

CURRENT HISTORY

January 2023

“Even when the forces of deglobalization are present, parallel forces of globalization, staggered and truncated, are at work in the world system.”

The Specter of Deglobalization

T. V. PAUL

Rising nationalism and protectionism, territorial aggrandizement by Russia and China, and the return of Cold War tensions in new forms have prompted predictions that the intensified globalization of the post–Cold War era is coming to an end, beset by atavistic forces. Historically, patterns of “two steps forward, one step back” (or vice versa) have often produced geopolitical convulsions, preceded by domestic conflicts cleverly used by political leaders who engineer social revolutions and wage war on their neighbors. But the world order needs to deteriorate much further, as it did in the 1930s, before countries will jettison globalization altogether.

Although the patterns we see today show many tendencies toward deglobalization, the globalization process has not yet completely broken down. Parallel trends in this ongoing process will continue, and a new form of “truncated globalization” may be emerging even amid the backlash under way in some regions. The deterioration of global market forces could produce more state regulation and control, in a reaction not unlike Austro-Hungarian economist Karl Polanyi’s concept of “double movements,” whereby the rise of the power of markets prompted demands for greater social protection.

No country can confront contemporary global and national challenges single-handedly. States are taking steps to burnish their nationalist credentials, often in the form of economic protectionism and national industrial production, particularly in the high-tech sector. But they are also promoting globalization in one way or another. The capacity of anti-globalization forces and actors to

fundamentally upset the globalization process may be overstated.

Globalization is a multilayered process in which economic, technological, social, and political changes lead to the intensification of relations among states and societies, with greater integration across borders. The most significant aspect of this process is the expansion of economic activities beyond national borders as companies spread their operations worldwide, generating manifold growth in global trade and investment. Increased labor mobility and technological diffusion were key manifestations of the intensified globalization that occurred in the aftermath of the Cold War.

Starting in the 1980s, and especially since the early 1990s, the neoliberal ideal of free markets and the associated policy prescriptions known as the “Washington Consensus” became the mantra of many countries. In the globalized world, states’ ability to manage and regulate their economies declined as corporations and other nonstate actors gained more clout. The social dimensions of globalization promoted the notion of global citizenship, while political globalization has resulted in the spread of democracy to all parts of the world. New technologies, especially in the information domain, link corporations, people, and societies in unprecedented ways, cutting across national boundaries.

Economic globalization increased the wealth of many countries, especially China and India. It produced a growing middle class in these and many other lower-income nations, adding momentum to globalization with new consumers. It also helped to stabilize inflation in advanced countries. As domestic production costs increased, offshore facilities offered cheaper goods to meet growing consumer demand.

T. V. PAUL is a professor of international relations at McGill University and founding director of the Global Research Network on Peaceful Change.

Deglobalization is the reverse process. It leads to diminished interaction and integration of national economies. It also brings a reassertion of nationalist policies among states, manifested in increased economic and technological protectionism and cultural atavism.

PROGRESS REVERSED?

Augmented globalization was facilitated by the United States' near-unipolar ascendancy during the first two decades of the post-Cold War era. It also reflected the strengthening of the liberal international order, characterized by three core elements: growing economic interdependence, an increasing role for international institutions, and widening democratic space. But recent trends have reversed progress in all three elements. This has raised fears of deglobalization in many quarters, especially among business leaders.

The United States itself has been retrenching and taking nationalist positions, repudiating the globalist policies it once upheld. Increasing protectionism and tariff wars, started by the Trump administration and continued by President Joe Biden, show the rising influence of anti-global forces in Washington. Two recently passed bills, the United States Innovation and Competition Act of 2021 and the America Competes Act of 2022, are intended to boost internal production capabilities and reduce reliance on China, particularly in high-tech fields such as semiconductors, artificial intelligence, quantum computing, biotechnology, and renewable energy development. In October 2022, the Biden administration also imposed export controls to choke off China's access to advanced semiconductor technology.

In geopolitical terms, the relative decline of the United States and the rise of China, as well as the aggressive reassertion of Russian power under Vladimir Putin, have brought fears of a new Cold War dividing the world once again. Some warn that these trends will result in a further reduction in interactions among states, with allies preferred as partners in trade and investment while adversaries are restricted or shunned. This new geopolitical competition, with intense jockeying over great power spheres of influence, is characterized by both hard and soft balancing coalitions. Hard balancing relies on military alliances and arms buildups, whereas

soft balancing mechanisms include restraining a threatening power through international and regional institutions and economic statecraft such as sanctions.

The process of deglobalization has intensified since the global financial crisis of 2008–9 with the protectionist policies adopted in its wake by the United States and other countries. Although concerted efforts by many countries, including the rising powers in the so-called BRICS grouping of five major emerging economies—Brazil, Russia, India, China, and South Africa—helped to dissipate the financial crisis, the trend line has been one of retrenchment by governments and the near collapse of global trade negotiations.

The financial crisis was just one of a series of global crises that were aggravated by the failure of states to respond effectively, adding to skepticism about globalization and its benefits in recent years. The biggest challenge has been the COVID-19 pandemic, which engulfed every corner of the world in 2020 and has continued since with the emergence of different variants of the virus. Increased

global interconnectivity, largely via growing air travel, spread the virus within months after it was first detected in Wuhan, China.

Though it has caused millions of deaths, the pandemic has been contained to an extent by the quick discovery of vaccines and their availability across the world on a staggered basis. But supply chain disruptions partially caused by pandemic restrictions have produced high levels of inflation; the cost of living has risen in all countries, especially in the West. In the global South, millions who were brought out of poverty, partially due to the benefits of globalization, have now fallen back to lower living standards.

Meanwhile, democratic backsliding has occurred worldwide, challenging the liberal order's political component. According to the 2022 *Freedom in the World* report issued by the US nongovernmental organization Freedom House, authoritarianism and other illiberal forces have been ascendent during the past 16 years; today only 20 percent of the world's population lives in fully free countries, with 41 percent in "partly free" and 38 percent in "not free" countries. The annual survey rates countries based on criteria such as self-government, human rights protection, and equality under the law.

*Globalization is not
a linear process.*

Even established democracies have witnessed the rise of populist leaders and movements that thrive on illiberal policies and nationalist rhetoric. The United States experienced this most vividly with the 2016 election of Donald Trump as president and the perpetuation of Trumpism by the Republican Party, despite revelations about his role in encouraging the January 6, 2021, riots at the US Capitol after he refused to accept his defeat in the 2020 election.

Other countries, such as Russia, India, Turkey, Hungary, and Brazil, have elected or reelected populist or authoritarian leaders, all of whom have employed nationalist rhetoric based on ethnic or racial majoritarianism. Extreme right-wing parties have increased their share of the vote in many European countries, including Germany, France, Sweden, and Italy, where a far right party placed first in September 2022 elections and heads the new government. This raises the risk of these countries tilting into illiberalism and losing their liberal-democratic credentials, weakening the European Union in the process.

TRADE TURBULENCE

While a certain level of retrenchment in globalization and its key components is apparent, many other trends suggest that the reverse is happening. The economic contraction in the first part of the pandemic was followed by an upsurge in global trade: after declining, the trade-to-GDP ratio is now increasing in many export-driven economies. In the third quarter of 2022, the challenge to supply chains continued; growing inflationary pressures led to sharp interest rate hikes by central banks. Yet many see the solution to the inflation problem not in more protectionism, but in strengthening the production base in parts of the world with lower labor costs. The Biden administration even lifted some of the tariffs that Trump had imposed on China, after initially retaining them.

Trump-era trade policies—including promotion of inward foreign direct investment (FDI), local content requirements for government procurement, and domestic production capabilities for critical technologies—have had only limited impact. Some such policies have continued under Biden, but there is a growing realization that domestic production is not sufficient to meet the growing demands of the population or facilitate cost containment. Protectionism as a policy to boost competitiveness also has limitations:

corporations need export markets and global collaboration to maintain their lead in ever-changing tech industries.

Earlier phases of globalization were led by Western multinationals, but companies from China and elsewhere have increasingly engaged in global expansion. Some 133 Chinese companies are listed in the Fortune Global 500, exceeding the number of American companies, though Western companies score much higher than the average Chinese company in the Transnationality Index. Political challenges at home and abroad, as well as particular management cultures, may explain why more Chinese companies have not become fully multinational, despite efforts to do so.

China has benefited from globalization and from expanded ties with the West and the rest of the world. It has also been a contributor to globalization, despite its recent restrictive policies in various areas such as the cross-border flow of capital, goods, and migrants. The supply chain disruptions caused by Chinese COVID-19 lockdowns have generated pressure in some countries for renationalizing companies. But products, especially consumer goods and industrial components, can no longer be produced solely in any one nation's own manufacturing facilities without massive price increases.

Despite some major hiccups, there is no evidence that China has lost its supply chain leadership role for good, even though other countries, including Vietnam, Mexico, and India, have poached some of the businesses. It may take several years to see the extent of the shift of global production facilities out of China and judge whether that portends the end of globalization as we know it—or just re-globalization or truncated globalization in the economic and high-tech spheres.

In 2020–21, global trade underwent first a decline and then some resurgence, including an increase in trade with China. FDI has also been picking up momentum. According to the United Nations Conference on Trade and Development, global trade totaled \$28.5 trillion in 2021, an increase of over 25 percent from 2020, and up 13 percent from 2019. Global FDI flows sharply rebounded from \$929 billion in 2020 to \$1.65 trillion in 2021, a 77 percent rise.

These numbers show that economic globalization is here to stay, but its form and content might have been altered to some extent. Increasing regionalization in trade and investment has emerged at a time when global trade talks

shepherded by the World Trade Organization are showing little progress. Beijing's Belt and Road Initiative has created dependency relationships between China and some weak states. But however debilitating the effect of the debt burden on weaker participants may be, the additional infrastructure projects, and competing ones built by Western interests, in fact might help extend economic globalization by opening new markets, especially in Africa and Central Asia.

The war in Ukraine has had short-term impacts on global growth and poverty reduction. According to the World Bank, both global trade and the GDP growth rates of low-income countries will be reduced by 1 percent in 2022–23 as a result of the war, while total global GDP will be cut by 0.75 percent. The long-term impact will depend on how long the war continues and on whether governments, especially in Europe, will be able to implement effective mitigating policies, most urgently in response to energy supply disruptions. Geopolitical convulsions of this nature, if confined to a specific region, can have more short-term than long-term impacts since countries typically recover in subsequent years, as happened in Europe and East Asia in the post–World War II era.

India has been the second-biggest beneficiary of globalization, particularly in terms of GDP growth. Prime Minister Narendra Modi has attempted to achieve *Atmanirbhar* (self-reliance) through “Make in India” industrial policies, while pursuing a Hindu nationalist agenda at home. Yet India's trade has increased with a number of countries with which it has struck bilateral trade deals, including the United States.

Regional trading blocs are boosting globalization. The Asia-Pacific region is seeing more trade between China and its regional neighbors since the height of the pandemic. The 15-nation Regional Comprehensive Economic Partnership, which took effect in January 2022, and the 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership, launched in 2018, are designed to reduce tariffs, liberalize trade in services, protect investors and intellectual property, and promote better labor and environmental standards. These agreements are likely to accelerate member states' growth and advance regional trade and investment in Asia even further, even though the United States has not joined either of them.

Although opposition to illegal migration remains strong, the globalized workforce is still propelling immigration to advanced countries. Whereas the United States has imposed some restrictions on foreign workers and students settling in the country, states such as Canada have increased their immigration and foreign student intake. Decreases in population growth and shortages of skilled labor are pushing many Western countries to their accept more migrants, partly to address the needs of businesses. Due to domestic electoral pressures, a form of truncated globalization is likely to occur in migration patterns, especially to some of the advanced countries.

CONFRONTING THE WEST

In recent years, several noneconomic avenues for globalization—particularly in the social and political spheres—have witnessed retrenchment. The most arresting development is the global trend toward democratic backsliding. Traditional democracies are implementing illiberal policies, often aimed at minorities and migrants.

Yet parallel trends exist: social movements in many countries are demanding better-quality democracies. The 2022 Freedom House report showed that there is strong demand for rights in

many countries, along with some successes in advancing democratic reforms in South America and Africa. But that is not likely to become a global trend without a major push by supporters of democracy and freedom.

The Russian invasion of Ukraine, launched in February 2022, has brought down a new Iron Curtain. Western countries immediately imposed sanctions on Russia. But the fact that Russia's economy is not especially globalized, except in oil, gas, and weapons exports, indicates that the constraints on militarism that interdependence can impose on globalized states may be missing in this case.

Expansionist efforts by a more globalized China, meanwhile, are creating potential flashpoints in Taiwan, in the South China Sea, and along the India–China border. But escalation of those conflicts may be constrained by China's greater economic interdependence in comparison with Russia. Restrictive policies implemented by Xi Jinping's regime have depressed Chinese economic growth and curtailed the limited freedoms

*The United States itself has
been retrenching.*

that Chinese citizens had gained since the reforms of the Deng Xiaoping era. Hong Kong has lost its limited autonomy as Beijing has tightened its grip on the special administrative region and removed many of the constitutional and political liberties that its residents had enjoyed.

Nonetheless, China has a great interest in the continuation of high levels of global trade, of which it will be the chief beneficiary as its geopolitical ambitions increase. Even when offshore production centers are opened in competing countries, China is likely to continue promoting economic globalization—though more on its own terms than before. As for the Russia–China military alignment, it is not yet clear whether it has teeth. Both nations have reasons not to form an active hard-balancing coalition. They seem to agree on the virtues of authoritarianism and share a desire to overthrow the Western-led international order, but they differ on how to do it. Each harbors suspicions of the other's geopolitical ambitions.

Among all factors, increased unpredictability in great power relations will have the most debilitating effect on globalization. Geopolitical convulsions could further accentuate deglobalization—for example, if Russia expands its aggressive policies toward other former Soviet republics and China follows suit with an attack on Taiwan. But none of this is inevitable. Defensive and deterrent capabilities prevent outright conquest in most situations, even though “salami slicing” tactics of more incremental territorial aggression could continue. China may well be restrained by the forces globalization has unleashed, particularly the prospect of economic decline if Western markets are closed to Beijing in the event of a protracted war.

International institutions, the third pillar of the liberal peace, have declined in performance. The UN Security Council has been moribund in major security crises. But the EU and NATO have made efforts to strengthen themselves in response to the Russian invasion of Ukraine and possible further threats to Europe. And increased international cooperation has been visible in global health and other areas, such as global warming.

BACKLASH AGAINST NEOLIBERALISM

In a boomerang effect, the trend toward deglobalization is partially caused by a backlash against liberal policies, especially the neoliberal agendas that were actively supported by Washington and key international lending institutions. Though neoliberal policies have spurred overall economic

growth in some countries, they have accentuated inequalities to an unprecedented level, creating massive dislocations for the working class.

In 2020, the top 1 percent of the world population accounted for over 46 percent of global wealth, whereas the poor and the lower middle class have seen relatively marginal improvements in their economic fortunes. In countries like China and India, globalization has lifted millions from poverty. But many have fallen back during the pandemic, with unemployment remaining high.

Intensified globalization has helped to increase popular expectations in rising powers, but class divisions have generated opportunities for savvy politicians to invoke ethnic and racial varieties of nationalism to build support for illiberal policies. In previous eras, working-class solidarity produced social revolutions, but in today's world, other identities, including race, are becoming more prominent. Illiberal politicians have sought to suppress the political and economic rights of minorities whose presence they find threatening to their majoritarian agendas.

Neoliberal policies have also diminished the reach of the state, weakening the protective role it once played. Without welfare programs, the lower and middle classes suffer most, further threatening the security and integrity of fragile states. In some cases—an extreme example is Sri Lanka, where an elected government was toppled in the summer of 2022 as a result of an economic collapse—the weaker sectors of society have none of the cushioning that was once provided by the state in times of crisis.

At the global level, a lack of leadership is clearly visible in a series of issues, such as finding solutions to geopolitical convulsions, climate change, and global health challenges, particularly those caused by the pandemic. Defenders of democracy are scarce; the United States itself is faltering in democratic rankings, making its rhetoric less credible around the world. Democracy previously spread to different countries partly due to supportive policies of the United States and the EU countries. The weakening of its own democratic credentials has undercut America's leadership role in this area.

In previous eras of crisis, the liberal world saw US presidents such as Franklin Roosevelt, Lyndon Johnson, Bill Clinton, Barack Obama, and even Richard Nixon taking leadership roles. During the 2008 financial crisis, the BRICS countries showed much leadership in helping restore global

economic growth, in tandem with easy money policies adopted by Western central banks.

The rise of authoritarian China as a potential model has also challenged democracy, but few other countries have actually followed the Chinese example. Even populist leaders have not fully abandoned democracy, but rather have tinkered with liberal ideals such as minority rights. Expanding membership and tightening relations among the G-7 and NATO may be dual effects of globalization and geopolitical tensions in the years to come, creating a more truncated globalization model. These patterns need not last forever, however. Democratic backsliding could fuel another series of pro-democracy movements in authoritarian states, and social forces could succeed in restoring some of the democratic achievements of past decades.

Despite the nationalist and protectionist policies of states, multinational corporations have an interest in continuing globalization. Many of them will find that domestic markets and internal labor and production facilities are not sufficient to support their survival and expansion. Global technology diffusion, especially among national partners and multinational corporations, is likely to continue. Although political elites are failing to cooperate, multinationals have found ways to shift their operational bases from one country to another and overcome some of the constraints imposed by protectionist policies.

PARALLEL FORCES

In 2022, global travel increased dramatically as pandemic-driven restrictions were relaxed in many countries. People around the world with resources are likely to keep boosting travel and connectivity among countries, even though this

may mean quicker spread of diseases like COVID-19. The relaxation of travel restrictions in countries such as the United States, Canada, Australia, New Zealand, and Japan occurred as a result of the realization that closing national borders cannot stop disease. Vaccination diffusion to different parts of the poorer world was slow, but it did occur, and there has been a growing awareness of the global nature of the challenge presented by the pandemic.

Even when the forces of deglobalization are present, parallel forces of globalization, staggered and truncated, are at work in the world system. Major geopolitical crises and substantial setbacks involving global health and climate change can upset progress. But historically a pattern of “two steps forward, one step back” has prevailed, though intermittently the process has been reversed or arrested.

There is definitely not a linear progression toward unimpeded globalization, but rather a curvilinear pattern—marked by ups and downs, yet persisting. Even countries that adopt deglobalization policies may have no choice but to revert to globalization. That has been evident in the supply chain crisis and the unwillingness of countries to go fully national.

Intermittent victories by authoritarian and populist forces are possible in this period of uncertainty and change. But democratic and progressive forces could reassert themselves globally once again, given that populists have rarely offered sustainable solutions for the national problems they face. This could bring violence and further crises, which will need to be managed and contained. But globalization is here to stay, however truncated it may become. ■