

Deglobalization: The Making and Breaking of International Institutions

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Introduction

From the fall of communism in the 1990s to about 2020, when the coronavirus crisis hit, the world is said to be living in a period of globalization. Economic interdependence (measured as the ratio of international trade to global GDP) rose (World Bank 2025), and developing countries (the ex-USSR, India, China etc.) were integrated into the world market. The allure of cheap labor incentivized many Western manufacturing firms to offshore production. At the same time, states deepened engagement with Western-led, rules-based institutions like the World Trade Organization, the International Monetary Fund and the World Health Organization, as more countries saw integration into Western forms of supranational governance, their pathway to prosperity. In the West, it was thought that such international cooperation would not only foster material prosperity but would spread the Western values of liberty and individual rights, helping to establish strong middle classes abroad that would push their autocratic regimes into liberal democracy. To many, Fukuyama's "end of history" (Fukuyama 1989) seemed near – a baseline against which today's globalization is now defined.

Yet today the world presents a much grimmer picture. Participation in international organizations is in relative decline (Debre and Dijkstra, 2023). Liberal democracy is in retreat as more countries sink deeper into autocracy (Lührmann and Lindberg 2025), and the West is menaced by the rise of the far right in both sides of the Atlantic (Aktaş 2024). This phenomenon, deglobalization, can be understood as the erosion of cross-border economic flows and the weakening of institutionalized cooperation. This raises the question: Are the forces behind it primarily political or economic? To answer this, it's necessary to examine the history of the modern international system since its conception.

1944 – 1991: The Cold War World Order

In 1944, in New Hampshire, the Bretton Woods treaty was signed. It pegged major Western currencies to the US dollar, which was convertible to gold. The aim was to prevent competitive devaluations and disruptive capital flows that had afflicted many European countries in the interwar period, and to create the financial backbone for trade between Western countries (Alogoskoufis, Gravas, and Jacque 2023). At the end of WW2 and the separation of most of the world between USSR- and US-led blocks, economic reconstruction began through the Council for Mutual Economic Assistance and the Marshall Plan respectively (Liargovas and Papageorgiou 2021, pg.19-35). The world was also divided militarily with the Warsaw Pact for the Communist East and NATO for the liberal West.

A set of other international organizations such – as the UN, the IMF, IBRD and the GATT (later transformed into the WTO) – reinforced cooperation among western powers by providing a framework of international trade and enhanced collective security from foreign aggressors and further legitimized the US's status as a great power (Kentikelenis and Voeten 2021).

This form of economic and political organization in a bipolar world can be said to be a first step towards a type of economic integration. Cooperation was fragmented into two parallel systems; each relatively closed to the other. With the fear of the Soviet Union looming over Europe, the European states had an additional incentive to band together, helping propel the project of European Integration. (Ludlow 2010,p.179-197)

Despite the end of the Bretton Woods system in 1976 under the Jamaica Accords, its core emphasis on financial stability continued to inspire much of western monetary policy. By the 1990s, with the United States as its military patron and economic powerhouse the Western Block was way ahead of the Soviet dominated Eastern Block in living standards

as its opponent was crumbling and one by one countries were abandoning communism in favor of a liberal alternative. A new venture was now on the horizon, integrating these countries into the web of preexisting western markets and institutions.

1991 – 2020: From Unipolar Confidence to Strategic Overreach (or, How the US grabbed the tiger by the tail and China took advantage of it)

With the USSR gone what remained of it in financial ruin, the US stood as the sole great power. In such a dominant position, a state faces two paths: return to an isolationist foreign policy since no great power is capable of threatening you or become even more interventionist by trying to spread its values – meddling with the internal politics of other countries when these are deemed unsatisfactory (Mearsheimer 2018,pg. 160-194). The US chose the latter and a period of liberal hegemony began (i.e., the efforts to promote liberal democracy abroad through both diplomatic and military means).

The dissolution of the Soviet Union did not fully bridge the divide between East and West. Despite the integration of much of Eastern Europe into global institutions of its own volition, the West hadn't legitimized its leadership in much of the world. One reason was that it usually disregarded social, cultural, and institutional factors in its quest to promote liberal democracy far and wide. Its "one size fits all" policy under the Bush Doctrine (Diehl, Shyam and Irish 2011) pushed for brute force and unilateral action during the War on Terror in societies like Iraq and Afghanistan which had little previous historical experience of non-despotic forms of governance. In such cases the West and its conception of democracy became associated in the minds of many people in the East and Africa with war, failed states and civic unrest. The gap created by this ruinous foreign policy was exploited by countries like Russia but mostly China providing investments and support to local leaders.

China has emerged as a formidable contender against the US on both geopolitical and ideological level. Despite adopting measures of economic liberalization alongside extensive state ownership, until now it appears to defy modernization theory (Zhao 2022) since there have been few bottom-up pressures towards democratization, aside from Hong Kong which owing to British colonial legacy, long enjoyed greater freedoms that are now being curtailed. By increasingly distancing itself from the norms of the Western-centered global order, Beijing threatens to displace the United States from its role as unipolar hegemon.

Through outward-looking economic strategies such as the Belt and Road Initiative, China has established great political leverage in Central Asia, sub-Saharan Africa and even in Europe. This influence underscores the growing heterogeneity in the rules governing the international system and the erosion of universally accepted norms. Such fragmentation fuels systemic instability, making long-term interstate initiatives increasingly difficult to sustain. For example, the current push by Europe and the United States to repatriate industries previously offshored to China reflects their mounting insecurity in the face of Beijing's unconventional ascent, and this development is also likely to shape future long-term decisions, much like the gradual relocation of Western industries to China in earlier decades.

The decay of International Law

International law faces its greatest weakness: the absence of a truly binding character. This weakness becomes even more evident within the framework of the UN, where the implementation of international law is often trapped in the gridlock caused by the composition of the Permanent Security Council and the veto power of its permanent members. Thus, the force of international law relies primarily on the continuous and broad acceptance by states, as well as on the belief that compliance constitutes a legal obligation. Without strong enforcement mechanisms, its stability depends exclusively on the respect shown by states and on the will and power of those who choose to impose

sanctions at their discretion (Rozakis 2019, 251-256). Yet when major powers violate it for their own benefit, they establish precedents that normalize further breaches. The 'law of the jungle' thus boldly re-emerges, generating significant insecurity in the international environment. In such an unstable setting, cooperation and globalization recede. As the sense of threat intensifies, states adopt protectionist policies, grow more distrustful, engage in arms races, and prioritize strategic self-sufficiency. Economic interdependence, which in theory could mitigate precarious relations, declines together with conciliatory diplomacy. The result is entrenchment and regionalization, at the expense of international trust and cohesion.

Back to Economics: Dispersed Benefits, Concentrated Losses and Strategic Autonomy

Now that the political aspect is out of the way, it is time to return to economics to answer another part of the puzzle. If trade increases production due to comparative advantage, why are citizens in the West so opposed to it?

Although the benefits of globalization are large and widely dispersed, the losses – while smaller in aggregate – are often concentrated in specific regions or social groups. The deindustrialization of many western countries in the last decades, due to the outsourcing of production, has made many goods cheaper because labor costs are lower. Yet it has left millions without jobs. The purchasing power of the average consumer has gone up but people in formerly industrialized areas like the Rust Belt in the US (Ohio, Michigan, Illinois among other cities) are struggling to make ends meet. These places constitute a fertile political basis for populism and for providing support for protectionist measures that promise to get rid of unfair competition from abroad. Despite the widespread criticism by the economists that such policies reduce consumer welfare, this did not stop Donald Trump from becoming president for a second term.

Changes in internal political preferences invariably translate into changes in foreign policy. Despite their proclaimed neutrality most international institutions were created in a period of European and American dominance over world politics and reflect a set of normative and positive beliefs about the international order (Pissany-Ferry and Papaconstantinou 2024, 18). Some countries, like China, consider the rules to be incompatible with their internal political doctrine. Now that many countries in the West – and especially the US – fail to appreciate these institutions' value it is very hard for them to enforce their already limited power. The World Trade Organization, for example, is by its statutes, unable to punish states but can only issue rulings in favor of a party in a commercial dispute. The US, by blocking the election of new judges in the organization, has rendered it unable to do even that. This is just one example of the many cases of decay in similar institutions.

Another major source of Western distrust toward globalization has been the war in Ukraine and the subsequent energy crisis. Under the logic of hyper-globalization, it appeared rational for Europe to rely heavily on Russian energy and on Chinese industrial goods. Yet after Russia's 2022 invasion and the imposition of EU and U.S. sanctions, Moscow curtailed gas and oil supplies, sending energy and consumer prices soaring. Energy—the foundation of any modern economy—was revealed as a political weapon, leaving the EU exposed. At the same time, China's close relationship with Russia has heightened concerns in Western capitals that Beijing, too, might restrict trade if geopolitical tensions over Taiwan escalate.

2020 - ? The big picture and the near future

By the 2020s, globalization appears to be in decline. Trade growth has slowed, major institutions such as the WTO and UN appear unable to face contemporary challenges, lacking support and legitimacy from their member states, and geopolitical rivalries are

deepening. The world shifting towards multipolarity, with the United States, China, and the European Union emerging as the principal poles of power.

Game Theory aptly describes the problem of multipolarity. A multipolar world resembles a repeated prisoner's dilemma. Although cooperation would provide a higher pay-off to each state, the uncertainty about the intentions of others makes the dominant strategy for each player to defect leading to Pareto inferior outcome (Axelrod, 1984, pg. 3-25). In such an environment, relatively minor shocks like a financial crisis, a pandemic, or a regional war can lead to catastrophic consequences since competition between states prevents a unified response. Without an enforcer or hegemon to guarantee agreements and rally other countries under its leadership, the outcome drifts to a suboptimal, competitive equilibrium; not a cooperative one.

Deglobalization is fundamentally geopolitical in nature, with economics acting as a reinforcing amplifier. The world is entering an era of political rivalry and fragmentation while global challenges like new pandemics, climate change and nuclear armament become even more threatening. The future is uncertain – and the stakes for humanity could not be higher.

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