

Special Feature C

Globalisation is Not Dying, It's Just Changing

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1 Introduction

Globalisation has been subject to constant shocks since 2016. Rising nationalism and protectionism challenged the liberal global order, with events like Brexit in 2016 and the US-China trade war since 2018 exemplifying growing anti-globalisation sentiments and policies. The COVID-19 pandemic that started in China in 2020 further intensified these trends, as countries prioritised domestic industries and supply chain resilience over efficiency derived from global input sourcing. In addition to the severe economic impact of the pandemic, the crisis revealed a new level of complexity of the global economy and risks associated with the Just-in-Time supply chain models.

New geopolitical tensions, such as the US-China tech rivalry and the restructuring of global supply chains, are reshaping globalisation. These changes are compounded by the rise of regional trade agreements and the pursuit of economic security over sheer efficiency. While it is too early to predict the full outcome, it is evident that both individuals and multinational corporations will continue to adapt to this evolving landscape. As a result, compared to a decade ago, world trade has become more regionalised, fragmented, digitalised (in terms of intangible goods trade and trade processes), and service-oriented (in terms of the share of services in total exports and professional services needed to support the restructuring of global supply chains).

2 The History of Globalisation: Advances and Setbacks

Reflecting on the history of globalisation and its recent disruptions may provide valuable insights for forecasting the future trajectory of the global economy.

Globalisation before World War I was not without its challenges, particularly differing economic policies among industrialised nations, such as Germany's mercantilism and Britain's free trade. Despite Britain's repeal of the Corn Laws in 1846, most countries maintained high tariffs, with US tariffs reaching 40% in 1875 (Baldwin and Martin, 1999) and rising to 60% by the late 19th century (Irwin, 2020). Britain's colonial trade network and technological advancements, especially steam engines and railways, helped reduce transportation costs, linking global markets (Juhász and Steinwender, 2018). By the late 19th century, global trade was growing at 3.5% annually (Maddison, 1995), and price gaps between cities like London and Buenos Aires narrowed (O'Rourke and Williamson, 2002). However, World War I halted this wave of globalisation, with countries raising tariffs and imposing quotas. Despite this, belligerent nations only saw slight declines in import shares (Jones and Obstfeld, 1997; Mitchell, 1988), while non-belligerent countries, like the US and Japan,

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experienced trade surpluses. After the war, oversupply led to global anti-trade sentiments, prompting tariff increases (Eichengreen, 1994).

Between the two world wars, global trade did not return to its pre-war liberal order. The 1929 stock market crash triggered the Great Depression, leading to protectionist policies, such as the US Smoot-Hawley Tariff Act, which worsened global tariff barriers (Kindleberger, 1989). World War II contracted trade further, with post-war recovery shaped by the Marshall Plan. Many newly created countries in Asia and Africa that gained independence from the ex-colonial powers pursued import substitution industrialisation, weakening global trade links, which only began to recover in the late 1980s.

The Bretton Woods system, established after World War II, initiated the second wave of globalisation, promoting multilateral trade cooperation. In 1944, the IMF and World Bank were created to foster a post-war global liberal order. The 1947 General Agreement on Tariffs and Trade (GATT) reduced tariffs and trade barriers, laying the foundation for the WTO in 1995. However, developing countries did not engage in this wave of globalisation until the late 1980s, when market reforms spread globally, aided by IMF-backed free-market policies.

Technological advances were crucial to the second wave of globalisation. The adoption of container shipping in the 1960s significantly lowered logistics costs, promoting the growth of global supply chains (Bernhofen *et al.*, 2016). Improvements in information and communication technology (ICT) enabled the cross-border division of production tasks, boosting trade in intermediate goods (Johnson and Noguera, 2012; Baldwin, 2016). Unlike the first wave, the second wave profoundly impacted labour markets, especially through job outsourcing and the rise of digital services.

Hyper-globalisation had notable economic effects, with countries that embraced market liberalisation experiencing faster growth (Sachs and Warner, 1995) and a larger share of GDP from trade and investment (Wacziarg and Welch, 2008). A major factor was technology transfer from developed to developing countries, particularly through foreign direct investment (Javorcik, 2004; Harrison and Rodríguez-Clare, 2010). The success of the East Asian Tigers illustrated this process, influencing countries like China to achieve rapid growth through reforms and foreign investment, and integrating into global supply chains.

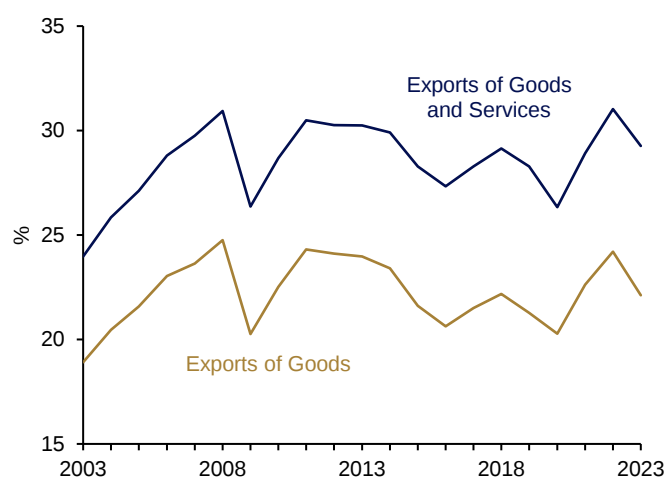
In the 21st century, the role of input sourcing as a driver of global trade has risen. Trade of intermediate inputs has grown faster than that of final goods (Johnson, 2014). Global sourcing has also displaced manufacturing jobs in advanced economies (Autor *et al.*, 2013), increasing interdependence and hence propagation of macroeconomic shocks through global supply chains across countries (Acemoglu *et al.*, 2016). Both are commonly perceived causes of the rise of protectionist sentiment and policies behind the slowdown in global trade since 2008.

3 The So-Called Deglobalisation since the Great Financial Crisis in 2008

The Great Financial Crisis (GFC) of 2008–09 triggered a new wave of deglobalisation. Despite studies suggesting that the slowdown in globalisation since then cannot be called a true "deglobalisation" (Antràs, 2021), there is no denying that during this period, global trade plummeted by 15% in real terms from 2008 to 2009 (**Chart 1**), nearly four times the decline in global GDP during the same period (Bems *et al.*, 2013). Small open economies were particularly hard hit, with some countries experiencing a nearly 30% drop in exports. Although

trade briefly rebounded after the GFC, from 2011 to 2019, the annual growth rate of global merchandise trade remained below 3%, significantly lower than the pre-crisis rate of 7%. The financial crisis intensified anti-globalisation sentiments, leading to the rise of inward-looking policies in many countries. Estimated service exports have grown faster than goods exports, but as **Chart 1** shows, given the relatively small share of service trade in total trade, adding service trade to the numerator in the ratio of global exports to global GDP does not alter the flattening of the trend since 2010.

Chart 1 Global exports as a share of global GDP, 2003–23



Source: World Bank

The slowdown in the growth of global trade was driven by factors such as a sharp drop in demand, deteriorating financial conditions, and increased trade barriers. During the crisis, exports of durable goods fell particularly sharply, accounting for 60% of the decline in merchandise exports (Eaton *et al.*, 2016). Meanwhile, worsening financial conditions and a significant reduction in trade credit further suppressed long-distance trade. Although some countries implemented protectionist policies during the pandemic, there is no evidence that protectionism was the primary cause of the collapse in global trade.

The GFC also fuelled the rise of populism. Since the crisis, economic growth has been sluggish, productivity growth has slowed in both developed and emerging markets, and inequality has continued to worsen, leading to the rise of populism and nationalism. In 2016, Donald Trump was elected President of the US on an “America First” platform, and right-wing populist parties in Europe, such as France’s National Front and the UK’s UK Independence Party, quickly gained prominence. Leaders in some developing countries also adopted populist agendas, implementing redistribution policies. Global events such as Brexit and the US-China trade war exacerbated this trend, weakening global cooperation.

The rise of economic inequality is a key reason behind the rise of populism. Lakner and Milanovic (2013) find that between 1988 and 2008, global middle-class incomes grew significantly, particularly in Asian countries; however, the middle- and lower-income groups in developed economies saw little to no growth, exacerbating their dissatisfaction with globalisation. Additionally, the expansion of global supply chains led developed country firms to outsource labour-intensive tasks, further widening income inequality. Autor *et al.* (2013) find that regions in the United States most affected by competition from Chinese imports

experienced significant manufacturing job losses and slow wage growth, contributing to political polarisation in these areas.

However, attributing inequality solely to globalisation is incomplete. Advances in information and communication technology and widespread automation have enabled managers to hire equally or more efficient employees from emerging markets at much lower costs. Furthermore, quantitative easing policies have driven up asset prices, further widening wealth inequality.

Changes in consumption patterns and the reduced dispersion of global supply chains also help explain the slowdown in global trade growth. As populations in developed countries age and the middle class rises in emerging markets, global demand has gradually shifted from tradable goods to services. Meanwhile, as developing countries approach the global technological frontier, the marginal benefits of participating in global supply chains have diminished (Borin and Mancini, 2019). For example, China's rising position in the value chain has led to more domestic production of complex intermediate products that were previously imported, reducing global trade transactions (Kee and Tang, 2016).

4 The Global Supply Chain after 2020

In recent years, the trend of deglobalisation has posed significant challenges to global supply chains. These supply chains rely on technological advancements and the international division of labour to reduce production costs, but US-China trade frictions and the COVID-19 pandemic have exposed their vulnerabilities. Geopolitical tensions, such as the Russia-Ukraine conflict, have further increased the risk of supply chain disruptions, prompting companies to focus more on building supply chain resilience.

Supply chains can be categorised into three models: efficiency-oriented (Just-in-Time, JIT), precautionary (Just-in-Case, JIC), and fall-back (Just-in-Worst-Case, JIWC) (Jiang *et al.*, 2021). The JIT model emphasises efficient zero-inventory management but faces significant risks from uncertainties like natural disasters and geopolitical conflicts. The JIC model focuses on increasing inventory, maintaining capacity, and diversifying supply chains to cope with uncertainties, although this may reduce efficiency (Christopher and Peck, 2022). At the national level, diversifying supply chains to reduce dependence on a single supplier is also necessary to enhance economic resilience. The JIWC model is suitable for extreme situations, such as the early stages of the pandemic when there was a global shortage of medical supplies, highlighting the need for self-sufficiency in critical supplies.

The COVID-19 pandemic marked a turning point for global supply chains, revealing the fragility of highly interconnected and overly efficiency-driven supply chains in the face of crises (Antràs and Zilberman, 2023). The automotive and electronics industries were temporarily disrupted due to global supply chain breakdowns, prompting companies to explore hybrid models that balance efficiency and resilience (Ivanov and Dolgui, 2020). The pandemic also accelerated the shift towards sustainable and socially responsible supply chains. Particularly in high-emission industries, companies face stricter regulations and consumer demands for social responsibility, leading to the rise of circular supply chains (Hofmann *et al.*, 2021).

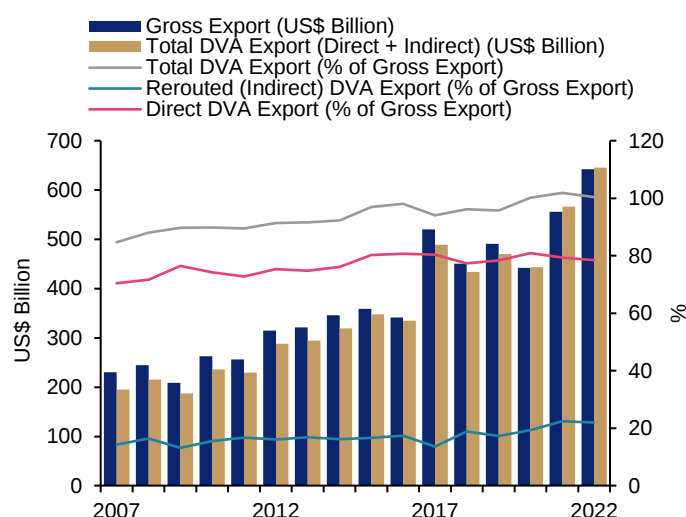
Supply chain resilience depends not only on physical flexibility but also on real-time information flow. With the development of artificial intelligence (AI) and the Internet of Things (IoT), supply chain management is entering a digital transformation phase. Technologies

such as blockchain, big data, digital twins, and automation are enhancing supply chain transparency and flexibility. The synergistic application of these technologies is shifting supply chains from passive response to proactive optimisation, further enhancing their adaptability and resilience.

Geopolitical tension is leading to the continuous restructuring and realignment of global supply chains. Since the US imposed high tariffs on Chinese imports in 2018, companies have had to reassess their supply chain layouts. Many have opted to shift part of their production from China to countries like Vietnam, Malaysia, India, Hungary, and Mexico to reduce tariff costs and geopolitical risks (Baldwin and Freeman, 2020; Shih, 2020). With these adjustments, supply chains became shorter on average and friendshoring, defined as trade between politically aligned nations, is on the rise. Supply chains in North America, Europe, and Asia will become even more regionalised to mitigate different kinds of risks (Gereffi, 2020). Reshoring, defined as companies bringing part of their overseas production processes back to their home countries, is also happening especially in advanced countries in North America and Europe (Antràs *et al.*, 2024).

There is one major exception to the new deglobalisation trend. China's domestic supply networks have expanded globally in response to domestic and external factors. In particular, to explore new foreign markets and to alleviate the tariff impact on exports, Chinese companies have begun adding new foreign affiliates or partners in third nations to the downstream of supply chains. Using the global input-output tables provided by the Asia Development Bank, Tang *et al.* (2024) uncover continuously rising domestic value-added exports (DVAX) from China to the US, despite declining direct gross exports from China to the US due to the US tariffs on 60% of Chinese goods (**Chart 2**). Specifically, about 24% of China's DVAX to the US in 2022 went through third nations like Mexico, Vietnam, Korea, and so on.

Chart 2 China's gross exports and DVAX to the US (All Sectors)



Source: Tang *et al.* (2024)

Meanwhile, service trade has shown strong growth momentum. In 2022, global service trade grew by 14.8%, and in 2023, it increased by 9%. The growth of service trade is driven by the widespread adoption of digital technologies, enabling many service industries to overcome geographical limitations and provide cross-border services, especially in information technology, financial services, and education. As consumer demand for high-

quality, personalised services increases, industries such as cross-border tourism, healthcare, and consulting have also seen significant development (Baldwin and Forslid, 2023). This trend not only reflects the transformation of the global economic structure but also underscores the growing importance of the service sector in the global market (Baldwin *et al.*, 2024).

5 Conclusion

Globalisation is not dying, but it is changing fast. The historical cycles of globalisation (and deglobalisation) have profoundly impacted the development of the world economy. While globalisation has driven technological advancement and economic growth, it has also contributed to rising inequality and hence protectionist sentiment and policies worldwide.

While the future of globalisation is not certain, global trade may have become more diversified and inclusive due to companies adopting the so-called “China plus one” strategy. When global trade becomes more regionalised, fragmented, digitalised, and service-oriented, there will be new winners and losers. While companies and investors need to incorporate these ongoing trends when revaluating their portfolios, policymakers may want to take the changing global geoeconomic landscape into consideration when formulating policies.

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