

Globalization's Not Ending

It is being restructured.

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Despite the handwringing about U.S. President Donald Trump's tariff war, which many claim sounds the death knell for the world's trading system, and worries about heightened geopolitical tensions, globalization is not ending. But it is being fundamentally restructured by geopolitical shifts, technological transformation, and climate change. And each of these forces will affect globalization in different ways.

For starters, the rise of China and other economies is bringing an end to the postwar world order dominated by the United States. Escalating strategic rivalries, coupled with populist politics, have ushered in an era of economic nationalism, upending old paradigms and fueling trade tensions. Economies that used to preach the neoliberal gospel of free markets and openness have embraced nationalist industrial policies, protectionism, and discriminatory trade practices. This shift is most apparent in the United States, formerly the chief exponent of neoliberalism and the *de facto* guarantor of the multilateral system.

These evolving geopolitics—particularly the U.S.-China rivalry, but also the proliferation of armed conflicts—will reshape, not reverse, globalization. Today's tariff war is motivated not so much by isolationism as by mercantilism—a power play to gain economic advantage. With international trade amounting to nearly 60 percent of global GDP (and external financial assets and liabilities equivalent to around 400 percent), the world economy has become highly interdependent, suggesting that global integration is here to stay.

Moreover, China and the United States still depend on international markets—and each other—to sustain their economic success. So, while a strategic decoupling of the Chinese and U.S. economies will undoubtedly take place in advanced technology and other critical sectors, a broader rupture is not in the cards.

The most likely outcome is fragmented globalization, with economic connections reconfigured around competing powers and along regional lines. Trade geometry will become increasingly variable as groups of countries and sectors become more integrated and others less so. This fracturing will inevitably impose costs on everyone. But not all reorganization of supply chains will be driven by geopolitical power plays. Some will result from efforts to diversify and enhance resilience, especially as emerging economies offer new sources of supply. In fact, the developing world's economic rise and greater integration into the world economy may do more to shape global supply chains in the long term than the current geopolitical shifts.

At the same time, the digital revolution, including artificial intelligence, is remaking global labor and financial markets, business models, and production and delivery processes. These technologies constitute a counterweight to geopolitical tensions

and will be a fillip to globalization because they enhance the connectivity that underpins the cross-border flow of goods, finance, and knowledge, and they facilitate labor-market integration.

Digital technologies are already changing the structure of globalization by expanding trade beyond physical goods. In recent years, cross-border data flows have been increasing by as much as 50 percent annually. Whereas international integration has been driven by labor-cost arbitrage in manufacturing, with global companies taking advantage of low-wage workers in emerging economies, now digitally deliverable services, particularly business-to-business services, will maintain and strengthen these ties. As technology re-localizes some manufacturing, it will de-localize services, heralding an increasingly “weightless globalization.”

Global warming also will affect patterns of production, trade, and investment. To reduce their carbon footprints, companies will reconfigure supply chains. Trade in environmental goods and services, as well as cross-border investment in green technologies, will expand. Combating climate change confronts humanity with huge challenges, but it also opens new avenues for global growth and creates new opportunities for international commerce and finance.

And precisely because climate change is a universal problem, it can increase interconnectedness and elevate the provision of global public goods on the international agenda. Even as geopolitical rivalries deepen, the threat of mutual assured destruction from climate inaction can motivate adversaries to cooperate. This may have positive spillovers for international collaboration in areas that are more susceptible to zero-sum thinking, such as trade.

The real risks to globalization are not from geopolitical rivalries, technological disruption, or climate change, but rather from policy responses to them. Countries must do a better job of managing the necessary restructuring of their economies, especially when it comes to addressing distributional consequences. At the international level, new trade, technology, and climate rules will become increasingly important in the coming years. But international organizations must recognize that national approaches will differ and adapt governance accordingly. As economies evolve and geopolitical power shifts, new competitive dynamics will inevitably emerge. How much turmoil and uncertainty this process brings will depend on the extent to which policymakers agree on and adhere to a core set of global rules. ♦

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