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The Corona Transformation: How the pandemic slows globalization and accelerates digitalization

Our second megatrend report outlines the central effects of the Covid pandemic on the medium and long-term development of digitization and globalization. It also examines the interactions between these megatrends, which have been particularly hard hit by the crisis, and demographic change, and their impact on our economic and social system.

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The Covid pandemic is far from over and it will probably take years before all the economic and social damage is more or less repaired. However, given the severity of the economic crisis and the enormous efforts being made to overcome it, it should already be clear by now that this far-reaching event will bring about long-term changes for our economic life. From the perspective of megatrends, two developments play a special role:

- Firstly, the Covid pandemic is an additional catalyst for digitization. The use of digital technologies will continue to accelerate in the production, retail and service sectors. This will reduce the risk for companies to be exposed to immediate, sickness-related production losses and loss of sales in the event of another pandemic.
- Secondly, a shift in global value chains is to be expected, because efficiency considerations will become less important in the future and risk aspects will play a greater role in business and political decisions. One consequence of this is a greater diversification and relocation of selected economic and technological activities. The advantage: the dependence on foreign technologies, inputs and end products is reduced. The disadvantage: Specialization gains resulting from the international division of labor are reduced. Resilience has a price.

Based on these developments, the Megatrend Report identifies five central hypotheses for the future development of digitization, globalization and demographic change:

1. The question of digital sovereignty increases in importance

A unit has digital sovereignty if it can decide independently on the future shaping of dependencies in digitization. Europe's ability to make external and internal decisions and take action is in turn crucial if digital change is to be shaped socially, economically, regulatory and politically in line with European ideals and objectives. The core challenge for Europe's digital sovereignty is therefore to reduce its dependence on third parties in the field of digital technologies and business models.

2. The international division of labor is coming increasingly under pressure

Efficiency and cost minimization have so far been the decisive aspects in shaping the international division of labor. In the future, the question of supply security is likely to play an important role. Therefore, a tendency towards further diversification of value chains and increased stockpiling is to be expected. However, efficiency losses are the price to be paid for reducing dependence on supplies from the rest of the world. Moreover, the partial reshoring of production processes might also be the starting signal for a further protectionist race.

3. The importance of targeted industrial policy is increasing

China, the USA and other nations are supporting promising key industries such as electromobility, robot technology or biomedicine to a considerable extent by

providing targeted support for selected sectors or technologies. If Germany and Europe do not want to lose ground in these areas and do not want to be dependent on imports from abroad, they too will have to increase their efforts in industrial policy. This will require the development of a separate industrial policy approach within the framework of the values and social objectives of the social market economy.

4. The ability to innovate is becoming a central determinant of resilience

The intensifying big power competition between China and the United States is intensifying the competition for innovation between these two countries. Increasingly, separate spheres of technological influence are emerging in which either Chinese or American standards apply and technological developments from one of these countries dominate. The Covid crisis has further intensified this trend: It illustrates how quickly states can be cut off from foreign innovations and how valuable their own innovative capabilities are in time of crisis.

5. The continued demographic change leads to additional risks

Already in the course of the 2020s, the aging and shrinking of the working population will dampen economic growth in Germany. In addition, the fact that Germany is heading for a phase of acute shortage of skilled workers must be taken into account when relocating the production of certain goods. Finally, the room for maneuver in public finances is diminishing, so that in future it will be all the more important to distribute these "equally" between investments in the future and the guarantee of age-related security benefits.

The Covid pandemic and other developments are leading to a serious structural change in the economy and society - and will require citizens to adjust to a considerable degree. The already high demands on flanking these adjustments with social and educational policies are thus becoming even more pressing. Nevertheless, such policies are indispensable in order to avoid broad shares of the population rejecting the necessary changes.

The megatrend report "The Corona Transformation" is the second edition of our publication series, which analyzes the interactions and dependencies of the three megatrends globalization, digitization and demographic change. The first megatrend report, entitled „The Bigger Picture“ – Megatrend-Report #1 (GER), was published in 2019.

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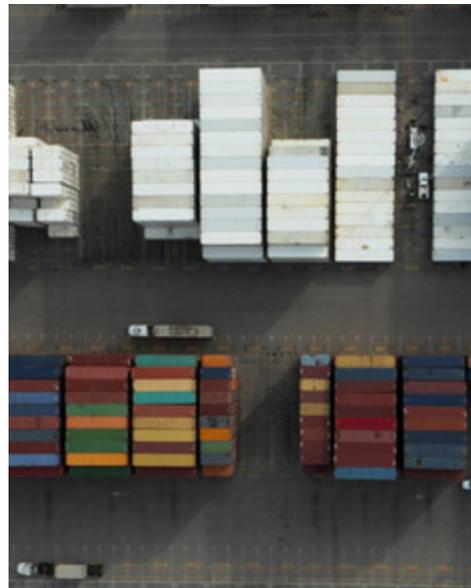
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