

The probable impact of policies and policy measures on globalisation

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This paper aims to identify the impact of the recent economic and non-economic shocks on the globalisation of trade in terms of trade policy and structural openness, and to take a side in the discussion about the reversal, the slowdown, and the continuation of trade globalisation. The report argues that geopolitical decisions based on pure political priorities and different macro- and micro-policies may harm trade globalisation temporarily. Nevertheless, in the long run, underlying economic factors, such as decreasing trade costs and expanding services trade remain the critical driving forces of globalisation. The speed of the process is likely to be slower than before, and its characteristics are different. With weakening multilateralism and increasing fragmentation, the emerging global world order will be suboptimal from the point of view of economic efficiency.

Journal of Economic Literature (JEL) codes: F01, F02, F13, F60.

Keywords: export control, import protectionism, trade policy and structural openness, subsidies, globalisation, deglobalisation, regionalisation.

1. Introduction

Economic participants comprising governments and businesses introduced measures in the past few years to combat climate change and the Covid-19 pandemic and, later, to reduce Russia's economic potential and military capabilities for enhancing the price of waging its war against Ukraine. These steps have been re-

Acknowledgements

The study was carried out in the framework of the MTA-BGE Macroeconomic Sustainability Research Group, with the support of the Eötvös Loránd Research Network Office for Supported Research Groups. Miklós Losoncz is the leader of the research group.

sponses to external health and geopolitical challenges, or in other words, *non-economic shocks*. They have affected international economic relations and the global economy significantly.

Recently, war has replaced disease and climate change among the critical issues on the agenda in the context of the global economy. The geopolitical threat of the rivalry between the US and China, too, has been added to the real challenges. In a broader context, some authors addressed the possibility of a *poly-crisis* describing a situation when the interaction of disparate shocks triggers a crisis more considerable than the sum of the parts (Tooze, 2022). The term poly-crisis highlights the diversity and the coincidence of shocks and their cumulative outcome.¹

The *objective* of this report is to assess and analyse the impact of political decisions and broadly defined trade policy measures introduced primarily by the largest countries and geographical entities to manage external non-economic shocks on world trade, the world economy and economic globalisation.² The report focuses on the flow of goods and services constituting the most extensive section of the international division of labour. By trade policy measures, import protectionism, export controls and restrictions, and subsidies are meant. The world, the OECD, the US, China, and the European Union are geographically covered in the report.

Nevertheless, the general development trends in the global economy are shaped not only by policies and policy measures but by non-policy drivers such as numerous specific economic, technological, political, social, and cyclical factors, as well as other broadly defined challenges and shocks (i.e. Brexit, *inter alia*) as well, some of which are also considered in this study.

The first year of this report's *time horizon* is 2020, which is associated with the outbreak of the Covid-19 pandemic. Whenever necessary, earlier trends preceding this year are also touched upon. The report's approach is future-oriented, i.e., conclusions for the future are drawn from past trends. Although globalisation has several dimensions, this paper focuses only on foreign trade and trade-related issues.

The report is a qualitative impact analysis of the applied *research methodology*. The main trade policy measures were collected, and their direct and indirect impact on the world economy was assessed. This paper distinguished trade policy openness (the size of trade barriers) and structural trade openness (the share

¹ Chapter 3.2. of the World Economic Forum (2023) discussed the possibility of a poly-crisis in natural resources, climate, and cooperation. For a more detailed explanation, see Drezner (2023).

² The most widespread general definition of globalisation is the following. "Globalisation...is the process of increasingly free flow of ideas, people, goods, services, and capital across borders that leads to greater economic integration." (International Monetary Fund 2023, p. 6.) Expertise and intellectual property can be added to this list. For many years, globalisation has been interpreted as across-the-board liberalisation; this perception is the focus of this study.

of exports and imports in GDP). The conclusions drawn from the analysis were confronted with the results of the relevant literary sources. The report attempted to synthesise the significant statements and conclusions of the existing literature.

The *literature background* is rather broad. The primary focus is on scientific publications. They are relatively scarce since more time is required to undertake thorough, comprehensive empirical and other types of scientific analysis, leading to well-established generalised new results and conclusions. In addition to scientific publications, this study relies on publicly available non-academic literature, including articles from various high-quality dailies and weeklies and other reports available on the internet. Providing incidental or systematic literature review would go beyond the length limit of the paper.

The topic of this report is a *timely issue* in the Hungarian and international economic literature. Until recently, many literary sources have been devoted to analysing the global impact of climate change, the Covid-19 pandemic, and Russia's unprovoked war against Ukraine, demonstrating *the topic's relevancy*. They highlighted the issue from several viewpoints, but some uncharted fields remain. Disputes in the scientific community comprised evaluating the impact of the latest policy actions and economic development trends on globalisation. Literary sources introduced terms such as *deglobalisation*, referring to the complete reversal of globalisation (decoupling from international trends at the level of individual countries and undoing globalisation at the level of the world economy), *globalisation*, i.e., the slowdown or stagnation of globalisation and *continued or sustained globalisation*. The terms globalisation and deglobalisation can be applied to policies, as well. The authors of the individual studies picked specific measures of globalisation to prove their views and disprove those of their opponents.

This paper's main research questions are the following. First is the impact of general macro policies and specific micro policy measures reducing trade policy openness and increasing the fragmentation of the world economy reflected in the real economy regarding the foreign trade's growth in goods and services and changes in structural openness? Second, how can the effects of protectionist and other trade policy measures on globalisation be evaluated? Is the overall result of deglobalisation, slowbalisation or continued globalisation with different traits? Although many publications have addressed these issues, there is still room for clarifying and fine-tuning the identification of the combined effects in qualitative and quantitative terms. This is a research gap that this paper intends to fill. While providing a nuanced analysis of the phenomenon, this study takes a stand on the globalisation and deglobalisation dispute and, thereby, attempts to contribute to the globalisation-deglobalisation debate.

Losoncz (2022), which analysed globalisation in the context of sustainability, is one antecedent of the author's paper. The preliminary assumption of this paper is that despite restrictive policies and policy measures, and intensifying frag-

mentation, globalisation is not demising. However, its shape, traits, structure and driving forces are changing, and various policy and inherent economic factors unfolding in the long term tend to neutralise to some extent the negative impacts.

The structure of this study is the following: The first chapter discusses policies and government actions affecting the trade policy openness of the global economy from a top-down and a bottom-up approach; in other words, from the macro and micro policy points of view. The second chapter is focused on changes in the structural openness of the global economy because of shifts in trade policy openness. The third chapter attempts to predict the most likely future trends in globalisation. The fourth chapter contains the summary and conclusions.

2. Macro and micro policies and trade policy openness

This chapter analyses the latest trends of globalisation from the point of view of *trade policy openness*. The first part contains an overview of the general international globalisation environment in a *top-down approach*, focusing on the essential changes characterising the past few years. The transformation of international power relations is touched upon, and broad general government policies such as sanctions, subsidies, etc., affecting globalisation trends in trade are highlighted in a macro policy approach with an indirect impact on trade policy openness. The second part summarises and analyses specific trade policy measures (micro policies) in terms of trade facilitation and trade restriction in a *bottom-up approach*. The common feature of the two approaches is that they affect the trade policy openness of the global economy.

1.1. Political factors and macro policies affecting trade policy openness in a top-down approach

Based on trade openness (the sum of exports and imports in per cent of GDP), Aiyar & Ilyina (2023) summarised the stages of globalisation from a historical perspective preceding the report of the International Monetary Fund (2023). In the context of this paper, the last two stages deserve attention: *the liberalisation wave* between 1980 and 2008 (often referred to as unfettered – hyper – globalisation that peaked in 2008) and the *slowbalisation* era from 2008 to 2021. (The initial phases are well-known from the literature and are not relevant to the topic of this paper.) The former stage was characterised by a wide range of trade liberalising measures, with subsequent growth in world trade and capital flows, the latter by a prolonged slowdown of trade reforms, the decrease of political support for further trade liberalisation and political tensions following the international financial and economic crisis of 2008 (Aiyar & Ilyina 2023). The Covid-19 pandemic

and Russia's war against Ukraine reinforced trends towards slowbalisation. Based on many relevant economic and financial indicators, *The Economist* (2019) came to similar conclusions in identifying the start and describing the traits of slowbalisation.³ Antràs (2020), too, agreed with the description of this stage as slowbalisation. The availability of the latest statistical figures determined the selection of the last year of the globalisation era. Kim et al. (2020) argued for deglobalisation, as well. A relevant research question is what the subsequent wave of globalisation will look like.

Another analytical term to scrutinise changes and interpret the current stage of globalisation is related to multilateralism and world order. For a long time, following World War II, the liberal *rules-based world order* associated with *multilateralism* developed under the dominance of US financial power, which China has challenged. With the gradual decline of US global economic positions and its intention of withdrawing from international engagement, the room for manoeuvring of assertive states pursuing their political priorities, such as Egypt, India, Iran, Pakistan, Saudi Arabia, and Turkey, increased, leading to the softening-up of the rules-based world order (Lehne, 2023). Nevertheless, the US also challenged the rules-based world order with its war against Iraq and Afghanistan. Its end was heralded by Russia's war against Georgia in 2008, the annexation of Crimea, the intervention in the Donbas in 2014, and aggression against Ukraine in 2022 (Lehne, 2023).

The US stopped leading the drive for intensifying globalisation. Consequently, globalisation has become more spontaneous and exposed to less coordinated, deliberate, and inefficient measures and forces. Nevertheless, the alternatives could turn out worse, at least in the perception of many countries (Bremmer, 2022). According to Wolf (2022a), geopolitics is the biggest threat to globalisation.

The conclusion that can be drawn from these developments and their evaluation is that under the given circumstances of more balanced international power relations without dominant powers with countries pursuing their policies based on national sovereignty and identity and forming various alliances, the rules-based world order is not likely to be restored for a relatively long period. In addition, the US needs to be more robust and influential to facilitate the return to multilateralism, and its willingness to do so is missing (Krueger, 2023). The Trump administration rejected multilateralism by weakening the World Trade Organisation (WTO), launching a trade war against China in 2018 and 2019, and withdrawing its participation in the Trans-Pacific Partnership. The Biden administration did not reverse the approach of its predecessor, since it has kept in force the 20 per cent retaliatory tariff rates on specific Chinese goods.

³ This time sequencing is widely accepted in the relevant literature.

The demise of *multilateralism* or its weakening is frequently described by the stall of negotiations to liberalise world trade further in the Doha Round launched in 2001 under the auspices of the WTO. The rules-based multinational system's stabilising role was highly important in the 2008 financial crisis and had been weakening since due to the primarily US-caused problems of the Dispute Settlement Body's functionality.

The fall of multilateralism is demonstrated by Brexit and the proliferation of regional trade agreements (RTAs), such as the Regional Comprehensive Economic Partnership between 15 Asia-Pacific nations and the 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership. The number of RTAs in force grew from 257 in 2008 to 585 in 2022.⁴ Due to trade diversion effects, RTAs are considered the second-best alternatives to multilateral agreements (Viner, 1950). A crucial positive side-effect is that because of the binding commitments, WTO agreements and RTAs reduce trade-policy uncertainty (Antràs, 2020, p. 13).

These aggressive measures were mitigated by the conclusion of the Joint Statement Initiative on Services Domestic Regulation in December 2017 with 67 WTO members, according to which about 90 per cent of global *services trade* totalling USD 2.7 trillion, was liberalised to some extent by easing regulatory obstacles. Most RTAs, too, contain provisions promoting services trade.

Fragmentation, highlighted by – among other things – RTAs, is an appropriate term to describe the changing pattern of globalisation in a top-down approach. The International Monetary Fund (2023) interpreted the *policy-driven reversal* (the Covid-19 pandemic, Russia's invasion of Ukraine, and the US-China rivalry) of global economic integration as *geoeconomic fragmentation*. According to this analysis, the *direct transmission channels* include trade, technology diffusion, and other channels (cross-border labour and capital flows) interacting within and across borders and geographic blocks. *The indirect transmission channel* is economic and policy uncertainty. A detailed chapter of the report is devoted to the international monetary system.

The fragmentation of the global economy involves costs. “The longer-term cost of trade fragmentation alone could range from 0.2 per cent of global output in a limited fragmentation scenario to almost 7 per cent in a severe scenario.... If technological decoupling is added, some countries could see losses up to 12 per cent of GDP” (Georgieva 2023)

Decoupling is another buzzword for describing the present stage of globalisation, referring to the policy efforts of governments to eliminate certain relationships or separate previously linked systems to operate independently. The term has been most frequently used in the context of reducing the West's dependency on Russia's energy and China's strategic sectors (e.g., dual-use technologies such

⁴ Source as of 21 March 2023: <https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

as semiconductors, renewable energy, social media). The question is to what extent Western democracies can make themselves independent from Russian energy and Chinese technology trade. The general perception is that trade dependency on countries with illiberal political regimes has become too high and near- or friend-shoring⁵ necessary.

Some *policies and policy measures* deserve detailed discussion. The *US National Security Strategy* envisaged the restriction of sales to China of specific high-tech goods, such as software and other technology associated with advanced computing and semiconductor manufacturing (The White House 2023).⁶ Furthermore, the strategy prohibited the activities of US persons supporting the development or production of specific technologies in China.

The 725-page Inflation Reduction Act passed in August 2022, which can be regarded as a government subsidy package to enhance US competitiveness vis-a-vis its rivals, envisages USD465 billion for green energy, electric cars, and semiconductors over ten years if production is local to ensure the leading position of the US over China (The Economist 2023d).⁷ The federal government's infrastructural spending valued at USD100 million per year over the next decade should be added to this sum.

The *EU and its member states* are handicapped in this field since they need the approval of the European Commission for state aid, whose priority is to guarantee a level playing field in the single European market. The Green Deal Industrial Plan released on 1 February 2023 envisages incentives valued at USD 860 million (The Economist, 2023b). The European Chips and Science Act⁸ supports semiconductor technologies and applications in the EU. EU institutions are attempting to compensate for the disadvantages of state aid vis-à-vis the US by upgrading their competition rules, overhauling their funding schemes, and eliminating the fragmentation elements in the single market of capital, energy, digital and financial services.

⁵ Near-shoring: making products closer to home. Friend-shoring: the practice of relocating supply chains to countries where the risk of disruption from political chaos is low. <https://www.nytimes.com/2022/11/18/business/friendshoring-jargon-business.html>

⁶ <https://www.bis.doc.gov/index.php/documents/about-bis/newsroom/press-releases/3158-2022-10-07-bis-press-release-advanced-computing-and-semiconductor-manufacturing-controls-final/file>

⁷ There are other types of government interventions in the US. The US government introduced tax credits for consumers purchasing electric vehicles meeting local value-added requirements of USD 7,500. The federal government's subsidies for electric vehicle production total USD7 billion, for constructing new semiconductor facilities US\$39 billion (Kruger, 2023). According to the "Made in America" Executive Order 14005, the obligatory local content will be raised from 55 per cent gradually to 75 per cent, and the price preference of domestic goods to the 20–30 per cent range (<https://www.govinfo.gov/content/pkg/FR-2021-01-28/pdf/2021-02038.pdf>).

⁸ https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/european-chips-act_en

In February 2023, the Council of the European Union approved its 10th package of sanctions against Russia (European Commission 2023), and preparations for the 11th are underway. The scale of restrictive measures enacted by the EU since 2014⁹ and the sanctions¹⁰ imposed on Russia is rather broad. Fifty countries have implemented and maintained coordinated economic, technological, financial, and other sanctions, including export and import restrictions against Russia out of 141 UN members. A considerable part of the sanctions is not economic but aimed at specific persons.

China's government has introduced and pursued macro policies to extend its room of manoeuvring internationally. China's Belt and Road Initiative is a specific trade policy: it aims at upgrading the external physical infrastructure of trade. "Made in China 2025" envisages to improve Chinese high-tech manufacturing by securing greater self-sufficiency in technology and unique manufacturing. This does not mean any substantial deliberate reduction of exports and imports, but rather a strive for autarchy.

It is difficult to quantify the effects of subsidies. Most of them are tax credits whose size depends on the production volume. The WTO prohibits subsidies involving local-content requirements. Infrastructural outlays, too, should be considered. A global subsidy race could lighten the rules-based order and enhance the fragmentation of the international trading system.

Weakening multilateralism and fragmentation ~~were~~ are likely to be partially neutralised by the multilateral *Trade Facilitation Agreement* (TFA)¹¹ of the WTO, which became effective on 22 February 2027, aiming at the introduction of comprehensive reforms to reduce red tape at borders, thereby diminishing transaction costs in foreign trade and dynamize the flow of goods among countries. The TFA represents a specific form of trade liberalisation on the global scale not related to customs tariffs but to non-tariff trade barriers.

The OECD monitors the implementation of trade facilitation reforms (OECD, 2022). Since 2019, the OECD has recorded the most progress in improving the availability of trade-related information, simplifying documentary requirements, and automating and streamlining procedures. These reforms have particular importance in a global trade policy environment where tariff rates are low, and the possibilities of their further reduction are limited. The full impact of the TFA is expected to unfold in several years.

The controversial *plurilateral agreements* of the WTO, too, may mitigate the weakening of the multilateral trade system. They are signed by only those WTO

⁹ <https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/#cooperation>

¹⁰ https://finance.ec.europa.eu/eu-and-world/sanctions-restrictive-measures/sanctions-adopted-following-russias-military-aggression-against-ukraine_en

¹¹ https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm

members that want to do so, whereas all members are party to the latter. Nevertheless, the combined effect of the political measures and macro policies described above on trade policy openness is negative.

The next chapter overviews the global trade policy environment in a bottom-up approach (in terms of micro policies) by identifying the number of government interventions, their direction, and their impact on trade policy openness.

1.2. Micro policies and their impact on trade policy openness in a bottom-up approach

According to the Trade Monitoring Report by the *World Trade Organisation* (2022) focusing on *merchandise trade*, the introduction of *trade-restrictive measures*¹² by WTO members picked up strongly in 2021 and 2022 due to Russia's war against Ukraine (Table 1). Between mid-October 2021 and mid-October 2022, most *trade facilitation*¹³ occurred in imports, whereas most restrictions were in exports. However, between 2014 and mid-October 2022, WTO members introduced more trade-facilitating than trade-restrictive measures on goods. The number of *trade remedy initiations* has decreased since 2020 (Table 1).

Considering the measures to manage the pandemic, since its outbreak in late 2019, 443 trade-related measures have been taken in the field of goods. Of these, 246 were aimed at trade facilitation (reducing tariff rates on goods such as e.g., personal protective equipment, medicines, and sanitisers, in many cases amended by the exemption of VAT and other taxes) and 197 trade restrictions. Their major part has been repealed (World Trade Organization 2023, p. 27).

In the *services sectors*, WTO members introduced 174 new measures from mid-October 2021 to mid-October 2022, a third of which comprised telecommunication, computer, and internet- and other network-enabled services and a quarter affected financial services. Most new measures were classified as trade-facilitating, but the number of trade-restrictive actions was considerable as well (World Trade Organization 2023). 43 WTO members took some 134 sanctions in services trade and related fields in the context of the war in Ukraine during the review period (World Trade Organization 2023. p. 87).

¹² They raise trade costs.

¹³ Measures streamlining and simplifying the technical and legal procedures for products crossing the border country in both directions to trade internationally. They reduce trade costs.

Table 1.: Trade facilitating, trade remedy and other trade and trade-related measures

	2014	2015	2016	2017	2018	2019	2020	2021	Mid-Oct 2020-Mid- Oct 2021	Mid-Oct. 2021-Mid- Oct.2022
Trade facilitating measures	191	249	183	137	162,0	115,0	104,0	153,0	135,0	376,0
Average per month	15,9	20,8	15,3	11,4	13,5	9,6	8,7	12,8	11,3	31,3
Import a)	181	205	148	113	144,0	100,0	96,0	136,0	117,0	324,0
Export b)	9	40	32	24	18,0	14,0	7,0	15,0	15,0	52,0
Other c)	1	4	3	0	0,0	1,0	0,0	2,0	3,0	0,0
Trade remedy actions										
<i>Initiations</i>	304	277	343	298	273,0	281,0	433,0	213,0	248,0	131,0
Average per month	25,3	23,1	28,6	24,8	22,8	23,4	36,1	17,8	20,7	10,9
<i>Terminations</i>	220	212	171	158	225,0	184,0	216,0	302,0	311,0	222,0
Average per month	18,3	17,7	14,3	13,2	18,8	15,3	18,0	25,2	25,9	18,5
Other (restrictive) trade and trade-related measures	170	223	129	116	132,0	98,0	99,0	146,0	130,0	214,0
Average per month	14,2	18,6	10,8	9,7	11,0	8,2	8,3	12,2	10,8	17,8
Import a)	132	166	98	84	114,0	77,0	72,0	75,0	63,0	85,0
Export b)	26	44	20	18	18,0	19,0	27,0	66,0	62,0	129,0
Other trade and trade-related measures c)	12	13	11	14	0,0	2,0	0,0	5,0	5,0	0,0

Notes:

- a) Tariff, customs procedures, tax, quantitative restrictions, other.
- b) Duties, quantitative restrictions, other.
- c) Local content, other.

Source: World Trade Organisation (2022)

The view WTO offered on trade policy interventions providing a measure for *trade policy openness* is relatively diversified and, to a certain extent, controversial:

1. Although many trade-restricting measures were introduced from 2014 to 2022, their number was much smaller than that of the trade-facilitating interventions. Consequently, the balance was in favour of trade facilitation.
2. The number of trade-restrictive measures was smaller in services trade than in goods trade. Similarly to goods, trade facilitation prevailed in services trade as well.
3. The trade facilitation and restriction figures changed over time, responding to the general political and economic situation.

The *Global Trade Alert (GTA)* data is also based on a bottom-up approach. GTA provides timely *information on state interventions* likely to affect foreign trade. Its coverage is rather broad, including those impacting trade in goods and services, foreign investments, and labour force migration.¹⁴ As of 14 March 2023, it recorded 39,493 government interventions implemented since November 2008, almost certainly *discriminating* against foreign commercial interests. Furthermore, the

¹⁴ https://www.globaltradealert.org/global_dynamics

cumulative number of policy measures whose implementation would *likely or almost certainly worsen* the relative treatment of some foreign commercial interests amounted to 1158, benefitting foreign commercial interest 8751. The number of harmful measures grew in 2020 and 2021 but dropped in 2022 and 2023. Subsidies, export-related and tariff measures accounted for more than 80 per cent of harmful measures. However, the use of product standardisation, health and safety regulations, tax policies and currency interventions presumably were not included in the list of harmful interventions.

To sum up, GTA's figures display a different view from the WTO's. Here trade-restrictive measures prevail over trade-facilitating ones. The reason is simple: the GTA database contains many interventions beyond goods and services trade; many belong to various kinds of subsidies. The GTA suggests a more protectionist situation with less trade policy openness than the WTO. It is based on factors such as subsidies, etc., that are not related directly to goods and services trade but affect it indirectly. This is in line with the conclusion of Rajan (2023) that since the global financial crisis of 2008, five times as many protectionist measures have been enacted worldwide as liberalising ones.

The number of trade-facilitation and trade-restriction measures and their balance alone does not say anything about *changes in the degree of trade policy openness* and, thus, *protectionism* on the global level. In practice, it is rather challenging to quantify the intensity of protectionism. The general theoretical approach focuses on tariffs and non-tariff barriers. Due to the growing number of RTAs, the world's weighted average tariff rates imposed on traded manufactured products fell from 13.6 per cent in 1986 to 7.5 per cent in 2008 and to 5.2 per cent in 2017 (Antràs, 2020, p. 13). Nevertheless, protectionism in agriculture cannot be ignored since this has been one of the main reasons for the slowdown in the multilateral trade liberalisation process and has led to questions about the future role of the WTO.

The overall trend is straightforward. Figures are not available for the past five years. In 2018, the Trump administration raised import tariff rates from 2.6 per cent to 16.6 per cent for more than 12 thousand goods valued at USD 303 billion, corresponding to 12.7 per cent of total US imports. In response, US trade partners, particularly China, introduced retaliatory tariff rates on their imports from the US (Antràs, 2020, p. 33).

Tariff rates in international trade and particularly in developed economies are relatively low. Lifting them for a limited number of products or product groups would probably similar in the case of quantitative restrictions.

One possible way of figuring out the policy effects of government interventions could be by calculating the share of total effective import restrictions in total global imports, which jumped from 1.29 per cent in 2011 to 9.27 per cent in 2021 (Table 2). Although this growth was remarkable, restricted imports still constitute

a small part of world imports.¹⁵ In the same time frame, the percentage share of terminated import restrictions remained negligible. Nevertheless, trade facilitation measures mitigated the impact of import restrictions on world trade.

Table 2.: Cumulative trade coverage of import-restrictive measures from 2010 to 2021

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total imports (world) (USD bn)	18 109	18 193	18 483	18 654	16 360	15 812	17 587	19 402	18 883	17 625	22 020
Total import restrictions in force (USD bn)	234	306	409	467	598	570	814	1457	1646	1516	2041
Share in world imports (%)	1,29	1,68	2,20	2,51	3,66	3,61	4,63	7,51	8,72	8,60	9,27
Total import restrictions terminated (USD bn)	15,43	59,41	37,15	34,05	1,51	38,09	3,68	5,45	13,12	n.a	n.a
Share in world imports (%)	0,09	0,33	0,20	0,18	0,01	0,24	0,02	0,03	0,07	n.a	n.a

Source: World Trade Organisation (2022)

No figures are available on the share of export restrictions in world exports and the impact of diverse policy measures and subsidies described in Chapter 1.1 cannot be quantified either. A considerable part of sanctions covers fields not having direct implications for foreign trade, and the envisaged subsidies are spread over several years. In addition, export sanctions can be bypassed largely through trade conducted by intermediaries and illegal and parallel imports.¹⁶ These factors do not allow us to get a comprehensive view of the actual size of protectionism.

The trade-facilitating reforms of the TFA promoted the resilience of global supply chains. Although the lockdowns associated with the pandemic and the Russian aggression against Ukraine caused severe disruptions in *global supply chains* (or global value chains – GVCs),¹⁷ they remained resilient. Following a 20 per cent drop in the first half of 2020, intermediate trade recovered soon, reaching its pre-pandemic level in the third quarter of 2020, and by the end of 2021, it was up by 55 per cent relative to 2020 (World Trade Organisation 2023, p. 17).

The next chapter analyses the impact of macro and micro policies on the structural openness of the world economy.

¹⁵ According to 2021 figures, EU sanctions comprise Russian exports valued at EUR43.9 billion (accounting for 49 per cent of its total exports to Russia) and EUR91.3 billion worth of Russian imports (corresponding to 58 per cent of its total imports from Russia). (European Commission 2023)

¹⁶ A product manufactured legally abroad is imported without the permission of the intellectual property right-holder.

¹⁷ The two terms are used as synonyms, although there could be slight differences in the interpretation. This report follows the pattern of the respective literature sources cited.

3. Structural openness and real economic trends

The most widespread comprehensive measure of *structural trade openness* is the share of global exports and imports in world GDP or Gross World Product (GWP). The value of this indicator peaked in 2008 at 31 per cent on the export side and 30.4 per cent on the import side (Figure 1). From 2009 to 2021, it fluctuated between 26.4 per cent and 30.3 per cent of exports and 25.6 per cent and 29.7 per cent of imports. At first glance, the aggregate figures refer to a slight decrease or stagnation in the structural openness of the world economy with neutral or negative implications for globalisation.

Commenting on the figures, Antràs (2020) found that the slowdown was a natural consequence of the surge in globalisation that characterised the late 1980s, 1990s and early 2000s. Furthermore, the author argued that, first, globalisation indicators based on shares have upper bounds (100 per cent in the case of the portion of exports and imports in GDP), second, the explosive jump in trade openness taking place in the hyper-globalisation era ranging from 1986 to 2008 was unsustainable, a slowdown was inevitable. Baldwin (2022a) also pointed out that the driving forces of globalisation under given conditions have been exhausted.

Bremmer (2022) perceived the decrease in the share of global trade in GWP as a side effect of China's economic development. The economy became more complex with the rapid increase of per capita GDP. The growth model switched from exports to consumption and investment, and domestic demand shifted from tradeable goods to less or non-tradeable services. China must have exhausted the reserves of trade liberalisation and, due to growing labour costs, those of its further integration into global value chains (Bremmer, 2022). Regarding the latest trends, China's zero covid policy isolated the country from the rest of the world, particularly in the flow of people, contributing to the fragmentation of the global economy. Despite this, China's exports jumped by 30 per cent in 2021 and 7 per cent in 2022 in dollar terms. China's export growth rate depends on, to a large extent, the actual situation of the global economy.

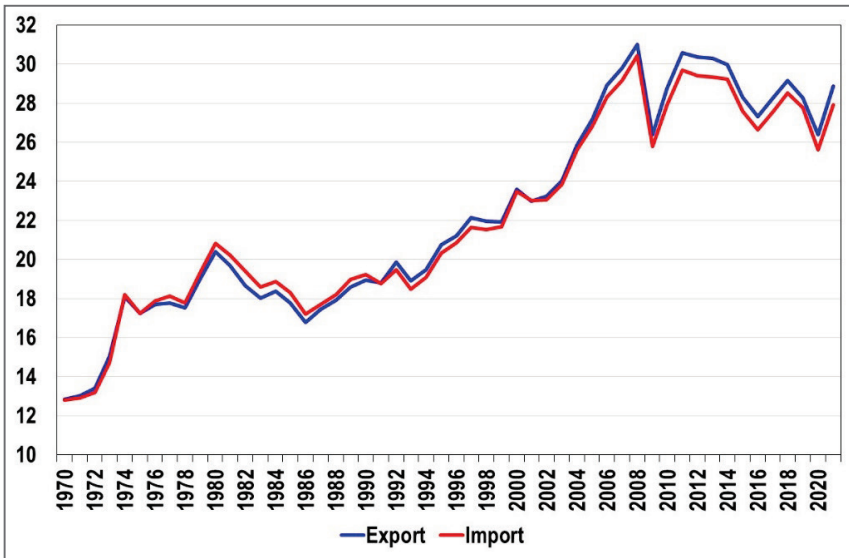
The *generalised conclusion* is that globalisation has reached the stage of diminishing returns, which does not mean disintegration or retrenchment (Bremmer, 2022).

However, it is worth looking beyond the aggregate numbers, namely the *global trade growth rates and GWP*. From 2007 on, the growth rate of the world trade volume of goods and services exceeded that of GWP every year with some exceptions. In 2009 and 2020, the volume of world trade decreased more than that of GWP (Figure 2). The recession hit world trade more severely than GWP in volume terms. However, in the subsequent years, the rebound was much more pronounced in world trade than in GWP. Global merchandise trade reached record levels in 2022. More than three quarters of that trade was implemented on

the basis of most-favoured nation treatment tariffs that governments apply to all WTO members, implying that the multilateral rulebook still plays an important role in international trade (Okonjo-Iweala, 2023).

James (2021, p. 10) called this phenomenon uncertain sputtering globalisation. Others pointed out that sudden changes in structural openness and, thereby, in globalisation are often tied to specific events. In this context, James (2021) also noted that according to historical evidence, many crises give additional impetus to globalisation.

Figure 1.: Structural Openness of the world economy
World exports and imports of goods and services in per cent of the GWP



Source: World Bank World Development Indicators database

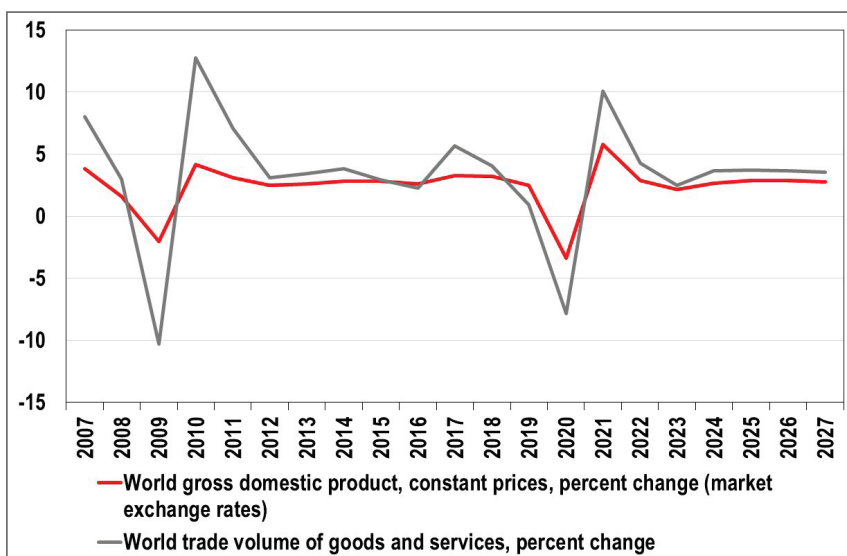
The other exceptional years were 2016 and 2019, when GWP grew more rapidly than global trade. Although statistical figures are not available for 2022 to explore the impact of government interventions on structural openness, historical numbers and the projections of the IMF refer to the deep-rooted long-term driving forces of globalisation, albeit presumably at a slower rate than before. Regarding longer-term trends, the figures suggest that changes in the intensity of globalisation are associated to a large extent with economic cycles.

Baldwin (2022b, 2022c, 2022d, 2022e), too, fine-tuned the interpretation of the figures by pointing out that, first, the peak of the structural openness varied among the significant traders over time; second, global trends were affected by the normalisation of China’s trade based on a more inward-looking economic policy

(see Bremmer (2022) as well) that had nothing to do with protectionism abroad or reducing trade; third, fluctuations and the rise in structural openness were the results of relative price changes (the commodity super cycle) rather than changes in actual activity; fourth, the globalisation of product markets slowed down after 1990 whereas that of services accelerated driven by digital technologies opening the door for digital services without a single trade agreement.

The overall *KOF Globalisation Index* measuring globalisation’s economic,¹⁸ social, and political dimensions grew from 58.17 in 2012 to 61.06 in 2020, demonstrating continued globalisation at a slow rate with a negligible decline from 2019. The interconnectedness of the world did not contract significantly. Nevertheless, since 1993, the *de facto index* figure has been above the *de jure* one indicating the relatively limited impact of social and political measures on globalisation.¹⁹ According to the results of Kim et al. (2020), the political efforts at the national level played a primary role in shaping the KOF Globalization Index. Based on these rough figures, trade policy openness has lagged behind structural openness for a long time. This suggests that macro and micro policies had a limited impact on structural openness.

Figure 2.: The rate of growth of GWP and world trade in volume terms



Note: Figures for 2023-2027 are forecasts.

Source: IMF World Economic Outlook database

¹⁸ Economic globalisation includes factors other than trade, which may cause distortions in comparing the figures discussed in this paper.

¹⁹ <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>

The share of GVC trade in world trade grew sharply in the hyper-globalisation period of 1986-2008 but stagnated after that. Antràs (2020, pp. 7-8) concluded that hyper-globalisation was closely associated with the growth of GVCs and the slowdown of global trade afterwards, too, has been related to the deceleration in GVC activity.

Considering recent years, supply chains withstood the ups and downs triggered by recent turbulences in the global economy, namely the Covid-19 pandemic and Russia's aggression against Ukraine. In 2022, the share of intermediate inputs (goods used to produce other goods) in world exports remained basically unchanged implying that the reshoring of international supply changes did not occur (Okonjo-Iweala, 2023). The Global Supply Chain Pressure Index (SCPI), integrating transportation cost data and manufacturing indicators to provide a gauge of global supply chain conditions, reached its zenith in December 2021; since then, it has been declining.²⁰ Based on the above analysis, the next chapter identifies some probable new future trends in globalisation.

4. Probable future trends in globalisation

The former reserves of globalisation have been exhausted. New driving forces come from trade policies aiming to eliminate or reduce barriers to trade and structural transformation. Regarding *trade policy*, the potential trade creation effect of *trade facilitation of goods* is displayed by the WTO estimates, according to which the full implementation of the TFA could reduce trade costs by an average of 14.3 per cent and boost global trade by up to \$1 trillion per year, with the most significant gains in the poorest countries.²¹ According to WTO estimates for the first years of its implementation, the TFA led to a US\$ 231 billion increase in trade, particularly in agriculture.²²

One of the most important elements of structural transformation is the increasing importance of services in world trade. Since 2000, the share of services traded internationally has increased by between 70 per cent and 200 per cent across countries. Between 2005 and 2022, cross-border trade in services increased by 8.1 per cent per annum, whereas that of goods rose by only 5.6 per cent. In 2022, digitally delivered service exports totalled USD3.8 trillion, corresponding to 12 per cent of all goods exports in contrast to 8 per cent a decade earlier (Okonjo-Iweala, 2023). Services trade costs decreased by between 30 per cent and 60 per cent over the last 20 years. There are still enormous possibilities for the further advance of the services trade.

²⁰ <https://www.newyorkfed.org/research/policy/gscpi#/interactive>

²¹ https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm

²² https://www.wto.org/english/news_e/news23_e/fac_27mar23_e.htm

Regarding *trade facilitation* related to services trade, with the implementation of the provisions in the Joint Statement Initiative on Services Domestic Regulation, annual cost savings valued at around USD 135 billion (financial services: USD 47 billion; business services: USD 36 billion, communication and transport services: USD 20 billion) could be achieved (WTO-OECD 2021, p. 4). Impediments to services trade could be reduced by 11 per cent on average across economies involved in the Joint Statement Initiative (WTO-OECD 2021, p. 3). These easing measures would positively impact GVCs since they rely heavily on services.

Demography, too, tends to favour globalisation in the long run. With low unemployment rates in developed economies, the demand for foreign workforce is likely to grow directly, through immigration or indirectly, via the imports of goods and components from emerging or developing countries where labour is abundant. Robotisation will slow the process, but not inhibit it completely (The Economist, 2023c).

Apart from the macro and micro policies surveyed, globalisation is driven by *arbitrage* based on separation costs, whose primary type includes trade, communication, and face-to-face costs (Baldwin, 2022a). *The progress in transportation technology lowered trade costs, communication costs* by the advance of the ITC technology, and *face-to-face costs* by digital technologies associated with the expansion of the flow of cross-border services enabling the arbitrage of labour service sector via telemigration, the separation of office workers and their offices (Baldwin, 2022a).

Due to the progress and the diffusion of digital technologies, ‘trade-in factories’ has been shifting to ‘trade-in offices’ (Wolf, 2022b). New technologies enable providing services at long distances. Digital technologies, including artificial intelligence (AI), may reduce non-physical obstacles to trade and cultural differences, such as language barriers through machine translation and speech recognition. Although it is more difficult to impose obstacles to physical trade than to virtual trade, barriers to trade in services based on regulation are much higher than those to goods trade.

According to PwC (2017), AI may add USD15.7 trillion (14 per cent) to world gross product by 2030. With increased productivity, product and service quality and consumption, the major beneficiaries are like to be retail, financial services, and healthcare. Nevertheless, this trend is not straightforward. Acemoglu (2021) pointed out that unregulated AI may produce various social, economic, and political harms including “damaging competition, consumer privacy and consumer choice; excessively automating work, fuelling inequality, inefficiently pushing down wages, and failing to improve worker productivity; and damaging political discourse, democracy’s most fundamental lifeblood.”

Nevertheless, a significant part of this regulation concerns *final services*, whereas the regulation of *intermediate business services*²³ needs to be more pronounced and, in some instances, non-existent. Digital technologies are reducing or eliminating the barriers to trade in intermediate services. On the one hand, the export capacity limits of emerging economies are much smaller in intermediate services than in goods production. On the other hand, the limits of import demand are also lower in the former than in the latter. Considering these facts, expanding intermediate business services based on wage differences between advanced and developing countries will be one of the main driving forces of globalisation in international trade (Baldwin, 2022a).

According to the widely accepted view, *automation* as a labour-saving technology is an alternative to offshoring in developed economies, thus contributing to deglobalisation. Progress in automation leads to reshoring over time. Nevertheless, according to some new research results, automation in developed countries raised imports from developing economies significantly, and the same holds for 3D printing (Antràs, 2020). The conclusion is that automation does not restrain globalisation; on the contrary, its combined effects may contribute to its growth.

As far as grand strategy and policies are concerned, although coexistence with China is debated in the US, the US government does not obviously want to stop China's economic development. Through the restrictions of the exports of modern technologies and dual (military and civilian) use goods, the US intends to contain in advance those industries where China could challenge US pre-eminence and threaten its neighbours (Tooze, 2023).

Despite the imposition of export controls and tariff rates on imports, US-Chinese trade displayed high resilience. Bilateral trade increased steadily from USD 556 in 2019 to USD 691 in 2022. These figures demonstrate the decoupling limits in the world's number one bilateral trade flow. Decoupling occurred in some high-tech strategic products, such as semiconductors, but the increase in other goods compensated for this. Due to the high degree of interdependence, decoupling has its natural limits in small countries.

5. Summary and conclusions

The years following the international financial and economic crisis of 2008 have hallmarked a new era of globalisation characterised by the slowdown of former trends based on selected economic and trade indicators. In the context of this em-

²³ Intermediate services are provided by inter alia bookkeepers, forensic accountants, CV screeners, administrative assistants, online client help staff, graphic designers, copy editors, personal assistants, travel agents, software engineers, lawyers, financial analysts. (Baldwin, 2022a).

pirical observation, practical and theoretical questions arose about the future of economic globalisation measured by trade flows and its driving forces, including the role of political decisions and macro and micro policies in shaping the traits of globalisation. The possible theoretical answers to this question comprise three options: the reversal, the slowdown, and the continuation of globalisation, with different characteristics.

This report argued for continued globalisation, albeit more slowly than before and with different traits. The process may have decelerated, but it will not turn back altogether. The outcome will be a more multipolar and fragmented global economic order. Nonetheless, deglobalisation, the complete fragmentation or the disintegration of the world economy, looks more like a fear than an actual threat despite the intense political pressure in many countries to decouple or – in other words – to reduce their dependence on foreign trade. Liberalisation can be reversed, but this is not the case with technological development. Nevertheless, in terms of achieving efficiency, the emerging world order will be suboptimal compared to the previous one.

This paper also pointed out that geopolitical and other political considerations and macro and micro policies had and may substantially impact globalisation. However, their effects proved to be mostly temporary, and in the long run, deep-rooted economic factors are likely to dominate and drive it. Nevertheless, non-economic threats and risks are considerable, and the threat of a poly-crisis cannot be ruled out either. In the long run, economic factors shaping globalisation matter more than political or institutional ones. Nevertheless, the latter can temporarily impede or reverse globalisation in the short or medium term.

The geopolitical decisions and macro policies analysed in this report exert primarily indirect effects, whereas micro policies direct ones on *trade policy openness*. Regarding macro policies, with the decline of US economic dominance and the evolution of more balanced power relations due to the rise of mid-size countries and the increasing role of geopolitics, the rules-based world order and multilateralism have been softened up in recent years of slowbalisation. This has been heralded by the failure of the WTO's Doha Round, the proliferation of RTAs, the increasing fragmentation of the world economy in several channels, and many political and policy measures (sanctions, subsidies, etc.) responding to non-economic shocks such as the Covid-19 pandemic and Russia's aggression against Ukraine, as well as improving competitiveness. The Trade Facilitation Agreement of the WTO, the plurilateral agreements and the partial liberalisation of services trade mitigated the adverse effects of these political steps and macro policies on trade policy openness. Global security concerns may do much harm to multilateralism but probably will not destroy it. This conclusion is in line with Lehne (2023), according to which "the current multilateral system is likely to survive but with a diminishing commitment to its rules and regulations and prevailing power poli-

tics”, and Sapir (2023), stating that geopolitics has undoubtedly gained in importance recently shaping the cross-border flow of goods, services, and capital more than in the golden years of globalisation, but it does not substitute economics.

The situation has been more diversified and controversial in micro policies. In the survey period, the number of trade-facilitating interventions recorded by the WTO exceeded that of trade-restricting interventions. Services trade suffered fewer restrictions than merchandise trade. However, according to GTA's figures based on a broader scope, trade-restricting interventions prevailed over trade-facilitating ones. These facts suggest a negative impact on trade policy openness.

Although the impact of changes in macro and micro policies on the level of protectionism cannot be measured for methodological reasons, it can be *quantified* from a specific point of view. The share of import restrictions in total world imports grew from 1.3 per cent in 2011 to 9.3 per cent in 2021, implying a decline in trade policy openness. However, global supply chains accounting for 70 per cent of international trade²⁴ remained resilient, partly promoted by the TFA reforms.

Structural openness, the percentage share of global exports and imports in GWP, stopped growing after 2008. The primary reason for the slowdown was saturation. The high degree of structural trade openness reached during the hyper globalisation period proved unsustainable; the deceleration was unavoidable. A generalised conclusion in line with the research results of relevant literature sources is that globalisation bears a *cyclical nature*. Structural openness usually loses strength due to specific events representing economic and non-economic shocks and the economic cycle. According to the experience of the past few years, non-economic shocks have had a temporary impact on structural openness. They need to be more persistent to exert a lasting effect. These observations are also consistent with the conclusions of the literature. The increase of the share of import restrictions in total world imports did not precipitate the decline of structural openness of the world economy. However, the substituting effects of foreign direct investments may neutralise somewhat the factors affecting structural openness.

From 2007 on, the growth rate of the world trade volume of goods and services exceeded that of GWP every year with some exceptions. Due to the specific features of economic cycles, world trade declined more than GWP during downturns (2009 and 2020, respectively), but it rebounded more rapidly than GWP after that. Restrictive micro and macro policy measures did not lead to a marked contraction of structural openness. The minor impact of political factors on globalisation is demonstrated by the fact that among the components of the KOF Globalisation Index, the growth rate of the de facto index exceeded that of the de

²⁴ <https://www.oecd.org/trade/topics/global-value-chains-and-trade/>

jure index. In the medium term, GVCs proved resilient to non-economic shocks and restrictive macro and microeconomic policies.

Regarding the *likely future trends*, first, in trade policy, exploiting the potential inherent in implementing trade facilitation measures could give an additional impetus to globalisation in goods trade. Second, reducing transaction costs by eliminating regulatory barriers due to trade facilitation could boost services trade. As a result, a shift will likely occur in the structure of merchandise trade from goods to services. Nevertheless, the possibility cannot be excluded that rapid technological change might give new impetus to merchandise trade for which many analogies can be discovered in the previous waves of globalisation. Third, direct (immigration) and indirect (through remote work) labour exports from developing countries to developed ones are also expected to contribute to continued globalisation. Robotisation may slow this process but will not stop or inhibit it altogether. Fourth, automatization in developed economies is not an impediment either since, in the long run, it is accompanied by increased imports from developing countries. Fifth, in the developed countries relations with China, decoupling is likely to remain restricted to high-tech strategic products and critical technologies. Reshoring from China or insourcing on a large scale could be costly and less likely. Increasing resilience through diversification and establishing spare capacities rather than moving towards autarchy is likely to be the dominant trend. Finally, unless it is regulated, there is huge potential in AI to boost global growth.

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