Globalization has been a dominant trend in the world economy over the past few decades. It is characterized by increasing interconnectedness and interdependence of countries in terms of trade and investment through the exchange of goods, services, information, and ideas across borders. Globalization and the supply chain have grown in tandem, mutually reinforcing, with both phenomena influencing and driving the growth of the other.

However, in recent years, globalization may be facing headwinds. While globalization has brought about many benefits, such as economic growth, poverty reduction, and increased access to goods and services, it has also been criticized for being responsible for rising inequality, environmental degradation, and social disruptions. These challenges, along with other factors—geopolitical tensions, trade disputes, and competition over technological leadership, have led to debates about the future of globalization. In particular, the US-China technology competition has highlighted
concerns about supply chain and national security, leading to the restructuring and decoupling of the supply chain.

So, is globalization over? This might be a defining question for today’s global economy. Professor Joseph Nye of Harvard University wrote an article with the exact title in March this year. But he is not the only one who posed the question, and it was not the first time either. It has been asked many times for over a century now. (For further details, one can refer to the Brookings Trade Forum paper “Is Globalization Today Really Different from Globalization a Hundred Years Ago?” authored by Michael Bordo, Barry Eichengreen, and Douglas Irwin in 1999.) Early in 2020, right after the COVID-19 pandemic broke out, deglobalization quickly became a buzzword. Professor Douglas Irwin of Dartmouth College, among others, wrote a column for VoxEU, which was titled, “The pandemic adds momentum to the deglobalisation trend.”

In stark contrast to what these titles suggest, however, both of them argue the opposite in their conclusions. According to Professor Nye, globalization is largely driven by technological changes that reduce the importance of distance, and that will not change. Although the recent rivalry between the US and China may disrupt global economic arrangements and supply chain, it does not augur a decline in interdependence and interconnectedness. Similarly, Professor Irwin concludes his column by stating that the world economy is at a critical inflection point in history in which fears about dependence on others are growing. An inward turn would not spell the end of globalisation, only a partial reversal. But undoing the resulting damage is likely to prove difficult.

The world economy has gone through a turbulent and volatile time with supply chain disruptions caused largely by non-economic factors such as the pandemic and war. Global economic uncertainty is high due to the war in Ukraine, geopolitical conflicts, the US-China strategic competition, global inflation, a potential recession, and climate changes, which are the compound crises facing the world. More recently, tensions between the US and China have risen sharply, leading to elevated pressure for decoupling of the global supply chain and intense competition in critical industries and advanced technologies such as semiconductors, batteries, artificial intelligence, quantum computing, and biotechnologies.

The US recently developed a new industrial policy to respond to China's rise as a global economic competitor. The policy aims to increase US economic competitiveness and promote domestic innovation, while reducing the US’s dependence on China for critical technologies and supply chains, and they are reflected in the Chips Act and Inflation Reduction Act (IRA).
Key aspects of the US industrial policy include (1) increased investment in research and development (R&D) to drive innovation and strengthen US technological leadership, (2) promotion of domestic manufacturing and reshoring of supply chains, particularly in industries critical to national security, (3) measures to protect US intellectual property, and (4) efforts to build alliances and partnerships to counter China’s economic influence and promote global economic cooperation. Overall, the US industrial policy in response to China is focused on promoting domestic innovation, strengthening supply chain resilience, protecting intellectual property, and building alliances to maintain US economic competitiveness in the face of growing competition from China.

Nevertheless, in a speech at Johns Hopkins University a few days ago, US Treasury Secretary Janet Yellen warned that any US effort to decouple from China would be “disastrous” and called for a “constructive and fair” economic relationship between China and the US. Secretary Yellen’s speech might be reinforcing the view that it requires collective efforts and cooperation of all stakeholders to address pressing global common issues, such as climate change, pandemics, poverty, and debt. This might be a significant indication of the direction globalization and supply chain should take down the road.

Globalization is not going away, at least for the time being. Rather, it is evolving, with its governance undergoing a transformation required to adapt to the changing economic realities. 