

# **Are We Witnessing the End of Globalization?**

**How Can the European Project Respond?**

**A Macro-Finance Perspective**

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## **Abstract**

This paper examines whether globalization is in decline or undergoing a structural transformation, and how the European Union (EU) can adapt within a macro-financial framework. While the last decades have been marked by unprecedented integration, recent shocks—the 2008 financial crisis, the COVID-19 pandemic, rising geo-economic tensions, and Russia’s invasion of Ukraine—have raised doubts about the durability of globalization. The evidence suggests that globalization is not disappearing but transforming. It is evolving into more fragmented, regionalized, and politicized forms, often termed as “slowbalization.” From a macro-financial perspective, Europe’s ability to adapt will depend on the resilience of its institutional architecture: the European Central Bank (ECB), the European Stability Mechanism (ESM), the Banking Union, the Capital Markets Union (CMU), macroprudential oversight, and fiscal capacity. The paper argues that completing these frameworks, expanding regulatory reach to non-bank finance, reforming fiscal rules, and advancing strategic autonomy are crucial for Europe to thrive in a fractured world economy.

## **Keywords**

Globalization • European Union • Macro-financial governance • Strategic autonomy • Capital Markets Union • Banking Union • European Central Bank • Shadow banking • Fiscal integration • Resilience • Geopolitics • Defense policy • Slowbalization • Institutional reform

## **Introduction**

Globalization has been a cornerstone of modern economic development, enabling efficient capital allocation, technological dissemination, and enhanced interdependence among states (Baylis, Smith, & Owens, 2020). As widely recognized, globalization is not merely an economic phenomenon but a multi-layered process that reshapes sovereignty, governance, and political legitimacy.

Europe has been among the greatest beneficiaries of globalization, leveraging openness to build a continent-wide economic zone based on scale, specialization, and global markets. Yet a series of systemic shocks has disrupted this trajectory: the 2008 global financial crisis, the sovereign debt turmoil, the pandemic, renewed industrial policy competition, and Russia's war on Ukraine. These events have intensified doubts about the durability of globalization.

This paper investigates whether globalization is truly ending or instead transforming into new forms, and examines how the European project should respond. Drawing on a macro-financial perspective, the paper argues that globalization is not collapsing but fragmenting, and that Europe must adapt by strengthening institutional integration, enhancing fiscal and regulatory resilience, and pursuing strategic autonomy without retreating into protectionism.

## Globalization in Retreat: Systemic Shifts and Their Implications

Globalization has historically advanced in cyclical waves. The late-19th-century era of trade and capital integration was halted by the First World War and interwar protectionism. The post-1945 order initiated a second wave, institutionalized through Bretton Woods and later accelerated by the liberalization of the post-Cold War period. Yet, since 2008, this trajectory has slowed significantly.

According to World Bank data, global trade as a share of GDP has stagnated since the financial crisis (World Bank, 2022). This is illustrated in Figure 1, which tracks global trade-to-GDP ratios from 2000 to 2024.

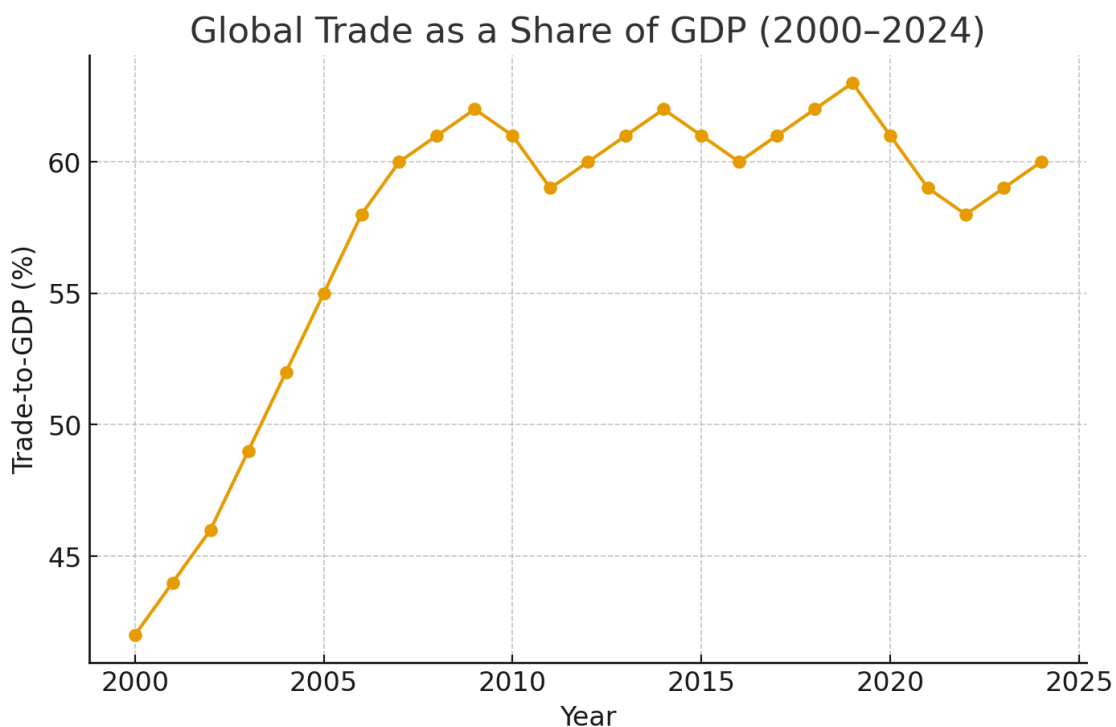


Figure 1. Global Trade as a Share of GDP (2000–2024)

Source: World Bank (2022), *Global Economic Prospects*. Data accessed via World Bank Open Data.

Cross-border capital flows have similarly become more volatile, while global supply chains are increasingly treated as security liabilities rather than sources of efficiency, as shown in Figure 2. The global financial system has become less about frictionless integration and more about managing financial risk (IMF, 2019; Obstfeld, 2021).

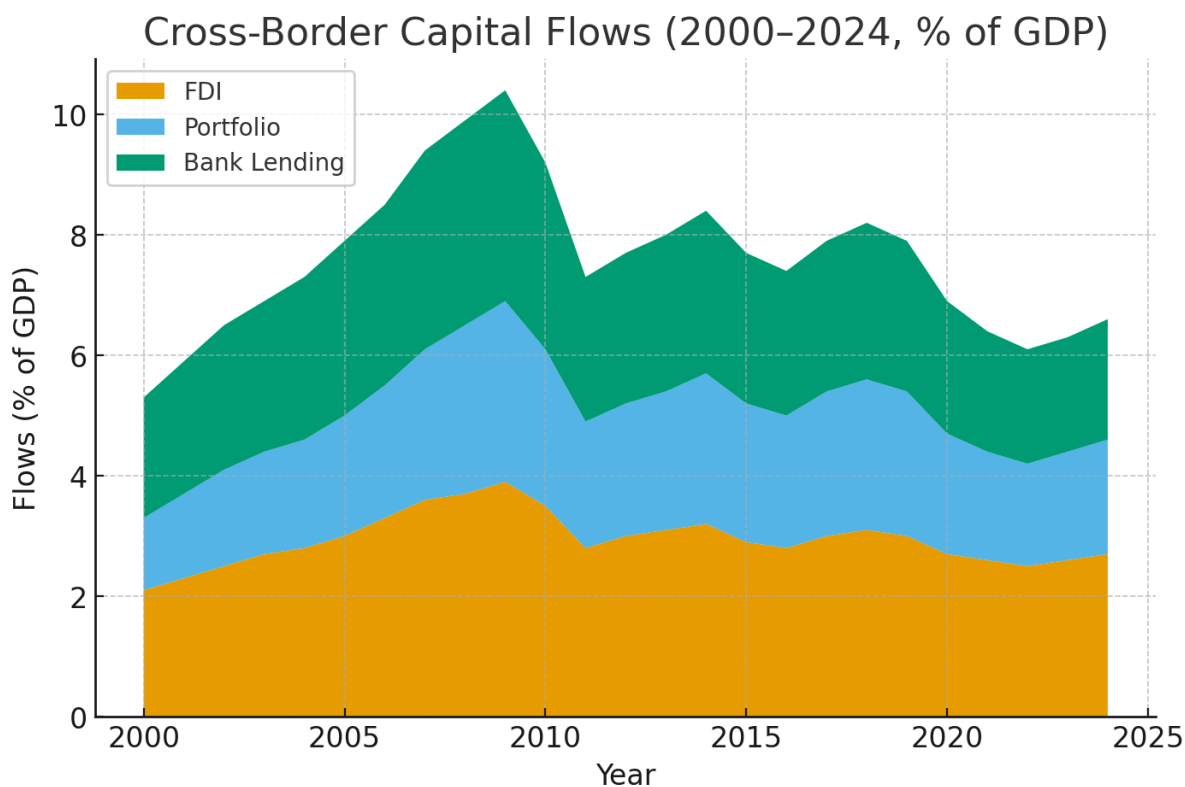


Figure 2. Cross-Border Capital Flows (2000–2024)  
 Source: IMF (2019), “A Capital Market Union for Europe”; Obstfeld (2021), “The Global Economy After COVID-19.” Data derived from IMF Balance of Payments and BIS statistics.

The pandemic underscored these vulnerabilities, exposing the fragility of just-in-time production and sparking reshoring in strategic industries, such as pharmaceuticals, semiconductors, and clean technology. At the same time, sanctions, export controls, and investment screening have blurred the boundary between economics and geopolitics (Davis, 2021; Zhang & Lee, 2023).

Russia’s war on Ukraine accelerated these dynamics, forcing Europe to rapidly restructure its energy supply away from Russia, while the United States’ Inflation Reduction Act and CHIPS Act reintroduced large-scale industrial policy, prompting similar initiatives in Europe (Peterson & Wright, 2023). These developments signal a paradigm shift: resilience, autonomy, and security are now prioritized over frictionless efficiency.

This trend has been encapsulated in the term “slowbalization”, suggesting that globalization has neither ended nor reversed, but is transforming into a slower, more fragmented process. Dani Rodrik’s trilemma—that hyper-globalization, democracy, and national sovereignty are mutually incompatible—offers a theoretical framework for understanding these tensions (Rodrik, 2011). As states reassert sovereignty, the scope of globalization narrows. Similarly, Karl Polanyi’s notion of the “double movement” also resonates: the expansion of markets generates counter-movements demanding protection, regulation, and security (Polanyi, 1944). The challenge for Europe is to adapt not nostalgically, but strategically.

## Europe's Macro-Financial Architecture in a Time of Transition

In facing the new global context, Europe benefits from a more robust macro-financial framework than in 2008. However, key components remain incomplete, contested, or crisis-driven.

The European Stability Mechanism (ESM) functions as a financial firewall, offering conditional loans to euro area members in distress. While it reassures markets, its use has been limited due to the stigma of conditionality. A less politicized and more automatic stabilization mechanism would be more effective in addressing asymmetric shocks (ESM, 2024).

The European Central Bank (ECB) has become the euro area's de facto crisis manager, extending its toolkit far beyond conventional interest-rate policy. Through quantitative easing, targeted refinancing operations, and sovereign bond purchases, the ECB played a critical role in preserving cohesion during both the financial and the pandemic crises (ECB, 2023). Yet its expanded role has blurred the line between monetary and fiscal domains, raising concerns about fiscal dominance and legitimacy (Blanchard & Pisani-Ferry, 2021).

Progress toward the Banking Union has included the Single Supervisory Mechanism and Single Resolution Mechanism, enhancing oversight and reducing national fragmentation and moral hazard. However, without a European Deposit Insurance Scheme, depositor protection remains uneven, leaving structural vulnerabilities in place (ECB, 2022).

The Capital Markets Union (CMU) is intended to diversify financing and improve cross-border risk-sharing. But legal fragmentation, divergent insolvency regimes, and strong home bias persist, limiting its effectiveness (Petrova, 2024; IMF, 2019). As Kalemli-Ozcan, Sørensen, and Yosha (2004) demonstrated, effective risk-sharing in monetary unions requires both private and public channels, which remain incomplete in the EU.

Macroprudential oversight has expanded through the European Systemic Risk Board, but shadow banking remains a weak point. Non-bank financial intermediaries—such as investment funds, insurers, hedge funds—now hold systemic weight. Yet macroprudential oversight remains partial and underdeveloped. Figure 3 highlights the contrast between the EU and the United States, comparing bank versus non-bank intermediation shares in the two economies.

## Bank vs Non-Bank Financial Intermediation (2024 est.)

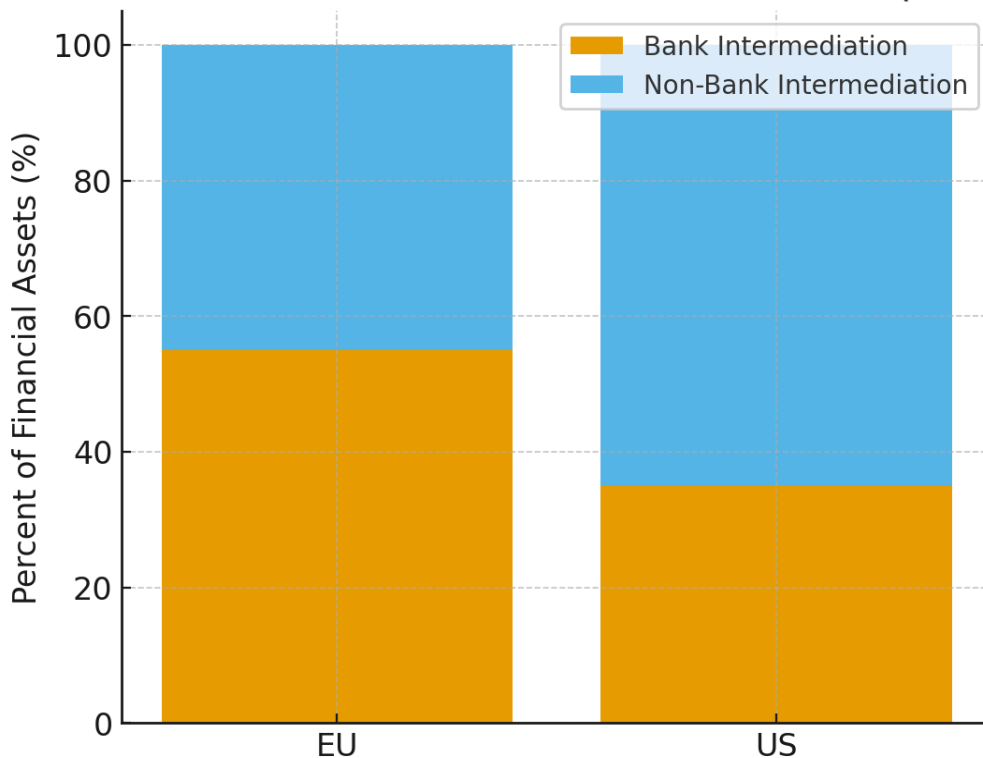


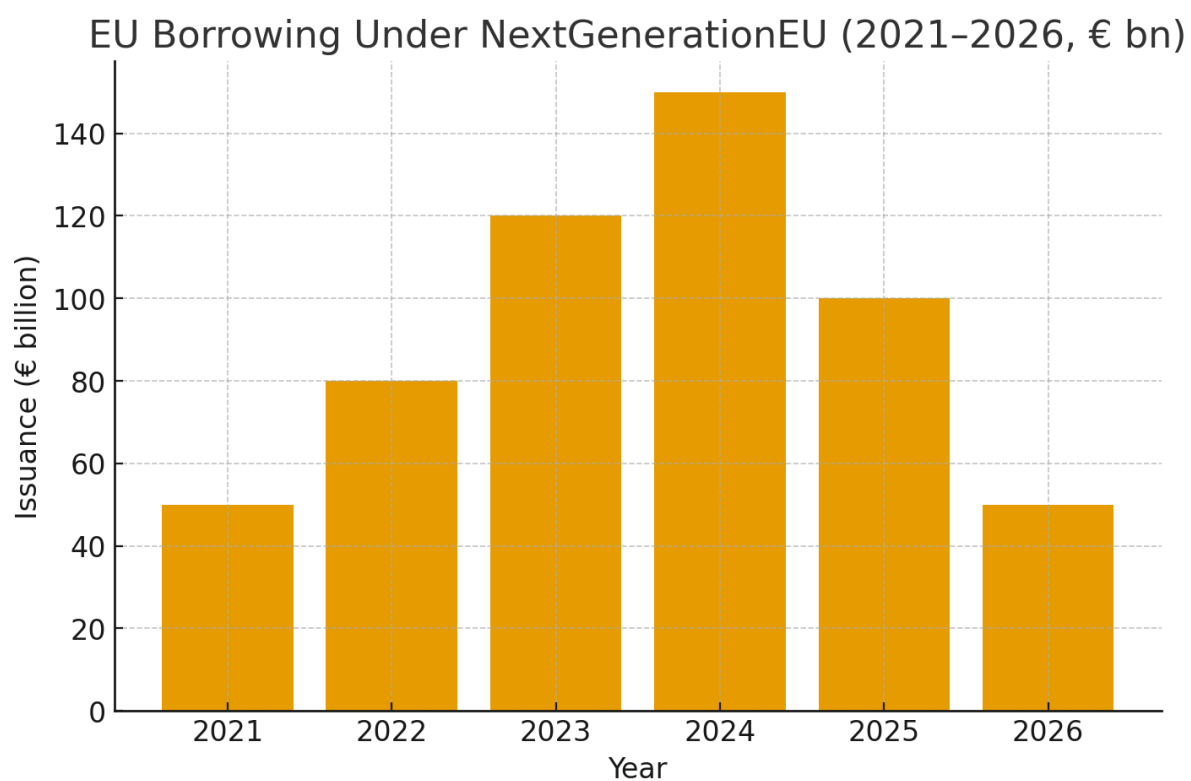
Figure 3. Bank vs Non-Bank Financial Intermediation in EU vs US (2024)

Source: Claessens & Kodres (2014), IMF Working Paper 14/46; Nguyen (2024), *Journal of Financial Regulation*; European Central Bank statistics.

The March 2020 liquidity turmoil exposed these vulnerabilities, especially in terms of leverage and liquidity mismatches (Nguyen, 2024; Claessens & Kodres, 2014).

Fiscal integration made a landmark advance with the €800 billion NextGenerationEU recovery package, which introduced temporary common borrowing and created a euro-wide safe asset. Yet it remains temporary. Without a permanent fiscal capacity, Europe lacks the tools to stabilize its economy in the face of future asymmetric shocks (Bénassy-Quéré, Giavazzi, 2022).

The fiscal element is well illustrated in Figure 4, which shows the evolution of EU common borrowing under NextGenerationEU from 2021 to 2026, peaking in 2023–2024 and setting a precedent for future euro-wide debt issuance (ESM, 2024; Bénassy-Quéré & Giavazzi, 2022).



*Figure 4. EU Borrowing Under NextGenerationEU (2021–2026, € bn)*  
*Source: European Stability Mechanism (2024), Annual Report 2023; Bénassy-Quéré & Giavazzi (2022), Economic Policy.*

Overall, Europe’s financial architecture has grown more resilient, but it remains fragmented, politicized, and often reactive. In a deglobalizing world, these weaknesses risk becoming more acute unless institutional reforms are accelerated.

## **Strategic Adaptation in a Fragmented Global Economy**

To navigate this evolving global order, Europe must pursue structural reforms to secure its economic and financial resilience.

Completing the Capital Markets Union is a priority. Harmonizing insolvency regimes, removing cross-border investment barriers, and integrating pension and insurance markets could unlock Europe's significant pool of private savings and financing green and digital transitions. A functioning CMU would also strengthen the euro's international role and enhance its capacity to absorb external shocks (IMF, 2019).

Similarly, completing the Banking Union is essential. A European Deposit Insurance Scheme would harmonize saver protections, mitigate the risk of bank runs, and enable consolidation in the financial sector, fostering both competitiveness and stability (Draghi, 2018). Political resistance persists, but the underlying economic logic is compelling.

Expanding the regulatory perimeter to include non-bank financial institutions is increasingly urgent. A robust macroprudential framework—including leverage limits, liquidity stress tests, and improved cross-border data sharing—is crucial for reducing systemic risks in shadow banking (Delors Centre, 2025).

Fiscal governance requires reform. The Stability and Growth Pact's rigid thresholds—though under revision—remain poorly suited to the challenges of climate, defense, and digital investment. A more flexible framework that distinguishes productive investment from current spending would allow counter-cyclical fiscal action while maintaining discipline (Bénassy-Quéré & Giavazzi, 2022).

The ECB's mandate must also evolve. Integrating financial stability and structural shocks more explicitly, while cautiously exploring the implementation of a digital euro, would enhance resilience and monetary sovereignty (Lane, 2023).

Externally, Europe must deepen strategic autonomy through diversification, investment in critical sectors, and building alliances with democratic partners. This should not entail retreat into protectionism, but rather the ability to remain open on Europe's own terms, particularly through stronger ties with the Global South.

While these economic reforms are foundational to resilience, they must now be complemented by a broader understanding of security—one that incorporates defense strategy into Europe's macro-financial governance.

## **Integrating Defense into Europe's Strategic Autonomy**

The transformation of globalization into a more fragmented, politicized, and securitized system has elevated defense policy from a traditionally sovereign domain to a core concern of macroeconomic and institutional design in the European Union. Russia's invasion of Ukraine marked a turning point, prompting not only a surge in military spending but also a broader reconceptualization of European economic security. As strategic threats become more hybrid and persistent, defense capacity is increasingly central to economic resilience.

The EU's response spans national and supranational levels. Between 2022 and 2024, defense budgets across Europe saw their sharpest increase since the Cold War. Germany, Poland, and the Nordic states pledged to meet or exceed NATO's 2% target, while the European Commission launched its European Defence Investment Programme and proposed new mechanisms for joint procurement and military mobility (Fiott, 2023). EU defense is now framed in terms of industrial competitiveness, supply chain autonomy, and technological sovereignty.

These developments challenge the adequacy of Europe's fiscal and financial architecture. The rising burden of defense spending questions the suitability of existing debt and deficit rules, especially as long-term needs—such as cybersecurity, drone capabilities, and space infrastructure—become more urgent. As Ladi and Tsarouhas (2023) argue, EU budgetary frameworks must distinguish strategic investments in resilience from short-term consumption.

The rise of dual-use sectors—from artificial intelligence to semiconductors—further calls for deeper links between the Capital Markets Union and Europe's security agenda. Public budgets will not suffice. As Biscop (2022) notes, European defense will increasingly require "economic sovereignty by design," blending public coordination with market-driven innovation.

Governance reform is essential. The European Council must coordinate defense investments across member states, and the European Investment Bank should support critical security infrastructure. Defense policy must be embedded within broader resilience strategies that address climate, energy, and digital threats, recognizing their deep interconnections.

Defense is no longer a peripheral issue in the EU's macro-financial discourse. The logic of resilience that now shapes Europe's response to globalization must include hard power and strategic deterrence. Embedding defense within EU economic governance is critical to preserving both sovereignty and openness.

## **Conclusion**

Globalization is not ending, but undergoing a profound transformation into a more fragmented, politicized, and regionally embedded system. For Europe, whose prosperity has been rooted in openness and interdependence, this transformation is both a challenge and an opportunity.

Two scenarios are plausible. In the first, reform efforts succeed: the Banking and Capital Markets Unions are completed, fiscal rules updated, shadow banking is effectively regulated, and the euro emerges stronger. Europe then becomes a more resilient, innovative, and influential global actor. In the second, reform stall, fragmentation persists, and the EU becomes increasingly vulnerable to internal and external shocks.

The stakes are existential. Europe's economic security, political cohesion, and international relevance will depend on whether it embraces resilience as the guiding principle of its macro-financial future.

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