

Rethinking Globalization: From Hyper-Globalization to Regionalism

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Abstract

This article explores the dynamics of globalization and its evolution over time. It shows how globalization has been central to the interactions between states, linking trade and culture with inter-state political cooperation. However, the global financial crisis of 2008 marked a turning point, revealing the limits of the hyper-globalization that had dominated for years. The article argues that while deglobalization is not a realistic option, a new trend toward regionalism has emerged, presenting new policy challenges and opportunities. The article emphasizes the importance of developing strong institutions to promote a more sustainable globalization dynamic. It concludes by highlighting the need for policymakers to anticipate and implement policies that encourage the development of this new regionalism, taking into account the unique challenges and opportunities presented by this evolving dynamic of globalization.

Keywords: globalization, cooperation, governance

1. Introduction

“If a foreign country can supply us with a commodity more cheaply than we are able to produce it ourselves, it is far better that we should buy it from it with some part of the product of our own industry, employed in the kind in which we have some advantage.”¹

Smith formalized in 1776 what would be the basis of economic globalization. A basis on which nations developed their political relations and cultural ties throughout time. Altogether, those points represent the

dynamic of globalization, essential to the understanding of international relations.

Globalization went through different phases and followed different dynamics, transforming itself at the rhythm of industrial revolutions and their innovations.

Eventually, the share of exports represented around 20 percent of the world's GDP. But after the global financial crisis of 2008, it slowed down and never reached its previous levels again. It is certain that the times of hyper-globalization are over, but does it mean deglobalization necessarily?

¹ Smith, 1776

This article presents the challenges to a fully globalized world and the implications of growing isolationist trends. In between those extremes, we will explore the idea of a regional approach as a new globalization trend as well as its policy implications.

II. Definition of Globalization

Globalization is defined as the development of closer economic, cultural, and political relations between all countries of the world.² It is the process of intensification of international exchanges in the form of capital, goods, music, films, ideologies...

Throughout history, globalization has been transformed by the various industrial revolutions, thanks to the innovations associated with the time. From the steam engine to electricity, the telephone, and the internet, this phenomenon has shaped society and, ultimately, the world order. Globalization accelerated with the introduction of the Internet. These innovations have, over time, reduced distances in many ways.

Cultural distances from one nation to another, thanks to cinema, music, or the telephone. They have also reduced physical distances. Innovation allows people to travel, to meet other realities and other cultures. The reduction of distances has had a profound impact on commerce. The

ability to transport goods easily and relatively quickly has opened up new opportunities. As Adam Smith wrote in his book *The Wealth of Nations*: "If a foreign country can supply us with a commodity more cheaply than we are able to produce it ourselves, it is far better that we should buy it from it with some part of the product of our own industry, employed in the kind in which we have some advantage."³

In the mid-1920s, a large wave of companies began offshoring, which is "the practice of outsourcing operations abroad, usually by companies from industrialized countries to less developed countries, with the intention of reducing the cost of doing business."⁴

Political relations between nations have also had to evolve, resulting in many trade agreements. They have strengthened the political relationships of many countries. The European Union would be a good example of a strong political relationship built around an economic partnership. Some nations have benefited from the various waves of globalization. The United States, for example, took advantage of the global value chain to grow exponentially between 1989 and 2008.

The global value chain (GVC). is "the international fragmentation of production, which can lead to increased job creation and economic growth." To take advantage of value chain participation, countries need to put in place the right kind of trade and investment policies."⁵ For a long

² Cambridge Dictionary s.d.

³ Smith, 1776

⁴ O'Leary, Encyclopaedia Britannica s.d.

⁵ World Bank, 2020

time, the dynamic has been to try to reduce import taxes as much as possible to promote trade. This is what we call the era of hyper-globalization.

China was born in the next wave of globalization, triggered by democratizing the internet and digital goods and services.⁶

Globalization plays a key role in innovation, as it allows for healthy competition within a larger market. Firms are therefore forced to become more efficient to compete at home and abroad. The transfer of knowledge between countries through offshoring is also a growth factor for the producing country.

III. Challenges for a Globalized World

Globalization is the dynamic of cultural, political, and economic cooperation and integration between countries. The share of exports in world GDP can measure the current state of globalization. It is estimated to be around 20 percent.⁷

So, there is still room for development, especially if one considers that "the economic theory of the positive-sum game is the foundation of the multilateral trading system as we know it. This theory means that development should have no limits and that each participating nation can find a

way to generate benefits without affecting the benefits of others.⁸

This theory has been increasingly criticized, arguing that globalization as we know it at its peak actually promotes inequality. Globalization has created a fusion economy, where when stock values fall sharply in the U.S. or Europe, some emerging market funds in Bangladesh or Brazil, for example, may also fall sharply. Investors then sell their shares to make up for losses in their home countries.⁹

In addition, rising geopolitical tensions make foreign investment riskier. The global value chain is weakened, and, as in the case of the U.S. and microchips, nearshoring is becoming increasingly attractive. Given the growing tensions around Taiwan, the U.S. is trying to develop this industry in its neighboring country, Mexico. This allows them to produce closer and reduce the risk of dependence on electronic components produced in a territory disputed by another economic superpower: China.

The complex interdependence that results from hyper-globalization has proven to be very effective in terms of productivity growth, job creation, and improved living standards. And the COVID-19 pandemic "has highlighted the urgent need to understand the dependence of many countries on suppliers from around the world."¹⁰ Global

⁶ Vanham 2019

⁷ Ibid

⁸ Dufour et Ducasse November, 2020

⁹ Epping, 2009

¹⁰ World Bank, 2020

value chains had to come to a halt for a while, and some of their consequences are still felt today.

Tensions over scarce natural resources are also an element that could weaken an interdependent world.

As mentioned earlier, globalization has taken time and has undergone different dynamics during its development. In the last stages, it has developed so rapidly that it is difficult to understand it fully. To give this stage of globalization a more sustainable, perhaps more advanced, and effective dynamic, the world should improve cooperation.

"Every market order is underpinned by narratives - stories we tell ourselves about how the system works. This is especially true of the global economy because, unlike individual countries, the world has no central government acting as a rule maker and enforcer."

There is a need for a coherent and clear narrative, a playbook that would be internalized. "These norms support global markets in a way that international laws, trade treaties, and multilateral institutions cannot."¹¹

But the idea of global governance still faces the same problem: there is no way to impose binding decisions on states. To date, international organizations such as the United Nations have provided resources and assisted global cooperation in many ways, but they have often been limited in their actions. They have neither the authority nor the

legitimacy of a higher authority than states. This limits the scope of actions that can be taken¹²

This lack of coordination was visible, for example, when French President Emmanuel Macron criticized the Biden administration over its plan to decarbonize the U.S. economy. The Biden administration has been working on a proposal to subsidize domestic investments in electric vehicles. One of the conditions for receiving these subsidies was that companies source essential inputs from U.S.-based producers. This new legislation would put European industries at a disadvantage. In fact, the European Union is developing a similar project, the Carbon border adjustment mechanism.¹³ It is difficult to impose a single discourse, a single way of ensuring greater cooperation to achieve larger goals. Governments often face a prisoner's dilemma, in which their expected utility depends on the actions of other governments. They tend to choose the option that benefits them the most, ignoring the option that might be more effective overall but requires the cooperation of others to succeed or that might result in lower expected utility for that country. The lack of global governance slows the world down and makes it less agile.

In retrospect, during the period of hyper-globalization, the world had a leader. One hegemonic power long occupied the role of global governor, imposing its economic, cultural, and political vision: the United States.

¹¹ Rodrik, *What's Next for Globalization?*, 2023

¹² Robert O. Keohane, 2011

¹³ Rodrik, *Climate Before Trade*, 2022

IV. Deglobalization and isolationism.

After what is considered to be two decades of hyper-globalization, the world has been faced with a major financial crisis. A global crisis that impacted globalization and slowed it down. Since then, globalization has entered a new phase and, with it, a new dynamic.

The share of exports in global GDP has started to decline, and global value chains have stopped growing. International capital flows have never reached their pre-crisis peaks.¹⁴

Globalization is increasingly criticized. For some, it is because inequalities have increased, as the rapid pace of globalization does not allow some developing countries to catch up. For others, importing avocados from South America to Europe or of two euro T-shirts from China, with little control over working conditions, leads to human rights violations. These practices are also very polluting for a planet already experiencing rapid climate change, endangering biodiversity and, more generally, human activities.

Globalization has also affected labor markets in mature economies while increasing migration. It has paved the way for populist politicians to argue against globalization, defending isolationist policies instead publicly. Donald Trump and his campaign slogan, "America First" illustrate

this dynamic. He will say, "we must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength."¹⁵

The United States has been the engine of globalization since World War II. Such a declaration is significant, as it is the announcement by one of the greatest economic powers of a return to protectionism. It is a turning point in the recent history of international relations.¹⁶ Some would call it de-globalization, but the world is now too interconnected to turn back. The U.K.'s decision to withdraw from the European Union, driven by populist narratives, is now having far-reaching consequences. The country has faced many challenges since then.

The U.K. has also suffered from global inflation (due to the pandemic, the energy crisis...). but has found it difficult to "bounce back" as quickly as other G7 members. Trade has suffered, import prices have risen and exports and foreign direct investment have declined.¹⁷ Returning to isolationism does not seem to be an answer to the challenges globalization is facing.

V. Encouraging regional cooperation to strengthen international cooperation.

One lesson that can be learned from the past few decades is that there appears to be no single model. "Economies are

¹⁴ Rodrik, A Better Globalization Might Rise from Hyper-Globalization's Ashes, 2022

¹⁵ Trump, 2017

¹⁶ Dufour et Ducasse November, 2020

¹⁷ BBC, 2023

complex systems shaped by a dizzying array of interactions among individuals, communities, societies, states, and global structures. These ever-changing local and international contests generate unpredictable outcomes that cannot be easily explained by simple and seemingly elegant theories."¹⁸ Recently, this dynamic has been global, with little consideration for regions such as Latin America and the Middle East. But the scaling up of globalization to encourage regional trade could lead to the development of a more sustainable system.

In fact, we can see that new dynamics are emerging, with multinationals now fighting against regional actors. Global markets are now expensive to reach for these giants, and marketing efforts to adapt to crops and risks in the global value chain have reduced their competitiveness with smaller players.¹⁹

Indeed, the coming decades will be marked by many geopolitical and climate challenges, which could lead to tensions and conflicts. One nation could not navigate the evolving world order. It is essential to form alliances, to form a group of nations capable of holding out in the event of a trade war, for example. It could also reduce interdependence and dependence on unstable actors. Germany was vulnerable when Ukraine was attacked because its energy source came from Russia.

The concept of “slowbalization” has developed, suggesting that changes in the dynamics of globalization will lead to deeper links within regional blocs.²⁰ If this dynamic is confirmed, the governance model will have to be adapted. Enabling regional institutions could enable the development of appropriate governance. It would better understand the interactions between individuals, communities, societies, and states.

Structured regional governance could act as ambassadors to international organizations, providing each region with representation and a voice. Instead of having five permanent members and ten rotating members on the Security Council, the United Nations could create a Council of the Regions. States should be able to structure themselves into regions according to their needs and culture, as long as this is in accordance with international law. And international law could be defined by the regions together as well as negotiations on trade issues. Beyond their role as ambassadors, regions could also be powerful enough to implement policies that require global cooperation (such as climate change policies). Offer better cooperation, a more representative and agile system.

VI. The need for a strong Regional Governance.

From an economic perspective, trade barriers within a region should be reduced as much as possible. The idea is to facilitate the exchange of goods and services leading to economic growth and job creation. They create a more stable and predictable business environment.

¹⁸ Andrew Sheng, 2023

¹⁹ Pettinger, 2021

²⁰ The Economist, 2019

Although each region already has a free trade agreement, it can be strengthened by standardizing processes. Having a single rail system, for example, or a uniform taxation system could help reduce red tape and increase efficiency. The use of a single currency could also provide competitiveness and stability in global markets, which small countries often find difficult to navigate and are more vulnerable.

The European Central Bank, for example, oversees the European Union's financial system. It tracks structural developments in the euro area banking sector and other financial sectors. The idea is to identify and assess the risks for its Member States. To implement such economic control, regions should develop strong political institutions. States should give up part of their sovereignty, but it is essential to implement these reforms effectively. The rule of law should not be neglected, and states should have an equal voice in the regional system. The political entity organizing the region will be its representative on the international scene.

The political unit would be particularly helpful at times like the COVID-19 pandemic, when there was a need to respond quickly. Health policies could have been coordinated at the regional level. When France had to choose which patient they would give a bed to because of overcrowded hospitals, Germany had empty beds a few kilometers away. Of course, states should not give up all their sovereignty in favor of a regional entity, certain

policies should be adapted to each state, and therefore a national issue.

It is probably in a culture that states should have the most autonomy, although joint initiatives such as the one developed by the European Union in the field of disinformation are particularly interesting in that they target many Member States. It has developed data protection policies to protect European citizens from the malicious use of their personal information.

A regional entity could try to implement educational partnerships across states. The Erasmus policy, for example, allows students to exchange university for a semester or a year. It allows them to gain fluency in another language, but more than anything, it allows youth to interact and understand better their peers from other countries, creating unity within the region.

Implementing such a mechanism is a complex process that requires strong institutions at the national and regional levels. The creation of the European Union took years of negotiations, and although the institution is stronger than ever, it was challenged by the United Kingdom 20 years after its implementation. It is still evolving and developing in its governance and does not have much sovereignty over nation-states. And the European Union was born of mature economies in a relatively peaceful context. In the case of the Middle East, for example, or Latin America, that would be a challenge. So there is no magic formula on how to implement strong governance through institutions at the

regional level, but there are avenues for states to work towards.

V. Conclusion

Globalization is a concept that has accompanied humanity in its interactions between states. It is a notion that mixes trade and culture, which requires inter-state political cooperation. This dynamic evolved, having for a long time aimed at unifying the world in this unique system. This approach, effective for years, showed its limits during the financial crisis of 2008. Some speak of deglobalization, and a strong isolationist tendency has been observed in countries with mature economies. Inequalities have also risen sharply within states as well as between them.

However, deglobalization is not realistic. It seems that changes in globalization dynamics will lead to deeper links within regional blocs. But it is necessary to anticipate and propose policies to encourage this more sustainable globalization dynamic. And the implementation of such policies takes time and would require strong institutions to develop and implement them. Something that some regions cannot provide for now.

A final point to emphasize, which is essential to ensure the development of appropriate policies, is the definition of what a region should be. What would be the criteria for determining which region a state should belong to? Should it be defined on a geographic continental basis (EU, North American, LATAM...)? Or on a more ideological approach

(political, religious)? How large should those regions be, how many of them?

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