



Issue Brief # IB-28-2025

January 16th, 2025

Is Globalization in Retreat?

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by

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***"Globalization can be a force for good, but only if it is governed in a way that ensures fairness and equity. Without proper management, it can sow division rather than unity."*¹**

-Joseph E. Stiglitz, *"Globalization and Its Discontents"* (2002)

The world we are residing in today is highly globalized and interconnected, in every aspect ranging from politics, economics, capital, technology to products and services. The word "Globalization" refers to the interconnectedness among states which ultimately results in an interdependence. Different theorists have a different view of globalization, some view it as a step towards progress while others are skeptical towards it. The argument whether globalization is retreating or is taking a new turn is a complex one. While the traditional globalization has shifted more towards regionalism because of the failures of Western dominant system yet globalization still persists in new forms. This issue brief covers the argument, counter argument and viewpoints of different globalization theorists on whether globalization is actually decreasing.

Historical Overview:²

The world has not always been this globalized. It wasn't until the 2nd world war that modern globalization began. However, we can broadly categorize the eras of globalization into three sections:

¹ Stiglitz, Joseph E. 2002. *Globalization and Its Discontents*. W. W. Norton & Company.

² Gale. 2022. "Scholarly Articles on Globalization: History & More | Gale." Wwww.gale.com. 2022.
<https://www.gale.com/open-access/globalization>.

1. Pre-World War I Era:

Since the formation of nation states after the treaty of Westphalia in 1694, states have been the utmost sovereign of their territories. However, from 15th- 17th century European superpowers colonized most of the Asia and Africa to exploit their resources for own benefit. They were later joined in by The Great Britain after the industrial Revolution. Industrial Revolution paved the way for Britain's manufacturing and formation of transportation which boosted the International Trade. This system went on until the World War I broke out in 1914.

2. Inter-War Period (1919- 1938):

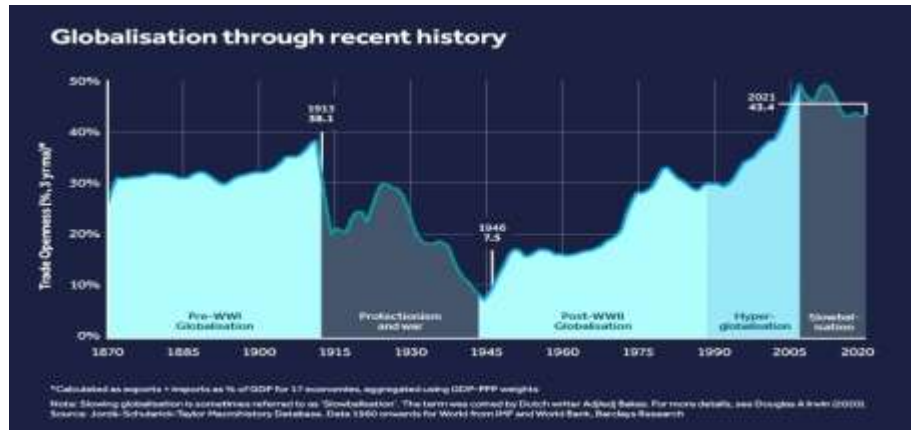
World War I ended with the formation of treaty of Versailles, that promoted co-operation among states but due to the heavy restrictions it imposed on Germany. Germany had to move towards "isolationist" policies. Followed by the stock market crash in 1929 that led to the "Great Depression", states had to prioritize domestic economy over international co-operation which led to the rise of economic nationalism. This period culminated in the World War II.

3. Post-World War II era:

Post World War II era saw the rise of modern globalization. Under the "Bretton Woods System" states collaborated to rebuild the war torn Europe in 1944, which then led to the formation of International Monetary Fund (IMF) and World Bank. Followed by the formation of "General Agreement on Tariffs and Trade (GATT) in 1947 to promote international trade by reducing tariffs and other trade barriers. However, the beginning of Cold War in 1947 saw a division of alliances between the Eastern and Western block. Western block formed its own multilateral blocs (NATO) to promote its economic system "capitalism" and the Eastern blocked formed its own alliances "WARSAW Pact" to spread the communist ideology. The end of cold war resulted in the disintegration of USSR and victory of capitalist System and liberal principles. Cooperation, interconnectedness are at the core of liberal ideology hence the globalization saw a boost

4. Post Cold War II and Contemporary Era:

It didn't take long for the Western dominant system to fall back because of its vulnerabilities. After the 2000s, the world took a shift towards "de-globalization" because of events such as the global financial crisis of 2008, breakout of Covid 19-pandemic that disrupted the global supply chain in 2020 and the Russia- Ukraine war in 2022 that disrupted global energy. These events portrayed the inability of American's hegemony to deal with the issues faced by the international community.

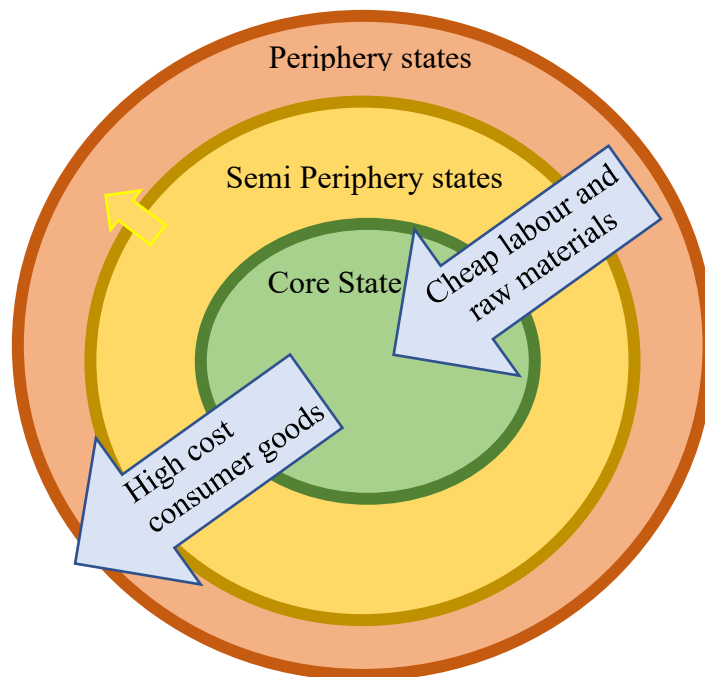


The image shows that globalization has been at a rise after the WWII, however it has recently entered into an era of slow-balisation (shift towards deglobalization).

Globalization and its Impact on Developing States:

The globalization’s impact on the developing states is best understood with the help of “world system theory” by Immanuel Wallerstein.

1. World System Theory:



³2024. Weforum.org. 2024. <https://www.weforum.org/stories/2023/01/deglobalisation-what-you-need-to-know-wef23/>.

The World System Theory divides the world into three hierarchical categories core, semi-periphery and periphery respectively.

a. Core Countries:

These are the highly industrialized and economically dominant nations. They have the power to maintain pol-eco power and set global prices.

b. Semi-Periphery Countries:

These states act as a buffer zone between the core and periphery. They are not as advanced as core but are more developed than peripheral nations. They act as intermediaries in global trade i.e. a site for assembly and industrial manufacturing.

c. Periphery Countries:

These are the economically disadvantaged countries that are dependent on core for capital. Periphery states often specialize in extraction of raw materials and low-wage labor.

d. Working of the World-System Theory:

Core states are at the center of world system as they control the global financial system. They extract resources and benefit from cheaper labor from peripheral states. Then are the semi-periphery states that experience upward mobility but they lack the global economic and political power that is controlled by the core states. At the end are the peripheral states, that are exploited by the core states. Peripheral states are trapped in the cycle of economic dependency, unable to diversify its economy. However according to Wallerstein, over the time countries can shift position in the global hierarchy, particularly semi-peripheral states through industrialization but this shift occurs at the expense of peripheral states.⁴

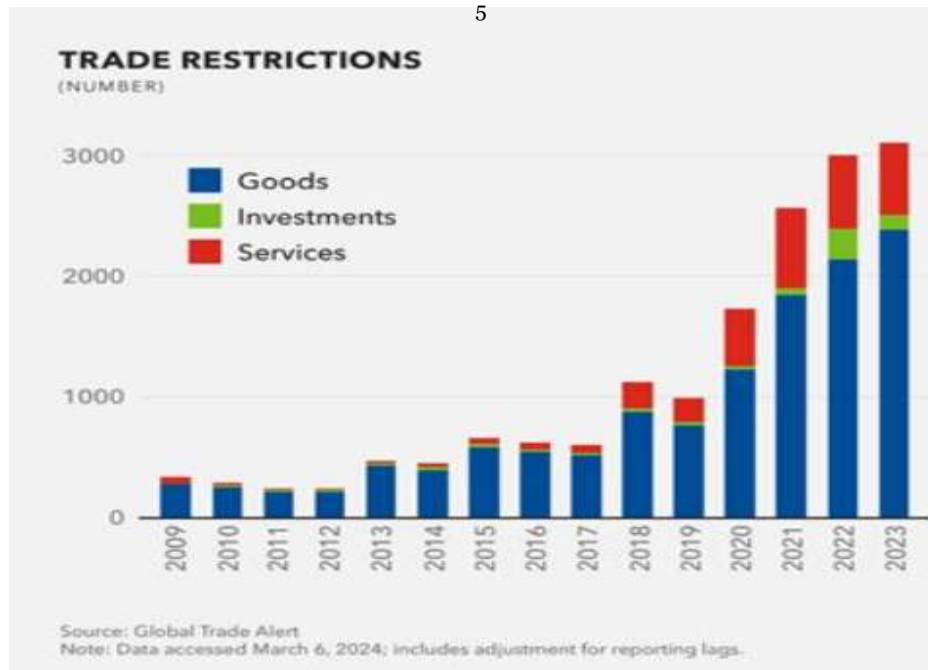
e. Globalization's Impact on the Developing Nations through the Lens of World System Theory:

Globalization deepens the existing inequalities as core states exploit the resources of peripheral (developing states). Challenged faced by the developing nations such as exploitation, underdevelopment and economic dependency under a globalized economy, hinder their progress and result in an uneven distribution of economic power

⁴ Chirot, Daniel. 2015. "World-Systems Theory - an Overview | ScienceDirect Topics." [Www.sciencedirect.com](https://www.sciencedirect.com/topics/social-sciences/world-systems-theory). 2015. <https://www.sciencedirect.com/topics/social-sciences/world-systems-theory>.

Is Globalization in Retreat?

Globalization has been the cornerstone of modern interconnectedness. However, the recent global trends such as trade wars, protectionist policies supply chain disruptions suggests a potential reversal. Some of the indicators that show a decline in globalization are mentioned herewith:



The graph represents the restrictions on goods, investments and services throughout the year. The trade restrictions have seen an increase after the global financial crisis of 2008 and a rapid surge particularly on the goods since the covid-19 pandemic in 2019

- Trade Barriers
- National Industrial Policies
- Supply Chain Reshoring
- Foreign Direct Investment
- Selective Trade Agreements

⁵ Gopinath, Gita. 2024. "Speech: Geopolitics and Its Impact on Global Trade and the Dollar." IMF. May 7, 2024. <https://www.imf.org/en/News/Articles/2024/05/07/sp-geopolitics-impact-global-trade-and-dollar-gita-gopinath>.

1. Trade Barriers and Protectionism:

Trade barriers refer to imposing tariffs and non-tariff barriers on foreign imports to strengthen the local market and make it harder for consumers to access/ buy foreign products.

2. Tariff Barriers:

a. Policies:

Several states have adopted policies that show a decline in reliance on global market, some of them are:

- **USA and China Trade War (2018):** On May 10, 2019, the USA increased import tariffs from 10 to 25% on US\$200bn of Chinese good including electronics and textiles. This trade barrier led to a prolong trade war between China and USA that is still going on.⁶
- **India's "Atmanibhar Bharat" Policy 2020:** under this policy, the Indian governments sought to impose high tariffs on on imports while taking initiatives to promote the domestic market and become self reliant

3. Non- Tariff Barriers:

Alongside the tariff barriers, non- tariff restrictions have also been imposed using different methods such as sanitary measures, technical transaction barriers, quotas, restrictive licenses etc.⁷

4. National Industrial Policy:⁸

After imposing the trade barriers, states adopt a national industrial policy to boost the local market. Under this policy, the state aims to be "self- reliant" and provide subsidies and incentives to boost the local market.

a. Policies:

- **Made in China "2025":** The MIC initiative aims to protect China's position as a global powerhouse in high-tech industries. It will help China in reducing its dependence on foreign technologies and create Chinese companies to compete both domestically and globally.⁹

⁶ Kim, Hag-Min, Ping Li, and Yea Rim Lee. 2020. "Observations of Deglobalization against Globalization and Impacts on Global Business." *International Trade, Politics and Development* 4 (2): 83–103. <https://doi.org/10.1108/itpd-05-2020-0067>.

⁷ Kim, Hag-Min, Ping Li, and Yea Rim Lee. 2020. "Observations of Deglobalization against Globalization and Impacts on Global Business." *International Trade, Politics and Development* 4 (2): 83–103. <https://doi.org/10.1108/itpd-05-2020-0067>.

⁸ "The Evolution of Deglobalization." 2024. S&P Global. 2024. <https://www.spglobal.com/en/research-insights/market-insights/geopolitical-risk/evolution-of-deglobalization>.

⁹ ISDP. 2018. "Made in China 2025 - Modernizing China's Industrial Capability." Institute for Security and Development Policy. June 2018. <https://www.isdp.eu/publication/made-china-2025/>.

5. Supply Chain Reshoring:¹⁰

After the world experienced global supply chain disruptions especially due to the covid-19, states have adopted an approach of supply chain reshoring and nearshoring, to reduce their dependence on vast suppliers and move their markets back to or near the home state.

a. Policy:

- On April 7 2020, Japanese Ministry of Finance released a supplementary Budget FY2020, under which 2\$ billion were allocated to companies to re-shore supply chains back to Japan and 241\$ Million to move production to other South East Asian states.¹¹

6. Limitations on Foreign Direct Investments:

Foreign direct Investment has its pros and cons. As it stimulates its economic development, it also hinders domestic investments and creates a fear of control by foreign firms over domestic ones.¹² States are now increasing limitations on foreign investments to prevent control over strategic industries.

a. Policy:

- Australia is one of the many states that has tightened foreign investment rules, mainly for real estate. Requiring foreign buyers to seek government approval under its policy of “Restrictions on FDI in Agriculture and Real Estate”¹³

7. Bilateral Agreements and Regionalism:

After the Cold War, states shifted their focus on regionalism to address common challenge. Though it wasn't a threat back then, but a hike in regional agreements have fragmented the global interconnectedness.

a. Example:

- Some recent examples of regionalism or multilateral agreements over global ones are; Belt and Road Initiative (BRI), Indo-Pacific Agreement, Regional Comprehensive Economic Partnership (RCEP), Comprehensive and Progressive Agreements for Trans-Pacific Partnership (CPTPP)

¹⁰ “The Evolution of Deglobalization.” 2024. S&P Global. 2024. <https://www.spglobal.com/en/research-insights/market-insights/geopolitical-risk/evolution-of-deglobalization>.

¹¹ “Supply Chains: Japan.” n.d. Asia Society. <https://asiasociety.org/policy-institute/supply-chains-shifting-indo-pacific/japan>.

¹² One, Angel. n.d. “FDI Advantages and Disadvantages | Angel One (Angel Broking).” Angel One. <https://www.angelone.in/knowledge-center/share-market/advantages-of-fdi>.

¹³ Treasury, Australian Government the. n.d. Review of *Foreign Investment*. <https://Foreigninvestment.gov.au/Sites/Foreigninvestment.gov.au/Files/2024-04/Australias-Foreign-Investment-Policy.pdf>.

Counterargument “Is Globalization Still Resilient?”

The era of growing globalization from the beginning of 1960 till the Global Financial Crisis in 2006-2007 reflected a positive-sum belief in globalization. However, Globalization led to inequalities within the nations due to which states had to adopt nationalistic and protectionist policies. Economic interconnectedness has now taken new forms due to technological advancements and is being re-aligned along the and regional and geographical lines.¹⁴

In the rise of protectionist and nationalistic sentiments, where weakness of the existing American hegemony are exposed, states are working to improve their national economy and counter issues relevant to poverty and unemployment. Globalization or “cooperation”, “interconnectivity” are the core concept of Western ideology “liberalism”, which is now facing a reshaping. While traditional globalization is slowing down, globalization has now taken new forms i.e. digital globalization that is reshaping the connectivity and innovation that transcends borders.

1. Financial Globalization:

Financial globalization has reshaped the world economy, bringing together financial markets across the world. It allows the capital flow to move around the world without any restraint. It encourages the investment between countries through capital flows, making it easier for businesses to invest outside their own borders, promoting trade and exchanges while fostering integration. Financial globalization is made more convenient with technological advancements such as mobile payment apps and online banking.¹⁵

2. Climate Change and Sustainable Development:

Extreme weather events and climate-related disruptions are increasingly impacting international business, trade and transportation. Policy makers, businesses throughout the globe are actively working together to tackle the disastrous outcomes of climate change and construct more resilient systems.¹⁶

a. Example:

- **The Paris Agreement 2015**

¹⁴ Tyson, Laura D’Andrea, and Kellee Tsai. 2024. “Globalization Isn’t Finished – It Can Unlock New Growth and Beat the Climate Crisis.” World Economic Forum. October 15, 2024.

<https://www.weforum.org/stories/2024/10/globalization-climate-crisis-growth-economy/>.

¹⁵ JC. 2023. “Financial Globalization Examples: Benefits and Effects.” Globalization of Markets. June 19, 2023.

https://www.globalizationofmarkets.com/financial-globalization-examples-benefits-and-effects#The_Free_Flow_of_Capital_Across_Borders.

¹⁶ Baldwin, Richard. 2023. “Globalization in 2024: The Clouds Are Clearing - I by IMD.” I by IMD. December 30, 2023. <https://www.imd.org/ibyimd/2024-trends/globalization-in-2024-the-clouds-are-clearing/>.

Paris Agreement is an international accord endorsed by 196 states to combat the climate change together. It aims to hold the global average temperature below 2C and limit temperature increase to 1.5C above at pre-industrial levels.¹⁷

3. Digitalization and Technology Sharing:

Digital platforms are central to fostering globalization by enabling wider participation in the global market. It facilitates cross-border e-commerce, allowing businesses to reach global markets. Alibaba and amazon are its prime examples. 30% of consumers of small businesses on Alibaba are from other countries.¹⁸ Other advancements such as 5G, AI help streamline business operations across borders. Digital flows i.e. data sharing, also supports trade in services. About 50% of global services trade are now digital.¹⁹ Technology has broken down the traditional barriers to international trade.

Conclusion:

Throughout the human history, integration has increased. Beginning from integration between local powers to nation states, regional political entities and multilateral international organizations. The controversy of whether globalization is reversing is complicated. On one hand, the forces of globalization are still shaping the economies and societies. On the other hand, deglobalization means increasing opposition to unconditional globalization. From a pro-globalization point of view, ability of global supply chains to remain operational during life threatening events like covid-19 and Russia- Ukraine War and crucial role of global institutions through all these challenges make it clear that globalization is irreversible because technological and economical integration make it unrealistic in todays world. On the other hand, the advocates of deglobalization like to refer to trade wars, Brexit and revival of economic nationalism as indicative of the trend towards deglobalization. However, the transformationalists argue that there is no turn back on globalization but a transformation on the way. Globalization itself is not linear or homogeneous in nature; it follows certain paths.

Thus, instead of the decline, globalization can change from universal interdependence, to selective or regional cooperation. As once famously quoted by John Maynard Keynes it is:

¹⁷ UNFCCC. 2015. "The Paris Agreement." United Nations Climate Change. United Nations. 2015. <https://unfccc.int/process-and-meetings/the-paris-agreement>.

¹⁸ Davis, Nicholas, Derek O'Halloran, and World Economic Forum. 2018. "The Fourth Industrial Revolution Is Driving Globalization 4.0." World Economic Forum. November 8, 2018. <https://www.weforum.org/stories/2018/11/the-fourth-industrial-revolution-is-driving-a-new-phase-of-globalization/>.

¹⁹ "Exploding Digital Flows in a Deeply Connected World | McKinsey." n.d. Wwww.mckinsey.com. <https://www.mckinsey.com/featured-insights/digital-disruption/exploding-digital-flows-in-a-deeply-connected-world>.

“The difficulty lies not so much in developing new ideas as in escaping from old ones.”²⁰

Superficially, the future of globalization is not simply deglobalization’s opposite, and not the trans-global economy’s continuation without restraint but a fine balance that acknowledges the necessity of interconnectedness while still respecting governments’ sovereign rights.

²⁰ “The Difficulty Lies Not so Much in Developing New Ideas as in Escaping from Old Ones - John Maynard Keynes.” 2019. Dr. Gary Fox. April 29, 2019. <https://www.garyfox.co/quote/the-difficulty-lies-not-so-much-in-developing-new-ideas-as-in-escaping-from-old-ones-john-maynard-keynes/>.