

# De-globalizing Trade in the Wake of the COVID-19: Impacts and Changes in the US-China Relation

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**Abstract.** The purpose of this paper is to explore the impact of the COVID-19 epidemic on global trade and its transformation of trade relations between the United States and China. The outbreak of the epidemic triggered a huge restructuring of the global trade system and accelerated the trend of global trade de-globalization. As the two largest economies, the trade relationship between the United States and China plays an important role in this process. This paper analyzes the causes of deglobalization, which are mainly caused by the fracture of industrial chain, trade protection and industrial upgrading. At the same time, the paper focuses on the factors that have caused the deglobalization trend in the post-COVID-19 era, such as changing trade agreements, poor cross-border investment environment, and the challenges and uncertainties brought by e-commerce. Finally, it concentrates on the changes of the US and China bilateral trade in the post-COVID-19 era. Affected by the epidemic, the bilateral relationship between these two countries has become more conflictual and focused on technological competition. Finally, the trend against globalization has led to inefficient economic development and the regionalization of trade because of the necessity of communication.

## 1 Introduction

Global trade has faced unprecedented challenges since the outbreak of the COVID-19 in early 2020. International flows of goods and services have been restricted as never before, and supply chain disruptions have led to a significant decline in the scale of global trade. At the same time, countries have begun to reassess their dependence on foreign trade, accelerating the trend of de-globalization of global trade. Under this trend, the trade relationship between the US and China faces unprecedented opportunities and challenges.

Indeed, the de-globalization has been affecting global trade since 2008, and the COVID-19 accelerates the trend towards de-globalization due to the halt in trade [1]. As this trend spreads, trade protectionism is also sweeping across the world. Hence, the COVID-19 reshape the global trade so that every country has to alter their trade modes to adapt the new trade tendency. At the same time, as one of the largest trade relationships in the world, changes in trade between the US and China have a profound impact on the global supply chain in the post-epidemic era, which in turn affects the global trade pattern and the development of the international economy. The stability of the relationship between China and the United States affects the global trade pattern, and the well-being of the people of China and the United States, and even the interests of the people of the world, are closely linked to these two great powers [2]. Therefore, changes of both countries' trade relations have a geopolitical impact that cannot be ignored. By

studying this change, trade policy makers, enterprises, and investors can formulate adaptive trade policies to cope with potential trade barriers and supply chain changes, and safeguard economic security and national interests.

The epidemic has caused immeasurable pain and loss to the world economy and trade. However, while every country is recovering, the impact of the de-globalization trend in the post epidemic era on the world economy is more worthy of investigation and deep thinking, especially the impact of de-globalization on the US-China trade relations. In fact, from the beginning of the epidemic to now, countless experts and scholars have carried out in-depth exploration of this issue from different perspectives. Meanwhile, because of the dynamic nature of international trade, there are constantly new influencing factors in the research process. Therefore, in order to make the impact of de-globalization clearer, this paper focuses on the causes and influencing factors of de-globalization based on summarizing the views from different perspectives, as well as the future direction of US-China trade relations on this basis.

## 2 Why de-globalisation take place

Indeed, the trend towards de-globalization has a long history. As globalization continues, geopolitical security, inefficiencies in transnational transport and trade protectionism have all provided impetus for de-

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globalization. When the COVID-19 cut off the global supply chain, this huge impact on the economy once again made countries rethink the need and urgency of taking the initiative in their own economies. Therefore, this section analyses the causes of de-globalization in three main areas: the severance of global supply chains, the rise of trade protectionism, and industrial upgrading.

### **2.1 The severance of global supply chains**

The supply chain disruption brought about by COVID-19 is not local, but global. This widespread disruption has led more and more countries to start changing their supply chains and trade patterns. COVID-19 is different from other epidemics in that it originated in a specific location and could spread widely, even to more than 200 countries around the world, seriously affecting the world economy and international trade [3]. Besides, many countries have strong links with China for the supply of raw materials, components and manufactured goods for export [3]. Hence, as a country that is deeply dragged down by COVID-19 and an important link in the global supply chain, China has become an important cause of paralysis in the global supply chain.

Due to the widespread paralysis of supply chains, the global supply chain is re-structuring. For China, it has increased its own productive capacity, promoted supply chain diversification and placed greater emphasis on the development of consumption in its domestic market. In the case of the United States, the government has supported its industries in an effort to reduce its trade dependence on China, while reassessing its trade policies and international trade agreements. Overall, in order to help their countries through this difficult phase of the late epidemic, countries are redirecting production to domestic markets.

### **2.2 Trade protectionism**

Protectionism is not a new term, and the start of the 2018 trade war between the US and China was the embodiment of protectionism. However, at this stage of COVID-19, the global recession, mass unemployment, and supply chain risks have resulted in governments having to resort to trade protection policies, such as tariff hikes, to protect their industries and job markets in order to address the economic crisis, which has also meant that countries have become less dependent on each other.

To counteract the economic impact of the epidemic, most countries have chosen to impose tariffs to support their industries, for example, the US and China have adjusted their tariffs on each other, while China has tightened its regulations on foreign firms in specific areas. These measures are de-globalizing world trade. In the short term, this approach protects national industries and responds to economic crises. However, in the long run, it is detrimental to the overall well-being of the world's people and to economic efficiency, especially for businesses. For example, many multinational enterprises will choose to go to countries with lower labour costs to set up branches in order to reduce costs. Others will

establish companies in countries with specialized technologies. In fact, this is not only good for these countries to develop a competitive advantage, but also a good time for the country to promote employment and develop its economy. However, de-globalization will lead to the reduction of such development opportunities [4]. Therefore, post-2018 trade protectionism has profoundly affected the market as a whole, and going forward, in response to the economic impact of the epidemic, countries will still need to think carefully about adopting trade policies rather than deepening the level of trade protection.

### **2.3 Industrial upgrading**

In response to the instability of the global economy in the aftermath of the epidemic, global trade chains have begun to reorganize, so countries devoting more resources to the reconfiguration of their supply chains. In this process, in order to gain a competitive advantage, national industries had to improve efficiency and upgrade their industries. At the same time, some countries may undertake technological innovation and digital transformation to enhance global competitiveness.

In fact, the technological development of China has threatened for the US. In recent years, China has increased its investment in high-tech fields such as telecommunications, artificial intelligence, robotics, chips and military. Although China's official stance is to pursue peaceful development, its massive investment and impressive performance in high-tech fields in recent years has forced the US to reconsider its attitude and strategy towards China [5]. During COVID-19, China's manufacturing sector developed significantly, especially in the field of medical devices and life sciences, such as the production of vaccines, respiratory machines, masks, etc. The Chinese government has been working on a number of projects in the field of medical devices and life sciences. At the same time, the United States has increased its foreign restrictions in high-tech sectors to improve its competitiveness. These initiatives have led to greater independence between countries, but on the other hand, restrictions between countries in the field of science and technology are not conducive to the advancement of science and the development of mankind.

## **3 Factors contributing to de-globalization**

International trade is a dynamic process, so in addition to some of the fundamental factors in the previous section, real-time changes in the trade environment during the epidemic deepened the process of de-globalization. Changes in the trade environment are mainly categorized into changes in trade agreements, changes in the environment for cross-border investment, and developments in digital trade.

### **3.1 Trade agreements**

After COVID-19, countries gradually realized the importance of integrated supply chains and industrial systems, and made efforts to adjust in their economic and trade relations to reduce their dependence on global supply chains.

In this process, the US response was more intense because of its large industrial system and foreign dependence. In order to reduce its external dependence and promote the repatriation and development of its own industries, the US is constantly searching for bilateral relations that are favourable in their current form. The United States has even given up on upholding the rules of the international trading system, even though some of them were established and championed by the United States [6].

Hence, many new trade agreements have been developed, such as the regional comprehensive economic partnership (RCEP), the new Korea-US Free Trade Agreement (KORUS), the United States-Mexico-Canada Agreement (USMCA), and the UK-EU trade agreement. The emergence of these trade agreements has led to a degree of de-globalization, with some industries becoming increasingly localized and regionalized. However, this also reflects that complete industrial localization is difficult to continue currently, and that globalization is still an inescapable issue in global economic development.

### 3.2 The cross-border investment environment

During the COVID-19, global supply chains broke down and countries refocused their development efforts domestically. Until now, when the epidemic is more subdued, the global economy has still remained depressed, all of which contributed to the high risk of cross-border investment and rising investor caution. At the same time, geopolitical tensions have been exacerbated by frequent trade conflicts, and some countries have increased investment and regulation in key technology areas.

For example, the United States has tightened technology export controls on China, such as Huawei's inclusion in the list of entities. The United States has also stepped up its scrutiny of Chinese investments, in particular by expanding the authority of the Committee on Foreign Investment in the United States to prevent technology transfers and improper acquisitions. Recently, the Committee on Foreign Investment in the United States (CFIUS) has had a more stringent review of Chinese direct investment in the United States, particularly in high-tech industries. As a result, this unusual strict scrutiny has brought more uncertainty to investment. This unfavourable investment environment has made many domestic and foreign investors more hesitant and even lose their confidence [7].

In this context, it may be that regionalised trade is more responsive to today's economic development, and even if it brings about a certain amount of de-globalisation, the delineation of special economic zones may give transnational investors more confidence, thus laying the foundations for the re-globalisation of trade.

### 3.3 Challenges of digital trade for international cooperation

The convenience of the digital economy, with services such as e-commerce, online platforms, digital payments, and cross-border finance facilitate international cooperation. In China, e-commerce retail density increased from 35 per cent to 50 per cent, and even during the Wuhan closure, it only declined by 5 to 11 per cent. In Southeast Asia, the Internet economies of India and Vietnam even increased by more than 40 per cent in 2020 [8]. However, as an alternative to offline trade chains, it is still a new type of development, which has partly led to the deglobalization of trade.

In the aftermath of the COVID-19, many countries implemented embargo policies, which led to a lack of development of the real economy. In this context, the digital economy became an alternative way for international trade to continue. However, as a substitute for the broken global supply chain after the epidemic, the digital economy has greatly helped the survival and development of the global supply chain, and has an important impact on the reconstruction and recovery of the global economy. However, its incomplete relevant systems and unbalanced development regions have led to the development of trade in some regions with advanced information technology, and for some regions lacking information technology, it is impossible to rely on the digital economy to promote economic development.

For example, some international organizations, such as the United Nations Conference on Trade and Development and the International Chamber of Commerce, do not have a consensus on digital trade rules. At the same time, there is a lack of active international organizers to help entrepreneurs participate in this digital trade, especially focusing on some undeveloped countries and some small and medium-sized enterprises [8].

This institutional and informational imperfection in the field of digital economy, especially e-retail, leads to e-retail can only be carried out in some relatively developed regions, which is not conducive to the recovery of the global supply chain, and even helps the development of economic regionalization and deglobalization.

## 4 The discussion of US-China trade relations

As one of the world's largest bilateral trades, the US-China trade relationship has a significant impact on the trend of de-globalization. While trade between the US and China spans the industrial chain of many transnational corporations and affects the trade development of many countries, industrial complementarities and technological exchanges between the US and China are crucial to global industrial development. Finally, the trade relationship between the US and China has an important position in global governance, and the stability of the trade relationship between the two countries is conducive to the

development of global trade rules and systems. Therefore, it is important to explore the direction of US-China trade relations.

#### **4.1 Changes in the level of bilateral trade frictions**

The degree of de-globalization is profoundly affected by the level of the bilateral trade conflict between the US and China. The US-China trade friction in the run-up to the 2018-2020 pandemic has led a number of firms and countries to reassess the risks and vulnerabilities in global supply chains. During the epidemic, some firms favoured their home markets. Until now, the US-China trade war is still ongoing, so the role of de-globalization is still shaping the global trading system. For example, the United States has increased its investment in Mexico to reduce its dependence on China. China, on the other hand, has actively pursued regional economic cooperation with international organizations in Asia, such as Singapore, South Korea and Japan.

However, governments should still recognize that the intensification or easing of trade frictions between the US and China has not completely de-globalized in the post-epidemic era. In fact, what has changed is more the direction and scope of trade, and the global economy still needs to be open and cooperative. Closure and trade protection do not lead to the long-term development of national economies, but rather to the detriment of their own interests and the well-being of their people, and even to the degradation of the global economy. According to the World Trade Organization, there was a 5.3% decline in the volume of global merchandise trade in 2020 (compared to 2015). The value of global exports in 2020 fell by 7.5% to USD 17.6 trillion. Merchandise imports saw a 7.6% decline in value to USD 17.8 trillion [9].

#### **4.2 New patterns of technological competition and cooperation in innovation**

In the post-epidemic era, the US-China trade relationship has taken a new step forward. The Biden administration has eased restrictions on certain sectors, but still maintains extremely high tax rates on most important areas, such as high technology. This also means that competition and cooperation between the US and China have become sharper and more intense in the face of the epidemic despite COVID-19 proving once again that complete trade closure and de-globalization are not conducive to economic development and reinforcing the importance of global cooperation [10].

There is intense competition between the US and China in a variety of areas and both countries focus on the autonomy to the larger extent. For example, in high-tech areas such as semiconductors, artificial intelligence, and 5G, competition and cooperation continue to be increased. This bilateral relationship with the coexisting of competition and cooperation has profoundly affected the world trade landscape, stimulating further de-

globalization, but also providing opportunities for global technological innovation and development.

## **5 Conclusion**

In short, the main purpose of this paper is to analyse the cause of the deglobalisation trend and the dynamic of the US and China in it, so as to judge whether the deglobalisation is a good trend and find a more suitable method for the development of global trade. This paper analyses the causes of deglobalization, the factors that accelerate the trend of deglobalization, and the dynamics of China and the United States in the process of deglobalization.

In general, the post-pandemic deglobalization trend is mainly caused by the severing of global supply chains and the rise of trade protectionism. At the beginning of the epidemic, countries all over the world suddenly cut off their supply chains due to epidemic prevention and control reasons, and then countries began to strengthen the development of their own supply chains, which also caused that although countries were gradually closer in the later period of the epidemic, the tightness of the supply chain could not be compared with that before the epidemic. In addition, trade protectionism, typically represented by the United States, has been affecting the world trade system. After the epidemic, in order to accelerate the recovery of domestic employment and industry, countries around the world have retaliated against each other and promoted trade protectionism.

Factors of deglobalization are then discussed in this paper. First, under the post-epidemic situation, the trade policies of various countries tend to be conservative, such as some trade agreements, which intensifies the trend of deglobalization. Second, the unsatisfactory cross-border investment environment has led investors to turn inward. Third, the immaturity of e-commerce exacerbates the de-globalization trend. As an alternative to global supply chains, the immaturity of the institutional system of e-commerce makes it impossible for some underdeveloped regions and small businesses to participate.

At last, this paper analyses the changes of US-China trade in the post-epidemic era. In the post-COVID-19 era, trade conflicts between the US and China have become more acute, but many are still necessary. At the same time, trade is gradually shifting to competition based on technological competition. In short, the deglobalization trend in the post-epidemic period was caused on the one hand by the overall economic downturn in the world, and on the other hand by the desire of all countries to profit from increased trade protectionism. Therefore, in the short term, the deglobalization trend is good for countries, especially big countries, which can better develop their own industries and raise trade taxes. However, in the long run, this leads to inefficient trade on a global scale because production cannot take advantage of global advantages. Therefore, deglobalization is not a final form of trade, but because communication is essential, it forms regional trade.

People should realize that only greater openness and cooperation is a necessary way to achieve development.

However, the analysis of deglobalization is still one-sided, and there are many factors that this article still does not take into account. For example, some East Asian countries have now started a new round of prevention and control policies, and the long standoff between Russia and Ukraine has also had a huge impact on international trade. As a result, world trade is dynamic and not treated in a fixed way. However, the most important thing is that isolation is not the most effective means to deal with the bad international economic situation, and openness and cooperation remain the themes of economic development in the 21<sup>st</sup> century.

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