THE PROTECTIONIST PIVOT REWIRING THE GLOBAL ECONOMIC ENGINE

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ABSTRACT

Global trade has always been important for a nation's growth both at domestic level and at global level. Having its roots jammed in the ancient times from Mesopotamia Egypt and the Indus valley long distance trade to development of silk root during Chinese Han dynasty to the First wave of globalization. However, this trading system is undergoing a structural transition from the era of Globalization to a period of geoeconomic fragmentation and strategic competition. This no restriction liberal trade dominated the trade from the period of 1990 to 2008, relying on the expanding global value chains, multilateral cooperation and one assumption that market efficiency would ensure a long-term stability. However, this statement didn't prove true for a longer times successive shocks those including the global financial crises, disruption of supply chain and the escalation of geopolitical rivalry have exposed the shortcomings of this model and thus encouraged the Governments to priorities economic resilience, technological security and domestic industrial efficient capacity.

The renewed use of the protectionist and strategic trade policies is the key defining feature of this transformed trade policies. The US shift towards economic nationalization through the increase of the trade tariffs in 2025 signaled a decisive break from the earlier commitments of liberalized trade. These actions were a reflection of larger structural pressures brought on by technological competition, labor market upheaval, and worries about reliance on foreign supply chains. This expression commonly referred to as "CHINA SHOCK" explained that trade integration will lead to concentrated regional loss, strengthening political demands for state intervention in economic governance.[1]

This study underpins that it is not about tariffs anymore. It relies its emphasis on the broader theoretical contest between the classical efficiency-based trade models and the developmental perspectives that lays its emphasis on industrial policy and national capability. This study lays down a comparative case studies of the Us "tariff based industrial policy" which is a shield for

[1] David Autor, David Dorn and Gordon Hanson, 'The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade' (2016) 8 Annual Review of Economics 205.

disruption in supply chain in contrast with China's "Dual Circulation Strategy "locking in local demand and technical control and India's "Atmanirbhar Bharat "initiative for more domestic factories with direct support.

The emergence of connector countries was also a result of the reconstruction of global production network, thus serving as intermediaries between competing economic blocs. This Geopolitical rivalry has rather than reducing trade flow has led to the establishment of alternate supply chains, thus paving way for more regionalized and strategically organized trading system. The paralysis of the World Trade Organizations dispute settlement mechanism has weakened the enforcement capacity of the multilateral trading regime, thus marking a shift towards bilateral and plurilateral trade agreements.

In conclusion, this transformation reflects not decline of the globalization but its reconfiguration into a more state-centered and security-oriented system. The world's economy with selective economic integration, technology competition, and regional trade corridors, paves a way for multi-speed system.

Keywords: Geoeconomic Fragmentation; Strategic Trade Policy; China Shock; Dual Circulation Strategy;

Introduction: The Reconfiguration of Global Trade in an Era of Strategic Competition

The last few years of the twentieth century were marked by a remarkable belief in the power of markets to integrate not only within one country but also across national borders. A growing number of governments, international bodies, and even economic scholars started to think that the world economy would be so tightly interconnected that trade would define our world. Facilitated by the opening of trade, new technologies, and the growth of foreign investments, it seemed that the flow of goods, services, and capital was becoming less affected by geographical and political factors. Under such circumstances, globalization was seen as more than just an economic process; it was also a value-laden project based on the assumption that free markets would lead to wealth, peace, and international understanding.

Between about 1990 and 2008, the growth in international trade was at a rate that was hardly ever matched in previous historical periods. Empirical studies show that the volume of global trade increased significantly faster than the total economic output, which is a manifestation of the more intertwined production systems across different regions.[2] This period is often described as the peak phase of modern globalization, during which multinational corporations reorganized production into transnational networks designed to maximize efficiency and reduce costs. Manufacturing processes were increasingly fragmented, allowing different components of a single product to be produced in multiple jurisdictions before final assembly. Such arrangements were made possible by advances in digital communication, containerized shipping, and logistics management, all of which lowered transaction costs and enabled firms to coordinate operations on a global scale.[3]

The creation of the World Trade organization (WTO) in 1995, regarded as an Institutional development thus established a formal framework for regulating international framework commerce and resolving disputes among member states. Through continuous efforts and various rounds of negotiations, Reduced tariffs, expanded market access and standardized market rule were finally achieved. Later the policy association with the Washington Consensus, laid down a ground for government to adopt measures such as privitisation, fiscal discipline, and deregulation, thereby aligning the domestic economic system with the principles of open market competition.

Despite these achievements, the global trading system began to show signs of strain in the early 21st century. The Turning point was the GLOBAL FINANCIAL CRISIS OF 2008, where the vulnerabilities of highly interconnected markets were exposed. Governments responded by implementing emergency fiscal and monetary measures, signaling a renewed willingness to intervene directly in economic affairs.[4] The crisis also had an impact on public leading to decline in the manufacturing employment and increased wage inequality.

The Covid 19 pandemic made it apparent the fragile global supply chains where there was a huge disruption of transportation network and reduction even in the flow of essential goods. Shortages of medical equipment and pharmaceutical products highlighted the risks associated with excessive reliance on geographically distant suppliers. This high time led the policy makers to rely on the principles like resilience, redundancy and domestic production capacity in the industrial policy and strategic planning. In many countries this pandemic led to the close

[2] World Bank, Global Economic Prospects (World Bank 2019).
[3] Richard Baldwin, The Great Convergence: Information Technology and the New Globalization (Harvard University Press 2016).
[4] Joseph E Stiglitz, Freefall: America, Free Markets, and the Sinking of the World Economy (WW Norton 2010).

linkage of economic security with the national security thus diverging from the traditional concept of distinction between commercial policy and defense policy.

Significant shift was marked by the US new set of tariff measures" the Liberation day tariff' ,which targeted a wide range of imported goods thus resulting it in a substantial increase In the effective average tariff rate Does signaling a departure from decade of commitment to the liberalization of the trade this policy was widely interpreted as the evidence that economics strategy was becoming in separable from geo political competition This is not a temporary transition rather it's a structural Re orientation of the international economic system which prioritizes social Cohesion employment stability and Technology Independence alongside meeting the traditional objectives such as efficiency and growth.

The present Study examines the forces driving this transition and assesses its implication for the future global Trading order. It addresses 3 principal questions: first the reason for weakening of the long-standing consensus in the favor of free trade? Second, how are the major economies including the United States, China and India are reconfiguring their Industrial and trade policies Response to the emerging Geo political and Technology challenge? Third what role multilateral Institutions continue to play in a word increasingly shaped by reach the alliance and strategic competition?

The recent changes brought about in the trade are nothing but a way for the states to establish their authority over the economic process again. Instead of the traditional method of letting the market forces work alone in deciding the distribution of resources. To address the social and political implication of the globalization government has started taking keen interest thus the world economy is now transferring to a highly diversified and strategically focused on such trade policies that are determined by Nation's interest.

In this emerging environment, globalization is getting reshaped and not getting disappeared. Economic integration still continues, occurring under conditions defined by strategic calculation, technological innovation, and political negotiation. Therefore, study of this transition essential is for analyzing the trajectory of international commerce and the evolving relationship between markets and the modern state in the twenty-first century.

Theoretical Perspectives: Efficiency vs Development

The Comparative Advantage Doctrine (CAD) which was articulated by David Ricardo in the early 19th century, which forms the foundation of the post-cold war trade order[5]. This doctrine suggested that countries can be benefitted by specializing in goods they can produce at a lower price thus maximizing global welfare by enabling resources to be allocated according to relative efficiency.

Another principle which extended Ricardo's CAD Doctrine, was through the Heckscher-Ohlin model, which highlighted the differences in factor endowments such as labour, capital and natural resources which are the primary drivers of trade policies.[6]As per this theory the countries tend to export goods that uses their abundant factors and import goods that are scarce in resources. This theory provided that this integration would gradually lead to equalization of factor prices across countries and leading to rise in the living standards. This theory thus provided a justification for trade liberalization in the 20th century.

However, the practicality of these theories came under scrutiny in the 21st century. There are critics who say that the classical trade models are dependent largely on facade, or deal with scenarios such as perfect competition, full employment, and frictionless mobility of resources that hardly exist in real-world economies.[7] What happens, is that the distributional effects of trade are quite uneven; there are winners and losers geographically, in different industries and social groups. As globalization has progressed, there have been increasing concerns about industrial decline in developed countries, job losses in manufacturing sectors, and weakening of domestic production capacity in developing countries. These issues have led to a revival of the age-old debate on the rightness of mix of efficiency and development in international economic policy.

1.1 Heterodox Critiques and the Historical Logic of Protection

Over the years, the comparative advantage framework has effectively dominated the intellectual scene. However, it continues to be questioned especially by the proponents of developmentalist and heterodox economic traditions. They argue from their point of view that industrialization and technological capability particularly dependent on state intervention at the early stages of economic development. One of the major influences in this area is Ha-Joon Chang whose work made the case that the industrialization timeline of the developed countries

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[5] David Ricardo, On the Principles of Political Economy and Taxation (John Murray 1817).
[6] Eli Heckscher and Bertil Ohlin, Heckscher–Ohlin Trade Theory (MIT Press 1991).
[7] Dani Rodrik, The Globalization Paradox: Democracy and the Future of the World Economy (WW Norton 2011).

is at odds with the free trade story of the orthodox economists. [8]

Chang's analysis shows that several of today's top economies such as the US, Germany, and the UK were mostly protected by tariff barriers, helped by industrial subsidies, and were directed by government investment during their industrial growth periods. Instead of being the opening of market champions right away, they embarked on intervention policies to protect their local industries until they were able to face competition globally. However, after becoming mature industrially, they have turned to rely on free trade as a globally accepted principle, quite often discouraging developing countries from doing the same. Chang pointed out this fact by coining a metaphor "kicking away the ladder", meaning that developed countries supported liberalization only after they had secured their own economic advantages.

Heterodox scholars have voiced their disagreement with the idea that trade will always automatically balance itself through changes in exchange rates and the workings of the market. Anwar Shaikh, for instance, makes a point that trade at the global level is not really driven by comparative efficiency but by variations in technological capability and productivity.[9] From this standpoint, international competition is about absolute cost advantages, which enables the economies that are technologically more advanced to run their trade surpluses persistently. On the other hand, the less productive countries are the ones that get the most of their foreign trade deficits, external debts, and dependence on foreign capital. This phenomenon is commonly referred to as Unequal exchange.

These criticisms have become even more significant lately when policymakers are contemplating the impact of liberalization on development. The decline of domestic manufacturing in many parts of the world is one of the factors that are making people worry about the economic resilience and security of the nation in the long run. The role of industrial capability is no longer regarded as just an economic tool but rather a strategic one that supports technological innovation, employment stability, and geopolitical influence. Thus, there was a time when industrial policy led by the state was considered as simply an exception to market-based governance; today, it has become a main characteristic of modern economic strategy.

[8] Ha-Joon Chang, Kicking Away the Ladder: Development Strategy in Historical Perspective (Anthem Press 2002).

[9] Anwar Shaikh, 'Globalization and the Myth of Free Trade' (2007) 28 International Journal of Political Economy 41.

1.2 The Political Trilemma of the World Economy

One very significant and insightful model to illustrate the conflicting aspects of globalization is Dani Rodrik's Political Trilemma.[10] It suggests that the three goals i.e. democracy, national sovereignty, and hyper globalization, cannot be fully achieved together at the same time. Rodrik argues that when governments decide to maintain deep economic integration, they most probably end up with the situation where market efficiency is the priority and the domestic political preferences are given less importance. Hence, the ability of the democratic system to make decisions is the one that gets circumscribed by the need to please international investors and abide by global trade rules. Those governments that want to be capable of competing for foreign investors and keeping market confidence are frequently most likely to implement fiscal austerity, deregulation, and labour market flexibility even when these measures run counter to their domestic social objectives. And after a while, this kind of strained situation produces a political reaction as the people, turned to voice are now pushing for more protections against the downswings of the economy and the inequalities it can cause.

Increased in protectionist measures from 2024 to 2026 can also be looked at with this same kind of reasoning. Several governments in the democracies under the stress from the elections have been pushed to give more priority to trade and industrial policies so as to be able to address the problems of jobs, technological dependence, and national security through these policies. States do not seem ready to give up on globalization altogether. Instead, they are adjusting the level of openness and autonomy, with a priority on domestic stability rather than going after maximum efficiency in global supply chains. The change is part of a wider change in the political economy of trade where economic policy is getting more determined by social and strategic factors.

2. China Shock-The Catalyst for Structural Dislocation

The debate around the trade policy has been ongoing from a longer time and it concluded that the main reason for the current situation of Protectionism is the "China Shock". This term is associated to the fast growth of the China exports after joining the World Trade Organization in 2001 thereby increasing the volume and intensity of competition in labour-intensive sectors

[10] Dani Rodrik, The Globalization Paradox (WW Norton 2011

globally [11]

The significant change in the manufacturing landscape was brought when China joined the manufacturing landscape by giving multinational corporations access to a large labour force, well-developed industrial areas, and government policies that support the industry. While production has been transferred to countries with lower labour costs, the advanced economies have witnessed substantial shrinkage of their traditional manufacturing industries such as textiles, electronics assembly, and metal fabrication. These industrial restructuring phenomena were more severe and deeper in areas that were largely dependent on industrial jobs, where the job losses were not only sizable but also the duration was quite long.

Exports from China to major developed economies grew incredibly fast between 1990 and 2022, starting from very small amounts in the early 1990s and reaching almost one trillion dollars by the early 2020s.This massive increase in exports changed the structure of global supply chains and led to wage reductions in some sectors, thus bringing up the issue of who benefits and who loses in trade liberalization. Studies show that regions more exposed to competing imports suffered slower employment recovery, lower labour force participation, and a rising need for social welfare programs.

The fallout of these economic changes is politically quite significant. In various countries, the people's frustration with globalization has been one of the main factors leading to the rise of nationalist and protectionist movements which support stricter trade controls and the recovery of domestic industries. Governments have reacted by imposing tariffs, offering subsidies, and creating rules to protect local industries deemed strategic from foreign competition. Such events show that economic difficulties can cause political changes and even affect the policy making in international trade. The China Shock indicates a change not just in the world economy but also the political economy globally. It has prompted governments to reconsider the assumptions underlying liberal trade policy and to recognize the importance of resilience, diversification, and technological capability in an increasingly competitive and uncertain world.

2.1 Localized Labour Market Impacts

One of the most important empirical studies on the effects of trade shocks was published by

[11] David Autor, David Dorn and Gordon Hanson, 'The China Shock' (2016) 8 Annual Review of Economics 205

the team of David Autor, David Dorn, and Gordon Hanson. This trio's work basically overturned the neoclassical view that labour markets always adjust efficiently and quickly to changing trade patterns. Their research showed that the dramatic increase in imports of Chinese manufactured goods after China became a member of the global trading system had a very strong negative impact on those regions that were heavily specialized in labour-intensive production. For the time period 2001 to 2019, competition from Chinese imports led to a major portion of the manufacturing job losses in the U.S. especially in industries such as textiles, furniture, and consumer electronics assembly.

Labor mobility theory as understood by classical economists had led to the expectation that workers who had lost their jobs due to trade would not experience barriers to moving to other sectors and finding new employment. However, in reality, displaced workers often encountered quite serious and structural limitations in their ability to move to other industries. For instance, a large number of workers did not have the right education or the technical skills necessary for occupations in newer industries, plus there were some who were physically or geographically immobile due to their age, family situation, or other reasons. Consequently, labour market participation fell in the affected communities, and many displaced workers actually left the labour force altogether instead of finding new jobs. This effect was one of the causes of "labour market scarring, " as economists put it, whereby unemployment over a lengthy period result in lowered earning capacity and reduced levels of workforce engagement.

Besides, the longevity of the localized economic hardship exposed the shortcomings of the policy measures that mostly counted on the market forces to bring about the adjustment. Although retraining schemes and moving subsidies were the main measures to alleviate the worst effects of displacement, the problem was on such a scale that even these limited the availability of alternative industries in these determinants regions, so the measures were ineffective. This has led to a change of mind a good number of think trade liberalization on the part of policymakers. They have also realized the necessity for industrial and regional development strategies that are both concerted. Last few years, the most important part of the governments has been the introduction of policies targeted the revival of the domestic manufacturing, investment in the human capital, and the supply chain resilience. These are also part and parcel of the larger work that has been reshaping globalization socially.

2.2 The "Great Alienation" and Political Populism

Beyond job losses, the ripple effects of the China Shock spilled into how people engage politically and socially. Where factories remained closed, researchers noticed fewer individuals showing up at meetings, less trust between neighbors, plus rising skepticism toward government. This slow unraveling helped shape something experts now call the Great Alienation - a mood marked by feeling left behind, both economically and politically, across struggling communities.

The political consequences of these changes have been very strong especially in advanced democracies. As economic insecurities deepened, a lot of people doubted globalization and the institutions supporting it. Parties and movements promoting protectionist measures, immigration controls, and domestic industrial revitalization won people over by blaming economic downturn on unfair trade practices and lack of proper government intervention. In the US and many European countries, votes for populist parties increased a lot in areas where job losses in manufacturing were the biggest, which shows a connection between economic difficulties and political changes.

Political economists' theoretical frameworks are a great help in explaining this phenomenon. Using a multitude of frameworks, Dani Rodrik is able to track the political backlash of globalization, which comes out when economic integration acts as a restriction to domestic policy choices and/or breaks social stability. At the very least, trust in democratic institutions, if not the whole democratic system, is eroded, when citizens realize that governments are more geared towards the international market efficiency model than local employment and welfare.[12] This is the path leading to support for populist leaders who, on the one hand, promise a return to restoring national control over economic policy and on the other hand, pledging to protect domestic industries from foreign competition.

The rise of populism as the result of China Shock not only impact ideological change but a structural response to prolonged economic disruptions. Governments in the fear of facing electoral pressure have started to put emphasis on policies designed to address the social consequences of globalization, including investment in domestic manufacturing, infrastructure development, and workforce retraining. In this context, protectionism can be understood as a

[12] OECD, Trade and Employment: Adjusting to Globalisation (OECD Publishing 2023).

political strategy aimed at restoring public confidence in national economic governance.

It is indeed necessary to point out that the idea of a "Great Alienation" actually captures the social consequences that can come with the overseas uprooting caused by trade. Bringing together economies not only can expand overall production but it also can create in some parts concentrated economic downturns that may influence changes in political conducts and the trust in government institutions. It is only by acknowledging these factors that one can get a hold on the current transition to a more tactical trade policy and the giving back of power to the state in the big economic play.

3. The 2025 Tariff Escalation: U.S. “Liberation Day” and Its Aftermath

Trade wars went from rare clashes to permanent fights by mid-2020s If the U. S. Really meant to reshape global trade, April 2025 was the moment. The tariff surge dubbed "Liberation Day" shocked markets. No one expected this move from Washington. It broke decades of peace in free-trade rules. Tariffs weren't just protection tools anymore, what if they were weapons? The U S. Acted as if economics had become politics again.[13]

U.S. tariff policy historically was moving towards liberalization after the Smoot-Hawley Tariff Act of 1930, which many blamed for worsening the global economic crisis of the Great Depression. Contrary to that, the 2025 tariff hike was a turning point of the long-term path of liberalisation which was abandoned because of the fears of industrial decline, supply chain vulnerability, and the competition between geopolitics. The government came up with the policy as a remedy to the persistent trade imbalances and it also aimed at shielding domestic industries from foreign competition, which it believed to be unfair.

In the new setup, a baseline tariff of about 10 percent was given to a wide variety of imported goods, on the other hand, much higher "reciprocal" tariffs going up to 50 percent were imposed on countries identified as having structural trade surpluses with the United States. The policy changed tariffs from a narrow regulatory tool to a main part of the national economic strategy. By this, the policy highlighted the rise of a new paradigm where trade policy was closely linked with industrial policy, national security considerations, and geopolitical rivalry. The broader consequences of this change were not just limited to bilateral trade relations. The implementation of comprehensive tariffs broke the existing supply chains, increased the

[13] Douglas Irwin, Trade Policy Disaster: Lessons from the Smoot–Hawley Tariff (MIT Press 2011).

uncertainty in global markets, and worsened diplomatic tensions among the major economies. In many ways, the Day measures were the milestones in the changing of the international economic system, indicating the shift from a time mainly focused on efficiency and integration to one more influenced by resilience, strategic autonomy, and economic nationalism.

3.1 Macroeconomic and Sectoral Impacts

The economic impact of the 2025 tariff escalation was immediate and dramatic on many levels. Following the announcement, global financial markets became highly volatile reflecting the uncertainty of investors regarding trade disruption potential and risk of retaliations by trading partners. Within days, major indexes plummeted severely causing trillion-dollar market capitalization loss. This volatility reinforced how market reacts to trade moves and how the global economy is connected. After the US government made the changes, the average effective tariff rate in the country was significantly higher than before and even attained a level the last time the country was at that level was decades ago. However, the increase of tariffs did not only bring the government more revenue but also substantially raised the costs for businesses and consumers.

In fact, economists consider them a kind of indirect tax as when import prices get higher the cost is passed on to consumers through a rise in retail prices. The main target of the policy was to stimulate domestic production and employment, but its short-term consequences sometimes contradicted the aim. Contemporary manufacturing heavily depends on international supply chains, and a significant share of imports are intermediate goods and parts used in making finished products. By raising tariffs, the cost of these inputs went up, leading to an increase in the production cost of domestic manufacturers, and as a result, their competitiveness both in the local and foreign markets got reduced. In the wake of tariffs, manufacturing investments slowed down quite a bit. Companies delayed buying machinery because they were not sure about the future trading policies and further tariff increases. Researchers have found that uncertainties in trade policies can delay investments, especially in sectors that need significant initial capital. Under these conditions, there was no rise in manufacturing employment, and some companies even went for layoffs to keep their operating costs under control.

The macroeconomic consequences of these changes were just as large. Lower investment and less trade meant slower growth. Meanwhile, more expensive production caused prices to rise. On the positive side however, the government earned more from tariff levies, which means it could have more funds for either supporting local industries or cutting the deficit. These results reveal the very nature of the trade-offs that go with protectionism: on one hand, tariffs give you money and shield industries; on the other, they create problems that jointly outweigh the positives.

3.2 Judicial Interpretation in February 2026

February 2026 was a significant legal turning point as the Supreme Court of the United States delivered a landmark decision that aimed to clarify the scope of executive power in the realm of trade policy.The Court in a majority vote decided that the administration had gone beyond its legislative powers under the International Emergency Economic Powers Act (IEEPA)[14] in imposing wide-ranging tariffs without sufficient national emergency evidence. This decision was a major constitutional limit setting on executive actions and highlighted the role of legislative control in economic governance. The ruling led to some immediate practical effects on trade policy. By eliminating the emergency powers argument for very large tariff actions, the Court forced the administration to find other statutory sources of power like Section 122 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act of 1962. The first legislation authorizes tariffs due to balance-of-payments problems and the second for security reasons. The laws provide for a smaller array of trade restriction instruments along with more stringent procedural requirements. Besides conducting detailed investigations, these laws also include the possibility of holding reviews at regular intervals. The constitutional dimension of this dispute, besides the executive and legislative branches, is likely to have major repercussions. As a matter of fact, over and over again, Congress has bestowed on the president a large measure of power in the realm of trade and related matters to enable the president to act swiftly in economic crises. Still, the Court's ruling in 2026 seems to indicate that the judiciary is once again willing to challenge the president's powers, particularly when the trade measures have large-scale economic impacts.

This will probably lead to the legislative branch playing a greater role in trade matters, and open government will become the norm. Ultimately, the legal and economic consequences of the Liberation Day tariffs bring out the complicated relationship between local governance and international economic relations. Trade policy is no longer just about economic calculation; it

[14] United States Supreme Court, Decision on Executive Tariff Authority under the International Emergency Economic Powers Act (20 February 2026).

has turned into a battlefield where legal authority, political legitimacy, and strategic interests converge. Governments, in their effort to adapt to these changes, will have to uncover an approach to protectionism and cooperation that would be in a harmonious relationship. They should consider this to be the main challenge or the most difficult task for them in the coming years of the international economic system.

4. China's "Dual Circulation" and Technological Sovereignty

China's reply to the escalation in geopolitical rivalry and the restriction in technology has been the drafting of an all-round development plan called the Dual Circulation Strategy (DCS). Initially presented in 2020, this concept embodies a strategic reorientation of China's method of development in the light of altered global scenarios, e.g. trade wars, breakdown of supply chains, and prohibition of highly advanced technology exports. The main focus of DCS is to lessen dependence on the outside world by bolstering domestic consumption, promoting self-reliant innovation, and making national industrial systems more robust.[15]

China shifted from exporting goods to relying more on its own market. That change came after global trade fights and restrictions on chips showed how risky foreign ties could be. Now, policy makers focus on building local tech and manufacturing instead. The plan centers on internal circulation, domestic buying, supply chains, and innovation - as the main driver. External trade still happens, but it's not what keeps the economy steady anymore. Some say this move helps reduce risk long-term. It's clear the government wants fewer outside dependencies now than before. Still, foreign markets play a role when things go smoothly.

This change is part of a bigger shift in China's economic thinking, which is moving away from an efficiency-driven global integration to an industrial policy that is oriented towards resilience. At the practical level, the strategy highlights the state's role in funding research and development, increasing domestic manufacturing capacity, and developing strategic industries that can compete in technologically advanced sectors. The main goal is to create a technological ecosystem that is self-sufficient and able to support economic growth even when facing geopolitical tensions or trade disruptions.

[15] Michael Pettis, 'China's Dual Circulation Strategy and the Future of Growth' (2020) Carnegie Endowment for International Peace.

4.1 "New Quality Productive Forces" and the 15th Five-Year Plan

China's implementation of the dual circulation strategy was made clearer through the 15th Five-Year Plan (2026-2030), which was approved by the National People's Congress in early 2026. This plan brings in the idea of "New Quality Productive Forces, " which is a policy framework that focuses on innovation-led growth by investing in state-of-the-art technologies and high-end manufacturing systems.[16] The idea shows the understanding that economic competitiveness over the long term is determined not just by scale and labour cost advantages, but also by technological leadership and productivity improvement.

This framework covers key industries such as artificial intelligence, renewable energy robotics biotechnology, quantum computing, and advanced semiconductors. These sectors are the main focus of China to counter the techno-restrictions of export control imposed by foreign countries and to secure its position in the global markets. The Chinese government intends to use the allocation of financial resources to these sectors as a means to speed up the transformation from labour-intensive production to knowledge-intensive manufacturing.

China has made remarkable progress in a number of these strategic sectors. By the middle of the 2020s, the country was producing the majority of the world's renewable power generation equipment's such as lithium-ion batteries and PV solar modules[17]. This industrial power enables China not only to derive economic benefits, but also to exert geopolitical influence since possessing vital parts for energy transition means having control over international supply chains. Besides, massive funding in scientific research has upgraded China's technology level, making it less dependent on overseas providers and more self-sufficient.

Stress on technological sovereignty mirrors worries about national security on a larger scale too. Nowadays, it's not only about the business value of hi-tech products; they are increasingly recognized as instruments of power. States want to be sure that they will be able to use the technologies on which their security depends, even if that means less efficiency or more expensive manufacturing. Leading China's example, the country's economic policy becoming inseparably linked with security aspects also shows how the trend of geoeconomics

[16] National People's Congress of China, 15th Five-Year Plan for National Economic and Social Development (2026–2030) (NPC 2026)

[17] United States–China Economic and Security Review Commission, Annual Report to Congress (USCC 2025).

competition is becoming stronger.

4.2 Weaponization of Supply Chains

One of the main hallmarks of the geoeconomic scene that is taking shape is the growing use of supply chains as means of political influence. Thanks to its mastership in mining and processing of critical minerals and industrial components, China has been able to exert a strong influence on manufacturing networks worldwide. This situation came to the fore in October 2025 when, as a reaction to foreign technology sanctions, Chinese authorities imposed additional export restrictions on rare earth elements (REEs), permanent magnets, and battery-related materials.[18]

The result of export restriction could be seen from the drastic price rise of the minerals at the global market and even shortage of some key components. Another impact is the lack of access to critical inputs, thus resulting in many manufacturing firms in North America and Europe closing their production, reflecting the vulnerability of global supply chains to geopolitical tensions. Strategically, these moves represent how economic interdependence can be turned into a kind of geopolitical leverage. It is possible for governments to affect the actions of their trading partners without the use of military force if they have control over key sections of global production networks.

China's ultimate goal, it seems, is the development of a strong economic system that is self-sufficient to a large extent, able to withstand external shocks and keep competitive advantages in key industries. Utilizing its large domestic market and industrial potential, the nation aims to lessen its exposure to foreign influence and increase its power in the changing international economic order. The Chinese strategy is just one part of the changing nature of globalisation which is evolving from being a means of mutual efficiency to becoming a system characterized by competition, power struggle and technological independence.

5. India’s “Atmanirbhar Bharat” and the Manufacturing Paradox

India has taken a very different path towards making its economy self-sufficient via the Atmanirbhar Bharat campaign, aiming to combine building the country's industries with the continuation of participating in global markets. Whereas the previous import substitution

[18] ibid.

policies mainly focused on cutting off international trade, today's policy is designed to bring India into the global value chains and at the same time, enhance the local manufacturing capabilities. Such a mixed approach shows the realization that in the modern era economic growth will need both a welcoming attitude towards foreign investments and also the strengthening of the home-grown industrial sectors.[19]

This strategy largely hinges on the Production-Linked Incentive (PLI) programmed that was rolled out to motivate investment in key sectors like electronics pharmaceuticals renewable energy, and automotive manufacturing. Through the programmed, companies get cash incentives depending on their level of additional production, which not only supports the growth of manufacturing on a large scale but also facilitates the upgrading of technologies. This policy has attracted a lot of local and foreign investment and thus contributed to the growth of industry and employment. India's approach can be considered as a "middle path" between protectionism and liberalization. Instead of completely banning trade, the government selectively help the firms through incentives. Its aim is to make the products competitive without adversely affecting the international trade. The plan is part of the larger goal of India becoming a manufacturing hub that will be able to serve the needs of both domestic and foreign customers.

5.1 Success Stories in Electronics and Pharmaceuticals

The implementation of the PLI program has resulted in actual growth of the sectors, among others, in the production of electronics. India has emerged as a major manufacturer of mobile phones in the past decade, which show the rapid expansion of local assembly capabilities and improvement of the industrial infrastructures. Growth of this sector has opened up the avenues for export, job creation, and technology transfer in the related sectors. The pharma sector has also made major progress as a result of the Atmanirbhar Bharat program. The deep knowledge of India in manufacturing of generic drugs has been supplemented with new investments in active pharmaceutical ingredients (APIs) and biotechnology. As the production capacity of the home industry expanded, China reduced its dependence on imported raw materials and at the same time became a major supplier of affordable medicines to the world. These points illustrate how an effectively focused industrial strategy can be instrumental in boosting economic

[19] Government of India, Atmanirbhar Bharat Abhiyan: Policy Framework and Economic Strategy (Press Information Bureau 2020)

resilience as well as health security.

One more important consequence that the initiative has generated through the employment channel. Ventures that are being taken up under the PLI scheme are expanding the number and type of jobs in manufacturing, logistics and other related services; at the same time contributing to the economic growth of the local area. Besides, offering work in factories helps raise the wages and living standards of the people in different parts of the country thereby increasing the social acceptance of government industrial policies.

5.2 The "Assembly Hub" Critique

Despite this success, the manufacturing strategy of India is confronted continuously by some deep-rooted structural issues which hold it back from achieving great results over a long period of time. One of the major points raised by the critics is the very low extent of domestic value addition (DVA) in the main sectors with the electronics sector being the main case in point. Mostly, locally-based plants import components and simply assemble them ignoring co-production of components and consequently limitations on technology transfer and reduced spillover of economic effects aim at growth and development.

Another issue is connected with the configuration of trade policy. Whereas tariffs that protect local industries can act as a shield against foreign competitors, if the dependence on import restrictions is too high, competitiveness might be lowered due to the rise in production costs and the discouragement of innovation. So, the dilemma for the decision-makers is to find a fine line between the protection of the newly started industries and keeping the incentives for efficiency and technological progress.

The case of Atmanirbhar Bharat is an excellent example of industrial policy in a globalized economy. Apart from investment attraction and production expansion, it is also essential to promote technological capability, supply chain integration, and export competitiveness. While India is continuously improving its development policy, one of the biggest challenges will be the move from assembly-based manufacturing to innovation-driven production if the country wants to maintain the growth of the economy and strategic autonomy in the long run.

6. Evolution of "Connector Countries" and Trade Rerouting

The growing strategic rivalry between the United States and China has significantly altered the face of global trade. Rather than just causing a shrinkage in international trade, what is generally referred to as economic decoupling has actually caused a complex reorganization of manufacturing and supply chains. In this context, a number of non-aligned countries, often called "connector countries", have emerged as essential in keeping the global economy integrated. These countries act as go-betweens for opposing geopolitical blocs, allowing goods, capital, and technology to continue flowing despite increased political tensions.[20]

Usually, countries that act as connectors share several characteristics. They have fairly liberal trade policies, are located in very strategic geographical areas, and establish diplomatic relations with multiple major powers. Besides that, many have invested heavily in facilities, industrial parks, and logistics networks primarily aimed at multinational companies seeking to diversify their supply chains. As companies are rewriting their playbooks to include near-shoring, friend-shoring, and China-plus-one manufacturing, these countries have become crucial nodes in the reshaped global production network.

Some well-known connector countries are Vietnam Mexico India Hungary United Arab Emirates, etc. Each one has used its geopolitical neutrality and manufacturing capacity to win over foreign investors. These countries offer multinational corporations alternative production sites that help minimize the risk of geopolitical exposure while maintaining access to the largest consumer markets. Along with this, they play a part in continuing a certain level of economic interconnection even when global trade is diverging into different strategic zones.

The emergence of so-called connector countries highlights a major change in the nature of globalization. The world economy is not becoming one single, integrated global market; rather, it is becoming a network of partly blossomed regional economic systems linked through intermediary countries. The system maintains the viability of trade and investment while at the same time allowing political rivalry among major powers. On the other hand, it creates new risks as connector economies have to juggle competing economic interests and deal with the uncertainties of changing geopolitical alliances.

6.1 Trade Reallocation vs. Trade Rerouting

One of the most important aspects of modern trade analysis is the question of differentiating

[20] International Monetary Fund (IMF), Geoeconomic Fragmentation and Trade Rerouting (IMF World Economic Outlook 2025).

trade rerouting from trade reallocation. These are two concepts that describe how the world supply chains change due to geopolitical tensions. According to the latest evaluations by international financial organizations, trade rerouting is defined as when goods that are made in one country are sent through a second one to avoid tariffs or other regulatory restrictions and the product remains mostly unchanged. In this way, exporters are able to keep their market positions in spite of the trade barriers but it hardly adds to the productive capabilities of the intermediary country.

On the other hand, trade reallocation means that production is shifted to different parts of the world which leads to real growths of the domestic manufacturing output and jobs. Here, foreign companies set up local factories, build supplier networks and even transfer technology to host countries. Therefore, determining whether it was a rerouting or a reallocation of activities that took place is fundamental to measuring the permanent economic benefits of the spreading of supply chains.

Latest trade statistics point to a supply chain overhaul of a significant scale. Near the end of 2025, Vietnam saw an enormous increase in exports to Mexico, another vital connector economy. This could be an indication of Asia North America production linkages being developed. These changes vividly show how multinational corporations are re-aligning their supply networks in order to lessen their dependence on single-country production while at the same time maintaining efficiency and market access[21]. But, on the other hand, the emergence of connector countries as major players exposes them to greater economic and geopolitical risks. They will only be able to thrive if they can maintain trading relationships with a number of countries, which is going to be even harder as strategic rivalry intensifies. Should international trade get split into different geopolitical blocs, the connector countries will have to pick sides, and this will greatly limit their freedom and willingness to trade.

The international trade system might eventually evolve into a multi-corridor structured arrangement with supply chains based on different regional spheres of influence, as indicated by long-term forecasts. In such a case, a major portion of world trade may take place through separate trading networks that are centered on different sets of technological standards, regulatory systems, and security alliances. While a country serving as a connector could gain from such a situation, it might, at the same time, face certain challenges. For instance, the

[21] Observatory of Economic Complexity (OEC), Trade Network Data Report (2025).

intermediary role could generate a steady requirement for logistics services and industrial capacity. Nevertheless, the disadvantage of higher disintegration is that it might lead to increased exposure to external shocks like sudden changes in trade policy, currency fluctuations, or supply chain disruptions.

From a policy perspective, the rise of connector countries illustrates the need for strategic flexibility in economic management. Governments in such countries should improve their physical infrastructure, train their labor force, and develop their technology so that supply chain diversification not only yields growth but also stability over time rather than a series of short-term bursts.

At the same time, they will have to negotiate complex diplomatic challenges if they are to keep their market access while staying out of geopolitical conflicts. In fact, the appearance of connector countries represents a significant feature of the global economy today. It is a testament to the resilience of international trade even when politics cut countries apart and a pointer to the rising importance of intermediary states in sustaining economic ties. As the world is shifting towards a de-centralized and more strategically contested trading system, these countries' ability to balance opportunity and risk will largely determine the pace of globalization.

7. Institutional Decay: The Paralysis of the World Trade Organization

The World Trade Organization, which was once reputed for its safe guidance of trade, is currently witnessing its influence dwindling. As countries revert to their own concerns, the discontent keeps increasing. The laws that were so strictly observed in the past begin to distort. The world's trade agreements are under pressure as people's allegiance changes. The authority is slowly leaving the collective systems. The WTO after 1995, as a continuation of GATT, was mainly responsible for settling disputes and ensuring compliance among members.

However, these days the organizing principles are rapidly deteriorating. Nations manipulate them whenever it benefits them. The pile of conflicts remains without any substantial solution. The confidence among the members has waned. Adhering to rules these days looks more like a recommendation rather than a requirement. Every day there are new disruptions in trade flows between countries. Individually, certain governments decide not to cooperate/leverage each other.

The Dispute Settlement Mechanism (DSM) was the central element of this arrangement. Many considered it to be a very powerful instrument for compliance among international laws, and as a result, it was quite effective when it came to enforcing rules. The member states had the option of contesting a country's trade actions which they considered the breaking of the WTO commitments and obtaining definitive rulings after the appeal in the end. Trust being established through the years around this system - the handling of conflicts in court-like environments rather than through one-sided penalties. These days, less people around trust the system, especially after the continuous changes since 2010. Turning point was in 2019, when USA prevented the appointments of the new judges to WTO's appellate body - the entity that should review the panels' rulings. Since this court requires a minimum number of members to function, the blockage of issuing new appointments led to freezing its operations. Without the appeals, the decisions of the trial panels are left without a resolution which results in the contradictory interpretations of trade laws and the weakening of the global rules enforcement.

Nowhere is the strain on global trade rules clearer than in the stalled dispute system. When rulings grind to a halt, countries stop waiting - they act alone. Bilateral chats fill the void, so do regional pacts, each carved separately. Unity gave way long ago, replaced by separate deals and self-reliance. Built for cooperation after war, today's framework creaks under rivalry. Enforcement fades into background noise while talk takes center stage. The WTO still meets, yet its voice carries less weight each year.

7.1 The 88th Blockage and the Emergence of "Plan B" Mechanisms

Institutional tensions in the WTO escalated to a major climax in June 2025 when America stopped the appointment of Appellate Body members for the very eighth consecutive time, during a meeting of the Dispute Settlement Body[22]. U.S. officials defended their stance by saying that the Appellate Body had gone beyond its mandate, interpreting trade agreements in such a way that member countries were being bound by new legal obligations without their consent. This criticism is part of a wider apprehension among some policymakers that international institutions have gotten too much power, at the cost of national sovereignty. The incessant blocking of judicial appointments has compelled other WTO members to consider other dispute resolution mechanisms.

[22] Hinrich Foundation, The Multi-Party Interim Appeal Arbitration Arrangement Explained (Policy Brief 2025).

One of the most notable initiatives is the establishment of the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), a voluntary system set up by a group of countries aiming to maintain a working appellate process. Through it, members agree to resolve trade disputes through arbitration proceedings that are very much like the ones of the pre-existing WTO appeals system.[23]

The MPIA is clearly a step forward to keep legal continuity but its impact has been limited by the absence of most major trading giants. P.M. of U.S. and India who are the two biggest players have avoided the arrangement citing reasons related to giving up some of their sovereign rights and doubtful of the whole institutional legitimacy. So naturally, the world trade dispute resolution scene has become very diversified with different countries relying on different sets of laws to solve trade tensions.

Such fragmentation has facilitated the rise of what economic experts label as a "multi-speed" trade system where certain groups of countries aim for a higher level of economic integration through plurilateral agreements, while the rest are left outside such arrangements. Unlike the classical multilateral agreements where the agreement of all members of the WTO is required, plurilateral agreements make it possible that only those members willing to participate agree on certain rules in specific areas such as digital commerce, environmental standards, and investment. The downside of this method is that it can eventually lessen the reach of the WTO framework by the emergence of parallel regulatory regimes.

At the end of the day, the failure of the WTO is merely a symptom of a wider change happening in the global political economy. The idea of one global trade system, governed by common rules, that had been formulated after the Cold War, is gradually being replaced by a more fragmented and competitive world order where regional alliances, national interests, and technological competition are becoming the main factors. It is highly crucial to comprehend this major shift in the institutions so as to be able to evaluate the future of the international trade governance as well as the possibilities for the revival of the multilateral cooperation that can be strained due to the strategic uncertainties of this new era.

8. Conclusion: The Transformation of Globalization in an Era of Strategic Competition

The changes in the world economic system over the first two decades of this century do not

[23] Kommerskollegium, Plurilateral Trade Agreements and the Future of the WTO (Trade Policy Report 2026).

mean that globalization has failed. They show that globalization has changed substantially. From 1990 to 2008, the time when hyper globalization was at its height, the world saw a deepening of economic integration, the expansion of trade, and the dominance of market-oriented policies. During that period, the world trade organizations such as the WTO (World Trade Organization) were able to offer a safe and stable regulatory framework that would not only facilitate foreign direct investment but would also support the formation of complex global value chains.

The basic idea was that deeper economic interdependence would generate win-win situations and great-power conflicts would become less frequent. The developments over the past two decades have however shaken that confidence. The 2008 Global Financial Crisis, the spread of the COVID-19 virus, and intensifying geopolitical tensions have exposed the global trade system as a vulnerable structure at the very center. Production has been affected, there is a race in technological developments, and governments are not only focusing on economic efficiency but also on national security. Therefore, countries are increasingly working toward policies that will make their local industries stronger, provide different supply chains, and reduce strategic dependence on foreign partners.[24]

A key theme of this article is the growing role of industrial policy as one of the main determinants of economic governance. The US imposing wide-ranging tariffs in 2025 demonstrates that it is willing to resort to trade barriers once more as a strategic move. China's Dual Circulation Strategy and emphasis on self-reliance in technology are efforts to strengthen their domestic supply chains and become dominant players in emerging sectors. Meanwhile, India's Atmanirbhar Bharat illustrates how they are merging the global market integration with supporting local manufacturing to a greater extent. These different instances are just a few illustrations of a much larger trend in the policy direction of the most powerful economies: the quest for economic resilience, technological sovereignty, and industrial competitiveness. Technological sovereignty is still a concept that poses several dilemmas and contradictions. With the global economy undergoing digital transformation and becoming more dependent on each other, the idea of a country attaining full "technological sovereignty" has been questioned and even refuted by many scholars and experts.

How well a country can isolate itself and become independent technologically is still a big

[24]Dani Rodrik, Straight Talk on Trade: Ideas for a Sane World Economy (Princeton University Press 2017)

question, especially on the level of having a completely sovereign tech base. This is why many China experts think that Beijing is interested in "technological self-reliance" rather than "technological self-sufficiency". Another key piece of the global system that is being built is the emergence of middle countries or connector countries. The rise of geopolitical rivalry has not led to a total collapse of international trade but to a diversification of supply chains where manufacturing is distributed among various regions. Countries like Vietnam, Mexico, and India are some of those which have capitalized on this trend by attracting foreign investments and expanding their manufacturing capacities. However, at the same time, by being intermediaries, they also expose themselves to risks of geopolitical tensions and instability, and changing trade alliances.

Experts consider the weakening of the WTO dispute settlement system at the institutional level as a very significant moment in the history of international economic governance. The failure of member countries to maintain a functioning panel for the appeals process has not only led to a loss of trust in the rules-based trading system but has also resulted in an increase in the number of bilateral and regional agreements. Such developments have led to what experts call the "multi-speed" global economy where different groups of countries follow very different regulatory frameworks and levels of integration. While, on one hand, such arrangements allow different countries to move forward in specific policy areas; on the other hand, they increase the complexity of global trade governance and reduce the predictability of international economic relations.

But now the world moves differently. Globalization isn't open everywhere anymore, just smart partnerships. Policies focus on safety, tech edge, and steady politics instead of pulling back. The state steps in harder than before, not just managing money but shaping growth around security, culture, and stability. Markets don't run things alone anymore. Governments step forward to guide factories and control risks. They use plans built for industry, not just free trade flows. That means real power returns to public hands. There's no longer faith that pure markets will fix everything. States are back at the table - not watching quietly, but making decisions every day. Economic choices aren't left to luck or supply chains alone anymore.

Looking forward, the future of globalization will more likely feature the idea of integration in a selective manner rather than a worldwide move towards liberalization. Trade and investment will be growing areas but they will be structured through regional networks and strategic partnerships instead of a single, unified global system. Also, digital technologies, artificial intelligence, and advanced manufacturing are anticipated to be at the heart of this new economic world, allowing the countries to be a part of the global markets while having more control over their critical industries.[25]

[25]World Economic Forum, The Future of Global Trade and Technology (WEF Report 2025).

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