

# Reflections

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## Is COVID-19 the beginning of the end for globalisation and the EU?

The COVID-19 crisis has clearly shown the drawbacks of increased globalisation. We travel a lot, which contributed to the rapid spread of the virus from Asia to Europe, the US and the rest of the world. Many companies have had geographically far-flung production, making them sensitive to disruptions. Although the end of the pandemic itself is starting to be discernible, many people believe that the post-coronavirus world will not only look different but also begin to evolve in a completely different direction than we have become accustomed to. Above all, there are widespread predictions that we will see a sharp decline in globalisation, and perhaps the EU will also come to an end.



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As a result of the coronavirus pandemic, many observers predict that companies will start moving production to their respective home countries and take various steps to shorten their global value chains. Tourism – which is now undergoing a painful ordeal – will not recover either, since the fear of getting sick abroad makes people prefer to stay home. It is widely believed that COVID-19 will make common cause with two other strong anti-globalisation forces: a stronger climate change focus and protectionism. Put simply, the world is poised for a dramatic shift in direction, with far less globalisation in our future.

### What drives globalisation?

But now that we are discussing globalisation, it is interesting to consider what actually drives it. Many people would spontaneously say it is all about free trade treaties and other political agreements between countries. But in fact, the most important driver of increased globalisation is technological development and innovation. We can illustrate this by looking back at history. During the 19<sup>th</sup> century a globalisation boom occurred and world trade grew sharply. This change was connected to the invention of the steam engine and the telegraph. It suddenly became possible to communicate and move goods across long distances much faster and cheaper than before, which stimulated trade. During the 20<sup>th</sup> century, further innovations in logistics and transport mainly drove international merchandise trade, while civil aviation opened completely new potential for travel and tourism. In our century, the internet has been the big innovation that has done more than anything else to drive globalisation. With a few clicks of a computer mouse, private individuals can easily buy goods from all over the world – something that would have been totally inconceivable before the internet. And in fact we have barely opened the door to trade in services, including exchanges of thoughts and ideas. Technological development efforts will undoubtedly continue, and the strongest driver of globalisation will thus remain in place even after the coronavirus epidemic has faded away.

### 19<sup>th</sup> century



### 20<sup>th</sup> century



### 21<sup>th</sup> century



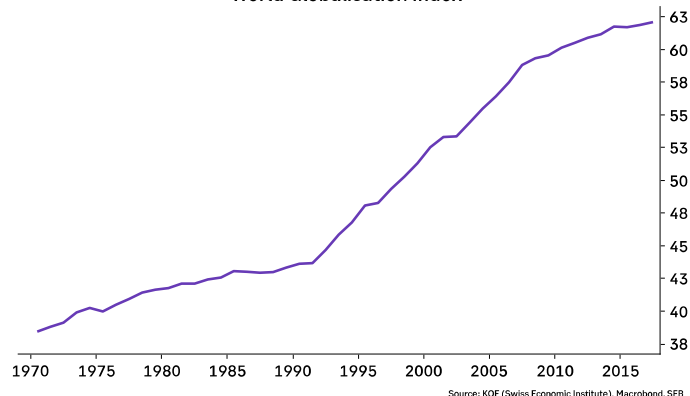
Many countries will strengthen their emergency preparedness through stockpiling and domestic production of necessary health care equipment. This is not contrary to globalisation. It should instead be regarded as a way of managing the risks that result from increased globalisation. Some economic sectors such as tourism and hospitality will have to struggle harder than others to recover, but generally speaking our clothes will continue to be made in countries like China or India as long as these are the cheapest alternatives for multinational fashion retailers like H&M and Inditex. People in all countries will continue to shop online using Amazon, Alibaba or Wish. Companies will build factories abroad as long as it is sensible from an efficiency and cost standpoint. The globalisation of retail trade will thus continue. As for services, we are still only at the beginning.

But globalisation is actually a far broader concept than trade in goods and services. Culturally and socially, the world has also undergone powerful globalisation. Just as with retailing, this has been made possible by the internet. It is difficult to imagine how the coronavirus could turn back the clock once people have become accustomed to reading online newspapers from other countries. Today YouTube has more than two billion users who watch content from all over the world, while the Idols talent show franchise now broadcasts in 150 countries.

The Swiss Economic Institute (KOF) globalisation index – which tries to look at the big picture and to include everything from economic to social and political globalisation – shows that

although globalisation has occurred at varying speeds over different periods, for at least the past half century it has never reversed the trend, not even after major economic crises.

World Globalisation Index



### Will the European Union also be a victim of COVID-19?

One non-human casualty of the novel coronavirus – some people are forecasting and others are hoping – is the European Union. They predict that closed borders and a lack of solidarity between EU member countries when it came to sharing health care equipment will be followed by unwillingness and increased tensions about helping each other financially to get out of the COVID-19 crisis. The coronavirus will be the nail in the EU's coffin, completing the process of decay that Brexit began.

There are also strong reasons to be sceptical about this type of doomsday prophecies. Historical experience is actually the exact opposite. So far, the EU has become more closely integrated – and cooperation has instead deepened – after major crises. For example, the global financial crisis of 2008-2009 and the subsequent debt crisis in southern Europe resulted in the creation of various new EU institutions aimed at improving resilience to similar crises in the future. The EU banking union, which will monitor the financial sector, as well as the European Stability Mechanism (ESM), which is intended to help member countries in financial trouble, were both established in order to prevent similar crises in the future. There are numerous indications that we will see similar developments this time around.

The new rescue fund that the EU has agreed to establish – with economically stronger countries in northern Europe helping harder-hit and financially weaker countries in southern Europe – demonstrates that the EU project is still very much alive. Although almost all countries now talk about building up their national preparedness for future pandemics in the form of stockpiles and production, when the dust has settled most of them will probably recognise the benefits of giving the EU responsibility for building up and coordinating such a pan-European emergency preparedness system. It will simply be more efficient than having each country construct its own factories for everything from face masks to ventilators. The shortages of health care materials at the beginning of the COVID-19 crisis were not the fault of the EU, but instead happened because no country had taken the threat of a pandemic seriously and had made the necessary preparations to manage it. The EU's European Centre for Disease Prevention and Control (ECDC) will probably be assigned greater responsibilities in the future, with the EU taking steps to ensure that it has enough capacity to quickly manufacture the necessary medical equipment on behalf of member countries.

To summarise, globalisation is, and has been, an almost unstoppable force. Despite its major impact on society, the coronavirus will hardly succeed in reversing this long-term trend. Globalisation will continue, the EU will also survive and we will probably emerge from the current crisis with even more European cooperation than before.