Original Research • DOI: 10.2478/ecdip-2024-0001

Economic **Diplomacy**

The Decline and Fall of Globalization

Original Research

Mark S. Sheetz[1]*

1 Former Fulbright Scholar and Chair of Security Studies, College of Europe

Received 4 January, 2024, accepted 22 April, 2024

Abstract

If globalization means openness to the free movement of goods, capital, and labor across international borders, then globalization is declining. The forces of protectionism are on the rise and barriers to trade and investment are proliferating. The fundamental cause is structural – the erosion of American hegemony as a result of a shift in the global distribution of power. At the end of the Cold War, the US was the world's only great power. But the global diffusion of technological innovation has allowed the emergence of challengers. Now, the locus of world power has shifted to Asia. Attempting to preserve American primacy, the US is pursuing nationalist, mercantilist trade policies that undermine the liberal economic order established after WWII. Tariffs, export controls, and restrictions on FDI have replaced the free flow of goods and capital. Adam Smith and David Ricardo have been replaced by Alexander Hamilton and Niccolò Machiavelli. The US is enlisting its allies to reform the rules of the international economic order. It intends to transform the G7 into a steering committee of the free world. Such an action is likely to provoke an equal and opposite reaction, leading to a world of exclusive economic blocs. The resulting fragmentation will spell an end to the liberal multilateral order known as globalization.

Keywords

Globalization • Hegemony • Multilateralism • Neoliberalism • Mercantilism • China • protectionism

1 Introduction

If globalization means openness to the free movement of goods, capital, and labor across international borders, then globalization is in decline. According to the World Bank, "nearly all the forces that have powered growth and prosperity since the early 1990s have weakened."[1] The IMF managing director, Kristalina Georgieva, warns that "the global economy may be on the brink of a reversal of the steady increase in integration that characterized the second half of the 20th century." The forces of protectionism are on the rise and barriers to trade and investment are proliferating. "In 2019, countries imposed fewer than 1,000 restrictions on trade; in 2022, that number skyrocketed to almost 3,000."[2] As a result of "increased skepticism about the benefits of globalization" there has been "a leveling-off of global flows of goods and capital, and a surge in trade restrictions," raising the risk of "fragmentation" into rival economic blocs and "a fragmented global payment system."[3] In its Geostrategic Outlook 2023, the economic consulting firm EY (Ernst & Young) observes that the geopolitical "shift from a unipolar to a multipolar world" has contributed to a weakening of multilateralism. It concludes that "the era of relatively liberalized global trade … has ended," and that "the shift away from ever increasing globalization is accelerating."[4] Moreover, as "industrial policy, protectionism and export controls are embraced," countries increasingly bring supply chains onshore with the result that "global trade and capital flows diminish." All of which creates "a highly uncertain outlook for the future of globalization."[5]

1 Ayhan Kose and Franziska Ohnsorge, eds, *Falling Long-Term Growth Prospects: Trends, Expectations, and Policies* (Washington, DC: World Bank, 2023).
2 Kristalina Georgieva, "The Price of Fragmentation," *Foreign Affairs* (Sept/Oct 2023), p 136.
3 International Monetary Fund, "Geoeconomic Fragmentation and the Future of Multilateralism," January 2023.
4 EY Parthenon, *2023 Geostrategic Outlook* (December 2022).
5 EY Parthenon, "Prepare Now for the New Era of Globalization," 8 September 2022. See also "Deglobalization? The future of the liberal international order," special issue of *International Affairs* (September 2021).

* *E-mail: mark.sheetz@gmail.com*

2 Globalization as Byproduct of American Hegemony

What accounts for the decline of globalization? And why now? As causes, economic analysts point to the pandemic, the war in Ukraine, supply chain disruptions, and reliance on foreign suppliers for critical supplies of war materiel, which exposed the vulnerabilities of global economic interdependence. These are all plausible proximate reasons, but I argue that the more fundamental cause is structural -- the erosion of American hegemony as a result of a shift in the global distribution of power. Globalization is an epiphenomenon of American hegemony, which gave birth to it and sustains it through the political and economic institutions that govern the liberal international system. At the end of the Cold War, the United States was the world's only great power. American military expenditures were close to 50% of world totals, as much as all other nations in the world combined. Now, even with an enormous defense budget of $880 billion, US military expenditures account for 39% of world totals, equal only to the next 10 nations combined. [6] Over the course of the past two decades, the locus of world power has shifted to Asia. Asia is home to 60% of the world's population. By contrast, Europe accounts for a mere 10% of global population and North America for only 5%.[7] In terms of economic power, Asian nations represent 41% of the world's gross domestic product, compared with 28% for North America and 18% for Europe. [8] Asia accounts for over 70% of world steel production.[9] Sixty percent of world maritime trade transits through Asia. Asia is home to more nuclear powers than any other region on earth. As then Secretary of State Hillary Clinton predicted in 2011, "in the 21st century, the world's strategic and economic center of gravity will be the Asia Pacific."[10]

Historically, there have been two great waves of globalization.[11] The first wave began in the 19th century and was associated with the "industrial age" and the reign of Great Britain as global hegemon. This wave came to an end with the First World War and the decline of Britain as a world power. The latest wave of globalization took off with the fall of the Soviet Union and the rise of the US as the undisputed global hegemon of the "information age."[12] Liberal democratic ideas, like open markets and open borders, were transcendent. The free market in its wisdom would decide how best to allocate labor and capital. But as the concentration of world power has diffused into a more multilateral distribution, US domination of the world economy has come under pressure from challengers, especially from a rising China. The US has reacted with characteristic effrontery. US National Security Advisor, Jake Sullivan, lamented in a recent speech that we had been naïve to believe that "markets always allocate capital productively and efficiently." Instead of exporting more goods, he complained, globalization exported American jobs, diminished American industrial capacity, produced supply-chain vulnerabilities for American manufacturing, and eroded American competitiveness in critical technologies. He called for a modern industrial policy that identified "specific sectors" where the government would make "targeted public investments." He claimed that the liberal international order established by the United States needed reform and called for a "fairer" global economic order. [13] US Treasury Secretary, Janet Yellen, fretted that "our supply chains are not secure" and that "trade relationships should be built around trusted partners."[14] And Katherine Tai, the US Trade Representative, protested that globalization is not working for America anymore. Rather it is now working to the advantage of China. "When efficiency and low cost are the only motivators," she grumbled, "production … becomes increasingly consolidated in one economy – such as the PRC – which … controls key industries and becomes a dominant supplier for many important goods and technologies."[15] As such, the rules-based international order that the US built after World War II must be reformed. We need a new model, she reckoned, one that revisits the conventional wisdom that "free trade equals good, protectionism equals bad."[16] Speaking at the World Economic Forum in Davos, Tai complained that globalization as currently structured is no longer sustainable, and that the limitations of globalization have compelled the Biden administration to work towards "a new economic world order."[17]

That new economic order has less to do with Adam Smith and David Ricardo than it does with Greta Thunberg and Niccolò Machiavelli. In other words, it has less to do with economics and more to do with ideology and politics. The Biden administration

---

6 Stockholm International Peace Research Institute (SIPRI), "World military expenditure reaches new record high," 24 April 2023.
7 United Nations, *World Population Prospects 2022*.
8 International Monetary Fund, *World Economic Outlook* (October 2023).
9 World Steel Association, *World Steel in Figures 2023*.
10 Clinton, "America's Pacific Century," remarks in Honolulu, 10 November 2011.
11 Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), pp 144-45; and Esteban Ortiz-Ospina, "Trade and Globalization," *Our World Data* (October 2018).
12 John Ikenberry, Michael Mastanduno, and William Wohlforth, "Unipolarity, State Behavior, and Systemic Consequences," *World Politics* (January 2009); and Robert Jervis, "The Remaking of a Unipolar World," *The Washington Quarterly* (Summer 2006).
13 Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution, 27 April 2023. See also "The destructive new logic that threatens globalization," *The Economist*, 12 January 2023.
14 "Treasury Secretary Janet Yellen calls for a reshaping of global supply chains that are not secure," *New York Times*, 21 April 2022.
15 Tai, Remarks at the National Press Club on Supply Chain Resilience, 15 June 2023; and Gavin Bade, "Tai declares new US trade policy in speech assailing globalization," *POLITICO*, 15 June 2023.
16 Katherine Tai, Conversation at the Hochschule für Politik of the Technical University of Munich, 26 April 2022.
17 Sandler, Travis & Rosenberg, "Trade Resilience will mean Higher Costs, Tai says," 24 January 2023.

seeks to replace a reliance on open markets and free trade with an emphasis on workers' rights and climate orthodoxy.[18] If a foreign supplier is a low-cost producer, in Biden's view, it benefits from unfair trade practices and government subsidies rather than from a comparative advantage. Such violations of the rules of the international economic order call for greater tariffs, export controls, and restrictions on capital flows. The US has, for instance, persuaded the European Union (EU) to create a joint tariff zone to impose duties on steel and aluminum imports from countries that employ forced labor (think Uighurs) or adhere insufficiently to carbon emission standards (think coal-fired power plants).[19] That imports from China fall into these categories is not just an unfortunate coincidence. The US is also trying to compete with China in the developing world by throwing money into infrastructure investment. But the $600 billion the US is willing to devote to the Third World pales in comparison to the $8 trillion in infrastructure projects that China plans for its Belt and Road Initiative.[20] As one official from a developing country told former US Treasury Secretary Lawrence Summers, "What we get from China is an airport. What we get from the United States is a lecture."[21]

3 Hegemonic Stability Theory

According to one theory of hegemonic decline, the dominant state expends excessive resources on military forces, propping up allies, and maintaining the international political and economic order. Costs of warfare combine with ever-increasing costs of welfare to reduce the productive share of the economy. These non-productive expenditures serve as a drain on the economic vitality of the dominant state. More importantly, however, is the process of diffusion whereby the technological advantages of the dominant state are spread, through trade, foreign investment, and technology transfer, to its competitors. "In both the pre-modern world and the modern world, a principal advantage of an expanding state has been its military and/or productive capabilities, especially in technology." [22] In order to maximize acceptance of its rules, the hegemon facilitates the diffusion of technological innovation, economic prosperity, and organizational skills on a global scale. But the consequence of this diffusion is to allow potential rivals to take advantage of the hegemon's "generosity" and build up indigenous capabilities. This process creates a dynamic of differential growth rates that ultimately results in the emergence of challengers. Access to the hegemon's economic and military innovations allows challengers to compete with and eventually overcome the hegemon's comparative advantage.[23]

The hegemon, therefore, acts prudentially to "prevent relative increases in the powers of competitor states," especially in areas of strategic consequence, such as semiconductors, telecommunications, nanotechnology, and artificial intelligence (AI).[24] The central issue is the problem of relative gains versus absolute gains.[25] A fundamental principle of international relations theory is that "a state worries about a division of possible gains that may favor others more than itself."[26] Because power is a relative concept, states seek to prevent others from achieving advances in their relative capabilities. This is because disproportionate gains may be used to facilitate the emergence of a more powerful competitor in the future. National Security Advisor Jake Sullivan has argued that "we must maintain as large of a lead as possible" over China. He was referring in this instance to advanced computing technologies, such as AI, but he could have been talking about economic and military advantage in general. The overall objective is to degrade the capacity of large Chinese companies to compete with their American counterparts in technologies of the future. Dominating such technologies is the key to preservation of economic and, ultimately, military superiority. Advanced technologies like microelectronics, quantum computing, artificial intelligence, biotech, and clean energy, were described by Sullivan as "force multipliers" where American leadership is "a national security imperative."[27] If diffusion of technology through globalization leads to the loss of comparative advantage and hegemonic decline, then this diffusion must be stopped or held to a minimum.

Dominant world powers set the rules of the international order to promote their own interests. Rising powers attempt to change

---

18 Biden administration trade policy is characterized by one scholar as "hostile to free market economics, class-based, and anchored in populism." See Jerry Haar, "Amb. Katherine Tai's Remarks on Supply Chain Resilience," Wilson Center, 21 June 2023; "US Trade Representative Tai advocates a 'new approach to trade,'" *EURACTIV*, 18 January 2023; and Tai, Remarks on Supply Chain Resilience, National Press Club, 15 June 2023.
19 See "It's the EU and US against the rest of the world in new steel club," *POLITICO*, 11 October 2023.
20 See *Council on Foreign Relations*, "China's Massive Belt and Road Initiative," 2 February 2023.
21 Quoted in *Wall Street Journal*, 17 April 2023, "Scolding isn't a Foreign Policy."
22 See Gilpin, *War and Change in World Politics*, p 175; and Christopher Layne, "The Unipolar Illusion," *International Security* (Spring 1993).
23 Gilpin, *War and Change in World Politics*, pp 176-85.
24 Gilpin, *War and Change in World Politics*, p 88.
25 On the problem of relative gains, see Kenneth Waltz, *Theory of International Politics* (New York: McGraw Hill, 1979), p. 105; Joseph Grieco, "Anarchy and the limits of cooperation," *International Organization* (Summer 1988); Stephen D. Krasner, "Global Communications and National Power"; Michael Mastanduno, "Do Relative Gains Matter?" *International Security* (Summer 1991); Duncan Snidal, "Relative Gains and the Pattern of International Cooperation," *American Political Science Review* (September 1991); and Robert Powell, "Absolute and Relative Gains in International Relations Theory," *American Political Science Review*, (December 1991).
26 Kenneth Waltz, *Theory of International Politics* (McGraw-Hill, 1979), p 106.
27 Sullivan, Remarks at the SCSP Global Emerging Technologies Summit, 16 September 2022.

the rules governing the international system to benefit themselves.[28] Free trade and open markets are the very essence of the liberal economic world order established by the United States after WWII, but the US is now committed to closing markets for China that have to do with advanced technology, especially the latest computer chips. This is an adversarial form of economic diplomacy in the sense that economics pre-supposes a given political order and, more specifically, an open economic system is generally the result of a hegemonic power structure.[29]

In Charles Kindleberger's classic formulation, globalization requires a hegemon, one hegemon.[30] Kindleberger theorized "the international economic and monetary system needs leadership" from a state prepared to "set standards of conduct" and "take on an undue share of the burdens of the system … by accepting its redundant commodities, maintaining a flow of investment capital, and discounting its paper."[31] The hegemon is a state "powerful enough to maintain the essential rules governing interstate relations, and willing to do so."[32] The hegemon supplies public goods that enable the world economy to function and that provide an incentive for other nations to accept those rules. Because of the logic of collective action, international public goods like a monetary system, free trade, or global security, will not be supplied unless there is one party who is willing to absorb disproportionate costs.[33] That party pays a disproportionate cost to supply public goods because it derives a disproportionate benefit from enticing other members of the international community to play by its rules. Those goods include a global economic and financial order based on free trade (World Trade Organization), the free flow of capital (International Bank for Reconstruction and Development/World Bank) and flexible exchange rates (International Monetary Fund), a global political order based on self-determination and human rights (United Nations), and a global security order based on American power.[34] Both Great Britain in the nineteenth century and the United States in the twentieth took it upon themselves to promote free trade, protect freedom of the seas, provide investment capital, and supply the international currency that greased the gears of the global economic order.[35]

At the turn of the 21st century the United States accounted for over 30 percent of the world economy. Some 70 percent of all Nobel laureates in the sciences, economics, and medicine conducted their research in America. The US alone accounted for roughly 50 percent of all internet traffic. The world's leading firms in the fields of information technology, biotechnology, and nanotechnology were American. The US deployed military forces in more than 125 countries worldwide, and its defense budget surpassed the expenditures of all other major world powers combined, even as the US spent only 3% of its GDP on defense.[36] The US dollar is the world's reserve currency. It accounts for almost 60 percent of global foreign exchange reserves. By contrast, the Euro accounts for 20 percent and the Chinese Renminbi for a mere 2.7 percent.[37] Half of world trade is invoiced in dollars, as is 90 percent of all international financial transactions.[38] With its willingness to absorb unimaginably high deficits in its balance of trade, the United States acts as the global market of last resort. With its willingness to provide exceptional financial backing to the International Monetary Fund, the United States acts as the global lender of last resort. And with its willingness to intervene militarily in international crises, the United States acts as the underwriter of global stability.

In his *Foreign Affairs* essay, "The Unipolar Moment," Charles Krauthammer crowed that the United States was "the only country with the military, diplomatic, political, and economic assets to be a decisive player in any conflict in whatever part of the world it chooses to involve itself."[39] The political scientist, William Wohlforth, observed that "the United States enjoys a much larger margin of superiority over the next most powerful state, or indeed, all other great powers combined than any leading state in the last two centuries. Moreover, the United States is the first leading state in modern international history with

28 See for example Michael Beckley, "Enemies of My Enemy: How Fear of China is Forging a New World Order," *Foreign Affairs* (Mar/Apr 2022); and James Kynge, "China's blueprint for an alternative world order," *Financial Times,* 22 August 2023.
29 Krasner, "State Power and the Structure of International Trade," *World Politics* (April 1976), pp 318, 322-23; and E H Carr, *The Twenty Years Crisis, 1919-1939* (London: Macmillan, 1951), p 117.
30 See Charles Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973), p 304; Robert Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967-1977," in Ole Holsti, et al, eds, *Change in the International System* (Boulder: Westview Press, 1980); and Timothy McKeown, "Hegemonic Stability Theory and Nineteenth-Century Tariff Levels in Europe," *International Organization* (Winter 1983).
31 Kindleberger, *The World in Depression, 1929-1939,* p 11.
32 Robert Keohane, *After Hegemony* (Princeton University Press, 1984), pp 34-35
33 See Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965)
34 Krasner, "State Power and the Structure of International Trade," p. 338.
35 Gilpin, *War and Change in World Politics,* 138-139, 144-45. The United States, for example, recently took the initiative to safeguard international freedom of the seas off the coast of Yemen. See "US launches operation to defend Red Sea shipping lanes from Houthi attacks," *CNBC,* 18 December 2023.
36 See Mark S Sheetz, "US Hegemony and Globalization," Chapter 10 in Nayef Al-Rodhan, ed, *Policy Briefs on the Transcultural Aspects of Security and Stability* (Zürich: LIT-Verlag, 2006); and John Ikenberry, et al, "Unipolarity, State Behavior, and Systemic Consequences," *World Politics*, pp 6-8.
37 International Monetary Fund, "Currency Composition of Official Foreign Exchange Reserves," 29 March 2024.
38 Bank for International Settlements (BIS), *Quarterly Review,* December 2022, pp 36-37.
39 Charles Krauthammer, "The Unipolar Moment," *Foreign Affairs,* Vol. 70, No. 1 (Winter 1990/1991)

decisive preponderance in all the underlying components of power: economic, military, technological, and geopolitical."[40] And the historian Paul Kennedy noted, "Nothing has ever existed like this disparity of power … Charlemagne's empire was merely Western European in its reach. The Roman empire stretched farther afield, but there was another great empire in Persia, and a larger one in China. There is, therefore, no comparison."[41]

4 Institutional Theory

America's embrace of free trade and open market policies that constitute the foundation of the liberal international order known as globalization is also supported by institutional theory. As John Ikenberry explains, leading states attempt to transform their favorable power positions into "a durable order that commands the allegiance of other states." They employ "institutional strategies as mechanisms to establish restraints on indiscriminate and arbitrary state power" in order to reassure others that all states are equally bound. [42] After the Cold War, the United States expanded global institutions, such as NATO, the North American Free Trade Agreement (NAFTA), Asia Pacific Economic Cooperation (APEC), the World Trade Organization (WTO), and the Conference for Security and Cooperation in Europe (CSCE) in an effort to entice other states into the web of an American-based liberal international order. These institutional frameworks would serve to "extend and enhance America's influence … and encourage democracy and open markets." Multilateral institutions were employed to "integrate the new and emerging market democracies into the Western democratic world" and to "strengthen the community of market democracies." [43]

It has long been an axiom of US foreign policy that American prosperity required an open international trading system and that American security required access to markets in Europe and Asia.[44] Free trade stimulates economic development that "tends to produce a social structure dominated by a rising middle class." A strengthened society creates "zones of autonomy that limit the reach of the state, empowering individuals" and "encouraging more pluralistic and accountable regimes."[45] Thus, open markets lead to open societies in an inexorable process of democratization. This, in fact, was the thinking that drove the Clinton administration to push for China's membership in the WTO. Clinton's policy of engagement was designed "to create a Chinese commitment to the US-dominated liberal order" and "to liberalize, even democratize, China's political system."[46] President Clinton explicitly stated his belief that "the impulses of the society and the nature of the economic change will work together … to increase the sphere of liberty over time … just as, eventually, the Berlin Wall fell."[47] Secretary of State, Madeline Albright, hoped "the trend toward greater economic and social integration of China will have a liberalizing effect ... economic openness … diminishes the arbitrary power of the state … strengthens the demand for the rule of law … and raises popular expectations."[48] And Samuel Berger, National Security Adviser, thought "as China increasingly is open to commerce, fax machines, e-mails, satellite dishes, it is increasingly difficult to suppress ideas, creativity, thought, opposition."[49] By this logic, economic openness facilitates the spread of democracy and creates a global political and economic environment that is hospitable to American interests and values.

Since the latter part of the 19th century, the United States has advocated an open-door policy that sought to maintain access to foreign markets and prevent colonial powers from making third countries their own private preserve.[50] More recently, American presidents from both parties have promoted the value of free markets and free societies. Speaking to the UN General Assembly, Bill Clinton declared, "in the interest of shared prosperity, the United States actively promotes open markets."[51] The US favored a "more open global trading system," Clinton claimed, because the elimination of foreign trade barriers was as important to America's national security as its military strength.[52] George W Bush believed that America "benefited from the global advance of free markets" and that "free trade helped make America into a global economic power."[53] He worked to expand free trade agreements in the Americas, endorsed the admission of China into the WTO, and promoted the Doha Round of global trade

40 William Wohlforth, "The Stability of a Unipolar World," *International Security* (Summer 1999)
41 Paul Kennedy, "The Greatest Superpower Ever," *New Perspectives Quarterly* (Spring 2002)
42 John Ikenberry, *After Victory* (Princeton University Press, 2001), p 4.
43 Ikenberry, ibid, pp 234-35.
44 See Melvin Leffler, "The American Conception of National Security and the Beginnings of the Cold War," *American Historical Review* 89/2 (1984).
45 John Ikenberry, "America's Liberal Grand Strategy," in Ikenberry, ed., *American Foreign Policy* (Houghton Mifflin, 2005), pp 277-79.
46 Alastair Ian Johnston, "The Failures of the 'Failure of Engagement" with China," *The Washington Quarterly* (Summer 2019), p 99.
47 Bill Clinton, News Conference, 28 January 1997.
48 Madeline Albright, Statement before the Senate Finance Committee on China MFN, 10 June 1997.
49 Samuel Berger, White House Briefing on US-China Summit, 23 October 1997.
50 See N.A. Graebner, *Foundations of American Foreign Policy* (Wilmington: Scholarly Resources, 1985), and W.A. Williams, *From Colony to Empire: Essays in the History of American Foreign Relations* (New York: Wiley, 1972).
51 Clinton, Address to the UN General Assembly, 26 September 1994.
52 Clinton, Remarks on the signing of NAFTA, 8 December 1993.
53 Bush, "The Spirit of Liberty: At Home, In the World," New York City, 19 October 2017.

negotiations.[54] As he once told a group of business leaders in Miami, "I'm not the first President to ever stand up and say we need to expand trade. As a matter of fact, Presidents from Eisenhower to Kennedy, to Reagan and Clinton have worked to seize the opportunities for free and fair trade. Opening up foreign markets for America's goods and services has been a high priority for my administration. In January 2001, America had free trade agreements in force with just three countries. Now we have agreements with fourteen countries."[55] Barack Obama, too, fought hard during his administration for free-trade agreements in both Asia (Trans-Pacific Partnership) and Europe (Transatlantic Trade and Investment Partnership) because, he believed, "trade has been a cornerstone of our growth and global development."[56] Far from endorsing state intervention in the economy, America has, instead, been "the leading apostle of globalization."[57] Since Woodrow Wilson, US policy has sought to remake the world in America's image. With its modern version of the open door and its penetration of national markets and cultures, globalization essentially serves to fulfill an American vision of world order.

5 The Decline: From Neoliberalism to Mercantilism

But now, economic openness has become a liability for the United States. Having reigned supreme since the end of the Cold War, the United States is wary of threats to its dominant position. One can never be too careful. Prudence dictates that one prepare for the eventual challenge, and China seems to be the most likely candidate for the role of challenger. Thus, the US is using all the tools available to blunt that challenge. In so doing, the US has lashed out at China and implemented an industrial policy that privileges "specific sectors that are foundational to economic growth."[58] American leaders have come to believe that globalization has benefited China to the detriment of American industry. Robert Lighthizer, US Trade Representative in the Trump administration, argued that the institutions of globalization "didn't work in the interest of the US for the last 25 years. I would say they did work for China." Although globalization was responsible for lifting hundreds of millions of people out of poverty, Lighthizer remarked, "since when is alleviating poverty in China a top American objective?"[59] Katherine Tai, US Trade Representative in the Biden administration, echoes this sentiment. She accuses China of "economic mercantilism" and thinks that globalization "is responsible for how economies like the People's Republic of China came to control a number of key industries."[60] The focus of American trade policy, she said, would henceforth shift "from liberalization and the pursuit of efficiency … to raising standards, building resiliency, driving sustainability, and fostering more inclusive prosperity."[61] Instead of the traditional approach advocating trade liberalization and tariff reduction, the Biden administration will put a priority on workers' rights, climate change, and inequality.

According to one observer, "a new nationalism has settled in, deeply, in both political parties … there is now widespread consensus that America must pull out all the stops to pull away from China and withdraw from globalized supply chains."[62] In his first presidential campaign, Donald Trump declared, "we can't continue to allow China to rape our country."[63] Less dramatically, President Biden echoed this rhetoric in a speech to Congress, "There is simply no reason why the blades for wind turbines can't be built in Pittsburgh instead of Beijing."[64] A year later, in his State of the Union Address, he declared "instead of relying on foreign supply chains, let's make it in America."[65] The global division of labor so heralded by Ricardo has been replaced by industrial policy and state-directed capitalism. The Inflation Reduction Act of August 2022 grants billions of dollars in federal subsidies to targeted industries with the proviso that products are manufactured in America. These measures were presaged by the rejection of major multilateral free-trade agreements under both the Obama (Trans-Pacific Partnership, TPP) and the Trump (Trans-Atlantic Trade and Investment Partnership, TTIP) administrations. As one observer put it, "hardly anyone at any point on the American political spectrum is talking about open markets and free trade."[66]

President Biden claims to be an advocate of the liberal international order. However, that order requires a commitment to internationalism over nationalism and free trade over protectionism. Biden insists that he wants to preserve the liberal economic order, an order of globalization characterized by economic openness. But his sanctions against Russia and China go in the opposite direction, toward nationalism, autarchy, and economic closure. The efforts of the Biden administration

54 "The US Commitment to Global Free Trade: Supporting the Doha Development Round," Department of State, 23 June 2006.
55 President Bush Discusses Free Trade Agreements, Miami, 12 October 2007.
56 Barack Obama, Speech in Berlin, 24 July 2008.
57 "Adieu, laissez-faire," *The Economist,* 29 October 2022.
58 Jake Sullivan, Remarks at the Brookings Institution, 27 April 2023.
59 Quoted in Gavin Bade, "Joe Biden wants a 'new economic world order," *POLITICO*, 25 May 2023.
60 Tai, remarks at American University Washington School of Law, 5 April 2023.
61 Tai, Remarks at the National Press Club on Supply Chain Resilience, 15 June 2023.
62 Michael Hirsh, "Who's Winning the US-China Trade War? No One," *Foreign Policy,* 21 September 2022.
63 "Trump: 'We can't continue to allow China to rape our country'," *Politico*, 2 May 2016
64 Biden, Address to a Joint Session of Congress, 28 April 2021.
65 Biden, State of the Union Address, 1 March 2022
66 See David Wallace-Wells, "America's 'Neoliberal' Consensus Might Finally be Dead," *New York Times,* 25 May 2023.

are, due to reasons of state, acting to restrict the flow of goods and capital between the US and China, between Europe and Russia, and between Europe and China.[67] Biden is doubling down on the efforts of his predecessor, Donald Trump, who slapped tariffs on steel and aluminum and $360 billion worth of Chinese goods.[68] Biden, for instance, recently called for a tripling of tariffs on Chinese steel, as well as increased tariffs on imports of electric vehicles, batteries, and solar panels from China.[69] He is also pursuing sanctions, initiated in the Trump administration, against Chinese-owned communications companies like TikTok, WeChat, and Huawei. In May 2019 President Trump banned the installation of American apps (Google) on Huawei's mobile phones and then banned American telecom firms from installing Huawei's equipment in their 5G networks, citing national security concerns.[70] And in May 2021, Biden extended the Trump administration ban on the use by US companies of telecommunications equipment from Huawei. In June 2021, President Biden issued an executive order extending the Trump administration ban on American investment in Chinese companies, including Huawei, with purported ties to defense or surveillance technology sectors. "China's main export is espionage," asserted US Senator Ben Sasse, "and the distinction between the Chinese Communist Party and Chinese 'private sector' businesses like Huawei is imaginary."[71] In August 2020, Trump issued an executive order banning Chinese social media networks TikTok and WeChat in the United States.[72] In Feb 2023, Biden ordered the removal of TikTok from all US government-issued communication devices.[73]

In October 2021, the US Federal Communications Commission (FCC) revoked the authority of China Telecom to provide telecommunications services in the United States. In November 2021, the US Department of Commerce placed a dozen Chinese firms on the blacklist for quantum computing products that allegedly support Chinese military applications. In December 2021, the US Treasury Department placed nine Chinese companies on an investment blacklist, banning US investors from buying or selling their shares, due to their alleged contribution to the biometric surveillance of ethnic minorities in China. In March 2022, the US Security and Exchange Commission identified six Chinese companies, including Weibo, as targets for de-listing from US stock exchanges. In June 2022, the US banned imports of textiles made in Xinjiang province, citing human rights abuses against the Uighur minority. In August 2022, the US Department of Commerce restricted the access of Chinese aerospace and electronics companies to computer chips from NVIDIA and Advanced Micro Devices used in applications of artificial intelligence.[74] In October 2022, the US Department of Commerce issued sweeping controls on the export of advanced computing and semiconductors to China in an effort to "restrict the PRC's ability to purchase and manufacture certain high-end chips used in military applications." These controls extend to companies from third-party countries that sell US-made items to China.[75] In November 2022, the Biden administration banned the import or sale of telecom equipment from five Chinese firms, including Huawei, ZTE, Hytera Communications, Hikvision Digital, and Dahua Technologies in order "to protect the American people from national security threats involving telecommunications," according to FCC Chair, Jessica Rosenworcel.[76]

In August 2023, President Biden issued an executive order banning American venture capital and private equity firms from investing in Chinese technology, citing national security concerns. Sectors covered by the ban include cutting-edge technologies such as, advanced semiconductors and microelectronics, quantum information technologies, and artificial intelligence. [77] The US is going a step further by entreating allies like the European Union, Japan, and South Korea to join its effort to deprive China of high-tech investment. The Netherlands, whose ASML Holding NV supplies photolithography technology critical to the manufacture of the most advanced computer chips, agreed to a similar control regime in January 2023. Soon thereafter, Japan put export controls on Tokyo Electron and Nikon Corporation, whose lithography systems are essential to the process of semiconductor manufacturing. [78] And members of Congress want to enlarge the boycott to areas of clean energy and biotechnology. "We need to stop the flow of American dollars and know-how supporting China's military and surveillance

67 See *The Economist,* "The destructive new logic that threatens globalization," 14 January 2023.

68 Pablo Fajgelbaum et al, "The Return to Protectionism," *The Quarterly Journal of Economics* (February 2020).

69 "Biden Calls for Steep Hike to Tariffs on Chinese Steel," *Wall Street Journal,* 17 April 2024, and "Biden, Competing with Trump to be Tough on China, Calls for Steel Tariffs," *New York Times,* 17 April 2024.

70 "Huawei is a Target as Trump Moves to Ban Foreign Telecom Gear," *New York Times,* 15 May 2019.

71 Quoted in Reuters, "Trump administration hits China's Huawei with one-two punch," 16 May 2019.

72 Executive Order on Addressing the Threat Posed by TikTok, White House, 6 August 2020; and "Trump Targets WeChat and TikTok, in Sharp Escalation with China," *New York Times,* 6 August 2020.

73 "Restricting TikTok: Legal History and Background," *Congressional Research Service,* 28 September 2023.

74 Gregory Allen, "Choking off China's Access to the Future of AI," *CSIS*, 11 October 2022.

75 "Commerce Strengthens Restrictions on Advanced Computing Semiconductors, Semiconductor Manufacturing Equipment, and Supercomputing Items to Countries of Concern," US Department of Commerce (BIS), 17 October 2023; and "US-China Relations in the Biden Era," *China Briefing,* 6 March 2023.

76 Federal Communications Commission, FCC Bans Equipment for Chinese Telecoms, 25 November 2022.

77 Executive Order on Addressing United States Investments in Certain National Security Technologies and Products in Countries of Concern," White House, 9 August 2023. See also Gregory Allen, "Choking off China's Access to the Future of AI," *CSIS,* 11 October 2022.

78 "Japan, Netherlands Agree to Limit Exports of Chip-Making Equipment to China," *Wall Street Journal*, 28 January 2023; Council on Foreign Relations, "President Biden banned US investment in China," 29 August 2023.

apparatus," said Michael McCaul, Chairman of the House Foreign Relations Committee. [79] As a result, American companies are shifting factory production away from China and towards countries like Vietnam, Malaysia, and India.[80]

American efforts to inhibit China's rise, to slow its growth, block its access to cutting-edge technologies, and erode China's ties with Asian countries, are not lost on China. A spokesman for the Chinese Embassy in Washington protested "we oppose overstretching the concept of national security to wear down Chinese enterprises, oppose abusing export control measures in the name of outcompeting China."[81] Chairman Xi Jin Ping himself insisted that the United States is "engaged in all-around containment, encirclement and suppression of China."[82] It is "beyond doubt," he stated, that "our country's growing strength is the most important factor driving a profound readjustment of the international order."[83] Thucydides could not have said it better. Identifying the cause of the Peloponnesian War, he explained "the growth of the power of Athens, and the alarm which this inspired in Sparta made war inevitable." [84]

Although American officials insist that the US is not trying to de-couple from China, only to de-risk it, their credibility is risible. In the course of visits to India and Vietnam, two nations on China's periphery with whom the US has recently concluded "strategic partnerships," President Biden claimed "I don't want to contain China."[85] Treasury Secretary Janet Yellen insists that restrictions on Chinese imports are "not designed for us to gain a competitive economic advantage, or stifle China's economic and technological modernization."[86] Commerce Secretary Gina Raimondo stated "we are not seeking the decoupling of our economy from that of China."[87] Jake Sullivan, National Security Advisor, insists that the US is merely building "a high fence around a small yard," not trying to de-couple from China, but only to de-risk from it.[88] But the Biden administration's plans to restrict China's access to advanced technology represent a marked escalation of the Trump administration's tariff and trade measures. To some observers of US China policy, it is "more than an escalation, it's a grand departure from a three-decade strategy."[89] To others, the Biden administration strategy looks like an effort to strangle China's development in sensitive technologies and degrade its overall economic competitiveness. A recent report from the Center for Strategic and International Studies (CSIS) argues that "the Biden administration is trying to (1) strangle the Chinese AI industry by choking off access to high-end AI chips; (2) block China from designing AI chips domestically by choking off China's access to US-made chip design software; (3) block China from manufacturing advanced chips by choking off access to US-built semiconductor manufacturing equipment; and (4) block China from domestically producing semiconductor manufacturing equipment by choking off access to US-built components." [90] In fact, according to a former Deputy Assistant to the President for International Economics responsible for China's economic policy in the Trump administration, it seems that the Biden administration views any "Chinese indigenous innovation as a per se national security threat."[91]

In a speech at George Washington University, US Secretary of State Antony Blinken stated the government's approach to China succinctly as "*invest*, *align*, *compete*."[92] What did these innocuous words mean in terms of policy? The United States, Blinken explained further, is going to invest billions of public funds in a targeted industrial policy that subsidizes sectors of the future like artificial intelligence, biotechnology, and quantum computing. The US is going to align with allies in Europe and Asia to modify the rules of the "rules-based international order" in order to contain China. And the US is going to compete by implementing a series of protectionist measures directed at China in the form of export controls, tariffs, "friend shoring," and restrictions on capital flow. In terms of alignment, the US-EU Trade and Technology Council (TTC), announced in June 2021, will work to coordinate trade policies "in line with democratic principles and universal human rights" against a common adversary, China, in order to uphold a rules-based international order.[93] In this vein, the United States and the European Union disclosed a "Global

79 Peter Baker and David Sanger, "Biden Orders Ban on New Investments in China's Sensitive High-Tech Industries," *New York Times*, 9 August 2023.

80 "Tech Companies Slowly Shift Production Away from China," *New York Times,* 1 September 2022; and "The Rise and Fall of the World's Most Successful Joint Venture," *New York Times,* 14 November 2023.

81 Liu Pengyu, Embassy of the PRC in Washington, quoted in Gade, POLITICO, 25 May 2023.

82 "Xi's Brotherly Hug with Putin: It's Us against the Americans," *New York Times,* 23 March 2023.

83 Chris Buckley, "Behind Public Assurances, Xi Jinping Spread Grim Views on US," *New York Times,* 13 November 2023.

84 Thucydides, *The Peloponnesian War* (Modern Library, 1982), p 14; see also Graham Allison, *Destined for War: Can American and China Escape Thucydides' Trap*? (Houghton Mifflin, 2017).

85 Remarks by President Biden in Hanoi, White House, 10 September 2023; Joint Statement Elevating US-Vietnam Relations to Comprehensive Strategic Partnership," White House, 11 September 2023; Joint Statement from the United States and India, 22 June 2023.

86 Remarks by Janet Yellen on the US-China Economic Relationship at Johns Hopkins SAIS, 20 April 2023.

87 Remarks by US Secretary of Commerce Gina Raimondo at the Massachusetts Institute of Technology on "the US Competitiveness and the China Challenge," on 30 November 2022, 50th anniversary of economic relations between the United States and the People's Republic of China.

88 Sullivan, Brookings Institution, 27 April 2023; see also Damien Cave, "How 'Decoupling' from China became 'De-risking,'" *New York Times,* 20 May 2023.

89 Eric Sayers, US Pacific Command during the Trump administration, quoted in *POLITICO*, 26 December 2022.

90 Gregory Allen, "Choking off China's Access to the Future of AI," *CSIS*, 11 October 2022.

91 Clete Willems, quoted in Gavin Bade, "'A sea change': Biden reverses decades of Chinese trade policy," *POLITICO*, 26 December 2022.

92 Blinken, "The Administration's Approach to the People's Republic of China," 26 May 2022.

93 "Fact Sheet: US-EU Trade and Technology Council Advances Concrete Action on Transatlantic Cooperation," White House, 5 December 2022.

Arrangement" in Oct 2021 to jointly impose tariffs on high-carbon steel and aluminum from China.[94] The Biden administration is working to mobilize a "network of allies and partners" in a global containment of China, which it views as "the most serious long-term challenge to the international order." In an effort that recalls the *pactomania* of the early Cold War, the US is pursuing increased security, economic and technology cooperation with South Korea and Japan, with Australia, India, and Japan in the context of the "Quad" group, with India, Israel, and the UAE in the 12-U2 grouping, with ASEAN countries, and with Australia and the UK in the context of AUKUS.[95] The US has even tried to prohibit China's access to sensitive technology from a company (G42) based in the United Arab Emirates (UAE). This company, which deals in artificial intelligence, quantum computing, and genomic research, works with large Chinese firms like Huawei and has come under enormous pressure from the White House to sever its ties with Chinese clients.[96] In terms of competing, Blinken emphasized "new and stronger export controls," tariff protection against companies that "do little to control pollution or protect the rights of their workers," and "sharper investment screening measures" to prevent Chinese access to sensitive technologies and thwart China's progress in key strategic sectors, like solar panels and electric car batteries. Although Blinken labeled these policies with the term "competition," it looks very much like a euphemism for the term "protection." The goal, as Blinken put it, is to defend, "modernize," and, as necessary, "reform" the rules-based international order. But the more likely outcome of these mercantilist, nationalist policies is a world of economic blocs that spells the end of the neoliberal, market-oriented approach that defines globalization.

It was Secretary of Commerce Raimondo who specifically linked these policies to an eighteenth-century treatise by then Secretary of the Treasury, Alexander Hamilton, *Report on the Subject of Manufactures*, that is the very model of economic nationalism.[97] She claimed that President Biden's use of industrial policy to identify and subsidize critical sectors of the economy such as semiconductors, biotechnology, telecommunications, and clean energy was "rooted deeply in American history."[98] Liberal economic theory that relies on a free market to allocate capital and choose winners was anathema to Hamilton. Instead, he took a page out of mercantilist theory and advocated the imposition of tariffs to protect American industry from foreign competition along with state subsidies to promote domestic manufacturing. Hamilton complained about the unfair trade practices of foreign powers, especially of Great Britain, which subsidized exports to give their own manufacturers an artificial cost advantage. At the same time, these countries threw "numerous and very injurious impediments" in the way of American imports. "The United States cannot exchange with Europe on equal terms," he charged. American exports could not compete on a level playing field. The solution, Hamilton advised, involved state-sponsored support to encourage domestic manufacturing. Such an endeavor, he wrote, was not possible "without the extraordinary aid and protection of government." In order for American manufacturers to compete with their European rivals, "the interference and aid of their own government are indispensible."

Raimondo, too, complained about unfair trade practices. She charged that China committed "massive state support of its industries" through direct subsidies, intellectual property theft, the employment of forced labor, and lax environmental regulations, all of which allowed Chinese manufacturers to lower the cost of production. By putting its thumb on the scale, she charged, the Chinese government was able to "tilt the playing field against American workers," including her own father, who was forced into early retirement when his job at the Bulova Watch Factory in Providence moved to China.[99] Such unfair practices compelled the US government to rethink its "tools of economic statecraft." Henceforth, the state would intervene to remedy the failings of the free market. The US would bolster its system of export controls, upgrade its investment-screening regime to prevent undue foreign influence over the economy, and re-direct its global supply chain to friends and allies in a process called "friend-shoring." One example of this process is the coordinated sourcing of rare earth minerals from "friendly" places like Canada, Japan, and Australia instead of from China. New export controls limit China's ability to purchase or manufacture advanced semiconductors, while controls on capital flows restrict the ability of American citizens to support such activities through foreign direct investment. At the same time, the US is attempting to coordinate or "align" its trade policies with allies and partners to modify the rules of the international system. Biden administration officials have boldly announced their intention to transform the G7 into "a steering committee of the free world" in a grand scheme to create a "strategic alignment across the Atlantic and the Pacific."[100] The idea is to organize a new economic order that promotes democratic values at the expense

94 "Fact Sheet: The United States and European Union to Negotiate World's First Carbon-Based Sectoral Arrangement on Steel and Aluminum Trade," White House, 31 October 2021; and Robert Kuttner, "Connecting Climate Goals to Industrial Goals," *The American Prospect,* 16 November 2021.

95 See Stephen Walt, "The Biden Administration is Addicted to Partnerships," *Foreign Policy,* 3 October 2023; and CL Sulzberger, "Does the US Suffer from Pactomania?" *New York Times,* 23 November 1955.

96 Mark Mazzetti and Edward Wong, "AI Firm's Ties to China Rattle Top US Spies," *New York Times,* 28 November 2023.

97 Alexander Hamilton, Report to Congress on the Subject of Manufactures, 5 December 1791; see also Robert Kuttner, "Reclaiming US Industry," *The American Prospect* (February 2023); and "Economic Nationalism through the Ages," in Michael Heilperin, *Studies in Economic Nationalism* (Geneva: Droz, 1960).

98 Raimondo, Remarks at MIT on US Competitiveness and the China Challenge, 30 November 2022.

99 Raimondo, Remarks on US Competitiveness and the China Challenge, 30 November 2022.

100 Jake Sullivan, Remarks at the Global Emerging Technologies Summit, 16 September 2022.

of non-democratic countries, like Russia, Iran, and China. [101] The result of such a campaign is likely to be a world of exclusive economic blocs that constitute the antithesis of the liberal multilateral order that characterizes globalization.

Paradoxically, it is the Chinese who now pose as the advocates of neoliberal doctrine. Over the past several years, Xi Jinping has spoken frequently of the need to defend the existing international economic order, to promote globalization, to uphold the rules of the multilateral trading regime under the World Trade Organization (WTO), and to oppose unilateralism and protectionism. In a speech to the United Nations General Assembly, Xi championed economic cooperation to achieve absolute gains for all, urging nations to pursue "win-win" strategies rather than the "zero-sum" competition that seeks to maximize relative gains. "One country's success," he implored, "does not have to mean another country's failure."[102] At the World Economic Forum in Davos, Xi called for a return to multilateralism and a focus on "win-win cooperation." He warned that the international economic order was at risk of falling back "into the world of the jungle" if multilateralism were abandoned.[103] And at the Annual Conference of the Boao Forum, Xi urged Asian nations to "promote trade and investment liberalization … with a view to building an open world economy." He went on to say that "In this age of economic globalization, openness and integration is an unstoppable historical trend. Attempts to 'erect walls' or 'decouple' run counter to the law of economics and market principles."[104] In response to a recent initiative from the House Select Committee on the Chinese Communist Party, which proposes the imposition of a new round of tariffs on Chinese goods, a Chinese spokesman protested that such actions ran counter to "the principles of market economy and … undermine the international economic and trading order."[105]

6 The Fall: From Integration to Fragmentation

Biden's approach rejects the trade liberalization doctrine that governed decades of American trade policy under both Republican and Democratic administrations. Taken together, the Biden administration policies amount to a declaration of war, a cold war, whose ultimate result is likely to be an erosion of the multilateral trading system and a world of economic blocs that puts a final nail in the coffin of globalization.[106] The industrial policies and subsidies for domestic manufacturing in the CHIPS for America Act and the Inflation Reduction Act magnify the trends in economic nationalism that accelerate the decline of globalization. Over the past fifteen years, the index of global economic openness has declined. According to the World Bank, the ratio of world trade to global GDP has trended downward from 61% in 2008 to 57% in 2021. Global capital flows in the form of Foreign Direct Investment have shown an even steeper decline. From 2007 to 2022, global capital flows dropped from $3.1 trillion to $1.7 trillion, representing a decline from 5.3% to 1.7% of world GDP.[107] Restrictions on the free flow of capital are antithetical to the neoliberal principles that underwrite the liberal international economic order created by the US after WWII.

Since 2012, economic analyses have found "a steep increase in worldwide protectionism" and "a massive rise in the incidence of discriminatory trade measures." The WTO is no longer functioning as a multilateral institution that regulates trade, and "trade agreements and dispute resolution within the multilateral trade regime have also ground to a halt." [108] According to the IMF, "trade growth between economies in politically distant blocs has slowed … and industrial policies are back on the agenda – with new analysis showing more than 2,500 policy interventions worldwide" in 2023, roughly three times the number in 2019.[109] When a country introduces a subsidy to advantage its own industry, there is roughly a 75 percent chance that another country will introduce a similar one on the same product within a year. This is indeed the case, as France, Germany, and Italy recently pledged to coordinate their economic policies "to counter stepped-up efforts by Washington and Beijing to protect their own homegrown businesses." [110] Such industrial policies "lead to damaging cross-border spillovers, raising the risk of retaliation by other countries, which can ultimately weaken the multilateral trading system and worsen geo-economic fragmentation."[111] The US weaponization of the dollar against adversaries like Russia, Iran, and Venezuela has increasingly undermined confidence in

101 See Beckley, "Enemies of My Enemy," for an argument on "orders of exclusion."

102 "China's Xi Jinping promotes 'dialogue and cooperation' in UN speech," *PBS News Hour*, 21 September 2021; "Xiplomacy: Xi urges world to practice true multilateralism," *Xinhua*, 22 September 2021.

103 "China's President Xi Jinping pushes global cooperation," *CNN*, 25 January 2021.

104 Keynote speech by Xi Jinping at the Boao Forum for Asia Annual Conference, 20 April 2021.

105 "Lawmakers Want to Reset Economic Ties to China, Starting with Tariff Rates," *New York Times,* 13 December 2023.

106 See David Brooks, "A Cold War with China has Begun," *New York Times*, 24 March 2023.

107 "World Trade to GDP Ratio 1970-2023" and "World Foreign Direct Investment 1970-2023," in *World Development Indicators,* The World Bank.

108 Edward Mansfield, Helen Milner, and Nita Rudra, "The Globalization Backlash," special issue of *Comparative Political Studies*, Vol 54, Issue 13 (November 2021), pp 2271-72.

109 IMF Managing Director Kristalina Georgieva, "Outlook for the Global Economy and Policy Priorities," 11 April 2024.

110 Patricia Cohen, "Following the US and China, Countries Revert to Protectionism," *New York Times,* 17 April 2024. See also joint press release, "France, Italy and Germany Call to Foster the Development of Green and Digital Technologies to Enhance European Competitiveness," Ministère de l'Économie, 8 April 2024.

111 "Industrial Policy is Back," *IMF Blog*, 12 April 2024.

the dollar as the world's reserve currency. Such weaponization "serves to increase incentives toward financial fragmentation."[112] JP Morgan predicts that "this could over time give rise to regionalism, creating distinct economic and financial spheres of influence in which different currencies and markets assume central roles."[113] Indeed, the BRICS (Brazil, Russia, India, China, and South Africa) are discussing means to escape dollar dominance. Dilma Rousseff, former President of Brazil, has pledged to "find ways to avoid … being dependent on a single currency." And even the German foreign minister has called for a new EU-based payments system that would not involve dollar payments.[114] For her part, Christine Lagarde, President of the European Central Bank, sees a perceptible shift in world trade from globalization to regionalization. She believes that "fragmentation at the global level may ultimately spur greater integration at the regional level" to offset supply-chain risk and to pool resources for economic competition.[115]

In his campaign for the 2024 Presidential election, Donald Trump promises to go even further than Joe Biden in his war on multilateralism. Trump decries the "globalist agenda that ripped the heart out of our country "and now threatens to impose "a system of universal, baseline tariffs on most foreign products" across the board. The mercantilist aim is to reward domestic production and punish foreign competition. In respect of China, he plans to phase out "all Chinese imports of essential goods – everything from electronics to steel to pharmaceuticals" and "revoke China's Most Favored Nation trade status."[116] These plans are not far-fetched. In December 2023, the US House of Representatives issued a bipartisan report alleging that China has long carried out a campaign of "economic aggression" to undercut American companies and dominate crucial global industries. It accuses China of weaponizing economic interdependence in order to fulfill Xi Jinping's directive to become the "gravediggers of capitalism." In order to protect America's national economic security, the report recommends that the US retaliate by imposing new tariffs on Chinese goods, strengthening export controls on critical technologies, and cutting off the flow of capital between the US and China. And because "the PRC's state-led economic system is antithetical to the founding principles of the WTO," the report recommends a review of China's Permanent Normal Trade Relations (Most Favored Nation) status, which prohibits discriminatory trade practices and affords the same favorable trade treatment, such as lower tariffs and fewer regulatory requirements, available to all other nations that enjoy this status. [117]

The populist rhetoric of Republican Donald Trump has thus combined with the progressive rhetoric of Democrat Joe Biden to form a political consensus of the American right and left that globalization benefits global elites (capitalists) at the expense of workers (labor) and exacerbates inequality without delivering prosperity to the middle class. These concerns about inequity join those of workers' rights and environmental protection to form the guiding principles of Biden's new economic world order. Thus, an emphasis on nationalism and protectionism displaces the former neoliberal consensus on the free movement of capital, goods, and labor known as globalization. First with the pandemic, then with supply chains, tariffs against China, and sanctions against Russian oil and gas, the world is increasingly morphing into economic blocs. Increased nationalism and autarchy are trending because each state fears that the interdependence of an integrated, globalized economy will leave it without critical supplies of war materiel when conflict replaces cooperation. The more the US pursues aggressive economic measures against its adversaries, the more those adversaries will be motivated (a) to retaliate against American interests by pursuing their own protectionist policies, and (b) to decouple from the liberal international order by creating rival systems to reduce their economic vulnerabilities.[118] These developments will, in turn, reduce the flow of goods, capital, and labor across international borders and further dilute globalization.

Looking around the world for challenges to its reign, the United States identified China as the most likely threat in its *2022 National Security Strategy*, calling the PRC "America's most consequential geopolitical challenge." In a "strategic competition to shape the future of the international order," it claims, the PRC is the only competitor with "the economic, diplomatic, military, and technological capacity" to present a challenge to American primacy.[119] The US is still the most powerful nation on earth, but it is now merely *primus inter pares* (first among equals), rather than the world's only great power. The US is taking a hard line against China in its effort to reshape the rules of the global economic order, but it is not a liberal internationalist line. Rather, it has a much greater resemblance to a nationalist, mercantilist line. The result of such an approach is likely to be a "bifurcation" of the world into trading blocs, "with Chinese markets and manufacturing on one side and American-approved supply chains on the other."[120] That would sound the death-knell of the multilateral trade regime known as the liberal international order.[121]

---

112 Elliot Hentov et al, "What Does the Weaponization of Global Finance Mean for US Dollar Dominance?" *War on the Rocks,* 13 September 2022.
113 "De-dollarization: Is the US dollar losing its dominance?" JP Morgan global research, 31 August 2023.
114 Robert Wade, "The beginning of the end for the US dollar's global dominance," *LSE Blog*, 29 February 2024.
115 Lagarde, "A new global map," Peterson Institute for International Economics, 22 April 2022.
116 Donald Trump, "Agenda47: President Trump's New Trade Plan to Protect American Workers," 27 February 2023.
117 "Reset, Prevent, Build: A Strategy to Win America's Economic Competition with the Chinese Communist Party," US House of Representatives Select Committee on the Chinese Communist Party, 12 December 2023.
118 See Henry Farrell and Abraham Newman, "Weaponized Interdependence," *International Security* (Summer 2019), pp 76-79.
119 *National Security Strategy,* White House, October 2022.
120 See Damien Cave, "How 'Decoupling' from China became 'De-risking'," *New York Times,* 20 May 2023.
121 See G. John Ikenberry, "The end of liberal international order?" *International Affairs* (January 2018).

"Biden's abandonment of free-market rules," *The Economist* writes, has dealt a blow to globalization and set the stage for "a dangerous spiral into protectionism worldwide."[122] Biden's "free-for-all of industrial policy and protectionism," as *The Economist* has pointed out, "is the biggest policy shift in a generation."[123] It may be the most effective way to preserve American primacy against a global challenger, but it is not at all conducive to the preservation of globalization. In the end, the decline of hegemony has driven the political clergy to sacrifice globalization on the altar of American primacy. Globalization is a creature of US hegemony, informed by American political, cultural, and economic values. As such, the fate of world economic integration known as globalization is likely to follow the course of American hegemony into oblivion.

122 "Zero-Sum: the destructive logic that threatens globalization," *The Economist*, 14 January 2023.
123 *The Economist*, "New industrial policies will not help economic stability," 2 October 2023.