerged as the "world's factory" and a "mega-trader".
- In 2013, it is estimated that China's share in world merchandise trade to have risen from 1.8% in 1990 to 11.1% in 2012.
- This happened, even as that of others fell: Germany (12% to 7.6%), the US (11.3% to 8.4%) and Japan (8.2% to 4.3%).
- Also, doux commerce led to
    1. Russia supplying close to 40% of the European Union's total natural gas consumption in 2021,
    2. Apple having its biggest iPhone factory in China's Zhengzhou,
    3. Taiwanese companies producing 65% of world's semiconductors,
    4. India grabbing a 30% share of the global IT services market, and
    5. Bangladesh exporting readymade garments valued at almost $43 billion last year.

What are the signs that shown that hyperglobalisation ended in 2022?

- Global trade peaked in 2008, just before the financial crisis and the economic slump that ensued.
- By 2020, world merchandise trade had dipped to 20.8% of GDP, and to 26.9% for both goods and services.
- But it had never come to a situation where Russia would actually wage war and

prompt countermeasures by the West.
- The greatest collateral damage is to the global trading order - From production based on comparative advantage and grains from trade, it’s each nation for itself now.

What is India doing? And, what is next?

- India is granting incentives amounting to 30-50% of project cost for semiconductor units manufacturing less-sophisticated 28-65 nm range chips that can be used in mobile phones, home appliances and cars.
- Five years ago, it may not have considered this to be worth spending taxpayer money.
- If history is any guide, rebuilding trust and restoration of world trade from the ravages of militarism does not happen overnight. And it’s unlikely to in 2023.

Reference

1. Indian Express | How this was the year that bid au revoir to hyperglobalisation

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