

FOREIGN AFFAIRS

## How Geopolitics Overran Globalization

### The End of the Dream of Economic Integration

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Not too long ago, globalization was seen by academics and policymakers as a powerful force bringing the world closer together and promoting economic prosperity and stability. The open flow of goods, services, money, natural resources, and people would benefit all countries and make it possible to transfer knowledge, ideas, and technology across national borders. Globalization promised to bridge divides between advanced and developing economies, binding them together in a mesh of shared interests. It seemed reasonable to assume that this would even foster geopolitical stability, as collective prosperity would incentivize countries to tamp down conflicts that could disrupt their economic relationships.

Today, this grand hope of globalization has been dashed. Globalization's devastating effects on jobs in advanced economies have played a role in pushing many democracies, including the [United States](#), to the precipice of anarchy. Politicians looking to take advantage of the backlash against globalization have portrayed it as a malignant force exposing their countries' firms and workers to destructive foreign competition. The dream of integration has given way to a reality of fragmentation in which patterns of trade and capital flows mirror geopolitical alliances rather than transcend rifts between them. Far from the antidote to geopolitical rivalry it was originally imagined to be, globalization has itself become a source of dissension.

The failure of globalization to fulfill its promise of generating broad and equitable benefits has created a world in which positive-sum economic forces are less capable of countering the zero-sum forces of geopolitics than they have been since the 1990s. The aggressive jockeying between [China](#) and the United States over the past decade exemplifies this shift. The two superpowers are explicitly engaged in competition for economic and geopolitical supremacy. Without the countervailing force of mutually beneficial economic and financial linkages to prevent the competition from spiraling out of control, the relationship between the two countries has become injurious not just to Beijing and Washington but also to the rest of the world, left to suffer from the collateral damage. This fracturing relationship is emblematic of the new instability of a world order less restrained by economic integration.

The shifting nature of globalization should not occasion its obituary, however. Instead, economists and policymakers must reflect on how globalization went astray, transforming from a force that promotes cooperation to one that fuels conflict, so that they might once again

productively channel its positive effects. Harnessing globalization's potential to improve economic outcomes and lives while allaying its destructive effects is more necessary than ever to counteract the fragmentation that continues to increase the risk of dangerous interstate conflict.

## **NOT-SO-GOOD OLD DAYS**

International trade and financial flows began expanding rapidly around the mid-1980s as governments dismantled barriers between them. Technological developments, including the widespread use of shipping containers and improvements in trade logistics, lowered transportation costs and boosted international commerce. The notion of a unified global marketplace for goods and services, in which each country would be able to specialize in whatever it was relatively better at producing, no longer seemed far-fetched. A broad consensus emerged that commercial interests keen to build global supply chains and sell their products and services worldwide would serve as the glue binding the world closer together.

The arrangement tied together advanced and emerging market economies in a web of mutually beneficial relationships. Foreign demand for goods helped many emerging-market countries build up their manufacturing sectors, which swelled their middle classes. As trade expanded, many of these countries ran trade surpluses as they exported more than they imported. Meanwhile, some rich countries, including Australia, Spain, the United Kingdom, and, most notably, the United States, began borrowing money from the rest of the world to finance their trade deficits.

But not everyone appreciated the way that globalization rearranged the domestic economies of wealthy countries. The large aggregate benefits generated by free trade were not distributed equally; some labor-intensive industries such as footwear, furniture, and textiles were decimated, while others were forced to retrench under the pressure of foreign competition. Opening U.S. automobile markets to imports from Japan in the 1970s, for example, brought significant benefits to American consumers in the form of more choices and lower prices. But it didn't seem that way to autoworkers in Detroit who lost their jobs as foreign competitors overtook American companies. Indeed, there is no simple way for those who benefit from globalization to compensate those who face its direct costs. Fraying social safety nets in wealthy countries, not to mention technological advances that allowed manufacturing firms to reduce their labor forces, added to workers' woes.

Public dissatisfaction drove a devastating rhetorical turn in the domestic politics of wealthy countries. Blaming globalization, or specific trading partners, rather than flawed domestic policies or technology became a politically expedient way for politicians to tap into the anger of voters whose lives had been affected by deindustrialization. Tax policies that favored the rich and lax regulatory policies contributed to the concentration of wealth, while cuts to social spending fueled economic despair. Globalization came to serve as a convenient bogeyman for rising inequality, shrinking job opportunities, and government policies that failed to ameliorate the accompanying sense of economic despair. The domestic fallout from the backlash to globalization in the United States eventually resulted in the election of [Donald Trump](#) as president.

Politicians who rode the wave of the antiglobalization discontent into power felt pressure to turn rhetoric into policy. Taking their cues from Trump, they pursued protectionist policies such as tariffs on imports, which they claimed would revive domestic manufacturing and increase employment, but which in fact only raised prices and reduced choices for consumers, while disrupting trade and hurting economic growth. In tandem with globalization's failure to deliver expansive and equitable benefits, the antiglobalist turn in domestic politics strained relations between countries, intensifying geopolitical rivalries.

## **SHOCK DOCTRINE**

The U.S.-Chinese relationship over the last two decades exemplifies the shift in the political standing of globalization from a positive to a malign force. After China's 2001 accession to the World Trade Organization, which the United States supported, both countries embraced the notion that their trade relationship could become a mutually beneficial, positive-sum game. Trade grew substantially, with the United States soon becoming China's main export market. Financial flows from the United States into China increased after 2010, when Beijing began opening its economy and markets to foreign investors. U.S. companies were eager to set up parts of their supply chains in China to take advantage of low labor and other costs and to sell their products in its fast-growing markets. U.S. financial institutions offered their services to a rapidly expanding Chinese middle class that demanded higher-quality services than those provided by state-owned banks.

Yet trouble was brewing. The United States ran a bilateral merchandise trade deficit with China of \$83 billion in 2000. The deficit marched steadily upward, hitting \$418 billion in 2018, an increase from 0.8 percent of U.S. GDP to two percent over that time period. The seemingly generous financing of U.S. trade deficits by China came largely from the earnings of Chinese companies exporting cheap goods to the United States. China's meteoric rise from a small, low-income economy to the largest trading country in the world soon brought the tensions lurking beneath this era of comity to the fore.

In what became known as the "China shock," higher-wage American manufacturing jobs collapsed and the manufacturing sector hollowed out. Many U.S. firms threw in the towel and shut down, unable to compete with the flood of cheap goods from China. Some estimates put U.S. job losses attributable to the China shock between 1999 and 2011 at more than two million, including about a million manufacturing jobs. Other forces, such as technological change, played a role, and China was hardly the only low-wage competitor to U.S. manufacturing. Still, U.S. politicians could not resist pinning most of the blame for the decline of U.S. manufacturing on China. Demonizing China as an unfair competitor has contributed to the fraying of a relationship that leaders in both countries once saw as mutually beneficial.

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Washington, however, does not deserve all the blame for the deterioration of the once promising relationship. While Chinese leaders talked about "win-win cooperation" enabled by globalization, they tilted the playing field in favor of Chinese companies. Beijing provided a variety of supports, including cheap bank loans and subsidized land and energy, to its

manufacturing firms (both private and state-owned), while refusing to give U.S. companies free and unfettered access to its domestic markets. Foreign firms seeking to set up operations in China were required to establish joint ventures with domestic companies, which allowed Chinese firms to siphon technology and know-how from their foreign partners and eventually compete directly with them.

U.S. firms in both manufacturing and services have become increasingly disillusioned with their inability to operate freely within China. As a result, commercial interests no longer serve as a strong stabilizing force in the U.S.-Chinese relationship. This helps explain why, when Trump imposed tariffs on Chinese imports in 2018 and then ratcheted them up in the following years, and when the Biden administration retained those tariffs while adding further restrictions on trade and investment, the pushback from the U.S. business community was relatively muted. Today, U.S. companies are no longer advocating as hard as they once did to keep the relationship on an even keel, barely resisting as hostility toward China becomes a bipartisan theme in Washington.

Not all aspects of the relationship between China and the United States have become strictly competitive; both countries have at times been willing to cooperate on issues such as climate change. But the erosion of balancing forces and the expansion of areas of conflict has made for a less congenial coexistence. Beijing and Washington's increasing reliance on export controls typifies the new unstable equilibrium. The United States previously pursued a more cooperative, if still competitive, tech policy with China, marked by the free two-way flow of technical know-how, personnel, materiel, and funding. The Biden administration attempted to limit China's access to technology and advanced computer chips, an effort the Trump administration has intensified. After years of U.S. export controls, Trump's tariffs in April 2025 were the final straw for China: Beijing retaliated by restricting its exports of rare-earth elements, which U.S. manufacturers of advanced technology sorely need. With every move and countermove, the prospect of a mutually beneficial economic relationship recedes further into the background of the intrinsically competitive geopolitical relationship between the two. And without an economic counterweight against that competition, one country's rising influence necessarily comes at the expense of the other's.

## **IMITATION GAME**

Governments as well as corporations attempting to grapple with a new economic order characterized by rising barriers have begun redirecting trade and financial flows in a manner consistent with their geopolitical alignments. This is only making matters worse.

Despite their historical embrace of free trade, advanced economies are embracing industrial policy in which the government, rather than the market, picks winners and losers. Industrial policy was once anathema to countries with market-oriented economies but has now come to be seen by many as a legitimate tool to boost domestic firms' competitiveness in domestic and international markets. Take, for example, the Biden administration's Inflation Reduction Act (IRA), which took effect in August 2022. With the professed objective of preserving U.S. technological supremacy and promoting domestic investment in green and other new technologies, the administration deployed subsidies and tax breaks to incentivize production of

electric vehicles and renewable energy components in the United States. In doing so, it effectively erected barriers to free trade.

In his return to the presidency Trump undid parts of the IRA. But rather than back away from industrial policies, his administration has erected more barriers of its own. The Made in America Manufacturing Initiative, for instance, includes measures to promote domestic firms and encourage domestic procurement—at the direct expense of foreign firms. The administration has also weaponized trade policy to extract concessions from partners, often on issues unrelated to trade. And his tariff regime has injected more uncertainty into the future of global commerce.

This new form of globalization might intensify economic and geopolitical volatility.

For businesses that have come to rely on the free movement of goods and services, the result has been hugely disruptive. Firms that operate across borders have become casualties in increasingly common trade wars, as tariffs imposed by one country, along with the cascading retaliatory actions undertaken by others, can quickly escalate into broader economic hostilities. The ensuing breakdowns in even one link in a finely woven global supply chain can bring entire industries grinding to a halt.

In response to these new risks, multinational businesses are pursuing strategies of “resilience.” Many have attempted to concentrate production facilities in locations that promise relative safety from geopolitical risks: reshoring production in home countries, “friend shoring” production in countries seen as geopolitical allies, establishing production facilities in multiple countries to supply each of those countries’ home markets, or some combination of the three. Others are attempting to diversify the locations of production facilities, sources of raw materials, or markets for final products. Apple, for example, has begun to invest in India, shifting some of its phone production away from China. Chinese manufacturers attempting to skirt U.S. tariffs have increased their investments in Mexico, Vietnam, and other countries with more access to U.S. markets. Minimizing costs—including labor, land, and energy—is no longer the main factor driving decisions about where to set up physical plants or other business operations.

Companies’ shifts toward forms of global commerce considered less risky—at least in terms of reducing their vulnerability to geopolitical turbulence—are paradoxically likely to elevate other forms of risk for the world at large. Globalization sought to reduce geopolitical conflict by intertwining economies together with the idea that an integrated world would have less reason to fight. But as companies retreat from markets in countries seen as geopolitical rivals to their home countries, businesses no longer serve as bridges to help maintain good relations. Without the mutually beneficial commercial networks of globalization’s earlier years, this new form of globalization might ultimately intensify, rather than lessen, economic and geopolitical volatility.

## **MISS ME WHEN I’M GONE**

Globalization has not ended. But its latest iteration risks serving less as an antidote to geopolitical turmoil than as a contributor. Low-income countries in the early stages of development need access to global markets to build up their manufacturing sectors. An expanding manufacturing sector, with jobs that pay higher wages than agriculture and other

primary production sectors, can still help countries build a middle class capable of supporting a vibrant domestic economy. If global trade and financial flows continue to fragment, however, this path to development could be shut off, leaving a large share of the world's population that will have missed out on the benefits of globalization's prosperous early decades. The downstream political effects of such an economic retrenchment could make the backlash of the early twenty-first century appear quaint by comparison.

Even in its battered state, the project of globalization is worth salvaging. Instead of retreating from globalization out of a misguided sense that doing so will make countries more secure and less vulnerable to external risks and volatility, policymakers need to find ways to address its less salutary impacts. Countries with advanced economies need to institute more robust income support mechanisms for displaced workers, in addition to retraining and reskilling programs that enable them to tap into new economic opportunities. In some emerging-market countries, where governments still maintain tight control over the economy and banks, this will require refashioning intrusive government regulation and fixing dysfunctional financial systems so that domestic firms can more effectively compete on the international stage. International institutions that oversee global trade and finance must also find ways to rejuvenate themselves. To maintain their legitimacy, trade institutions such as the World Trade Organization should strive harder to enforce the rules of the game in a consistent and transparent manner, calling out the unfair trade practices of all countries, including powerful ones such as China and the United States. Financial institutions such as the International Monetary Fund and the World Bank can win back the support of emerging-market countries by restructuring their governance systems to give those countries fair voting shares commensurate with their economic power.

None of this will be easy. But if managed effectively, globalization can still live up to its once vaunted potential as a counterweight to global fragmentation and conflict. Giving up on it now will leave the world stuck in a doom loop in which economic, political, and geopolitical forces bring out the worst in one another.