Deglobalization may be bigger than Donald Trump

Nationalist and interventionist approaches mean many regions must choose between the U.S. and China.



May 30, 2025

After a series of stops and starts, with tariffs brought on and off the table in quick succession, the world waits on tenterhooks to see what Donald Trump will do next.

©IESE Business School

Whether tariffs on Europe and China rise or remain unchanged come July, one shift appears irreversible according to IESE professor Pedro Videla in a session addressed to IESE's Alumni community: The era of hyper-globalization that thrived from the 1980s to 2008 is coming to an end. Driven by post-WWII global institutions, this period of rapid trade integration is now giving way to higher costs, supply bottlenecks and echoes of 1970s-style stagflation.

Unlike the oil shocks of the 1970s, today's disruption is political, not resource-driven. It's a moment of reckoning for globalization, as the Trump administration airs its discontents, citing rising current account deficits and blaming China's industrial overcapacity for the loss of 6-8 million American manufacturing jobs.

The U.S. isn't alone. Populist sentiment and calls for protectionism are rising across Western democracies. Many hope these shifts will restore working-class jobs. Europe has also grown wary of China's dominance in key sectors like solar panels, batteries and EVs. Even Ukraine relies on Chinese batteries for its drones, highlighting the security risks of manufacturing being concentrated in so few hands.

Is China to blame?

China was undoubtedly one of the biggest beneficiaries of globalization. By the mid-2010s, China accounted for 30% of global manufacturing output. Moreover, China's growth model is highly capital-intensive, emphasizing investment over consumption. Chinese households have increasingly saved rather than spent, largely due to weak social safety nets, thereby increasing the trade deficit between China and the nations it trades with.

However, these are not the real reasons for the U.S. deficit. A key misconception in Trump's economic logic is the belief that trade deficits stem primarily from unfair foreign practices. While China does engage in export subsidies and overproduction, the U.S. trade deficit is fundamentally rooted in domestic macroeconomic imbalances — particularly high fiscal deficits and overconsumption. If the U.S. eliminates its trade deficit with China through tariffs or bans, the deficit will simply shift to another country. Structural current account deficits are a function of internal savings and investment patterns, not bilateral trade arrangements.

How does the dollar's reserve status play into

©IESE Business School

the new global turmoil?

The U.S. dollar is the global reserve currency, and this further complicates trade dynamics by causing dollar appreciation. This makes U.S. exports less competitive. Trump favors low interest rates and a weaker dollar to support industrial growth, but these preferences run up against institutional constraints and global financial realities.

Trump's approach may open the door for China and the BRICS to challenge dollar dominance and push for a multipolar world. Under Xi Jinping, China is actively seeking to reduce its dependency on the United States and Western institutions. This pursuit of economic and technological self-reliance will likely result in a significant global decoupling.

Videla discussed three potential outcomes to this geopolitical trajectory:

- **Optimistic scenario:** Some form of agreement between the U.S. and China leads to partial normalization.
- **Moderate scenario:** A partial decoupling unfolds, leading to a substantial reorganization of global trade and supply chains. Trade volumes decline, industrial policies expand and countries shift toward protectionism.
- **Pessimistic scenario:** A complete breakdown of negotiations results in a global recession akin to post-crisis periods like the COVID-19 pandemic. This would generate stagflation — a combination of rising prices and falling output — and long-lasting damage to the global economy.

Videla doubts the likelihood of a return to normal trade relations, given current rhetoric from the White House and the strategic objectives of both nations. Countries, including many in Europe but particularly in Latin America, may soon face pressure to choose sides. China is now the top trading partner for Chile, Brazil and Argentina. If the U.S. pushes them to decouple, repercussions could include trade restrictions, visa limits and reduced diplomatic ties. While economic logic may favor China, the political costs of defying the U.S. are steep.

Can anything halt the momentum toward deglobalization now?

Trump has leaned heavily on executive orders to advance his agenda, but that strategy may be reaching its limits. In May 2025, the U.S. Court of International Trade found that Trump did not have the authority to use the emergency economic powers legislation that he cited when

©IESE Business School

he imposed his sweeping global “Liberation Day” tariffs a month prior.

Bond vigilantes and investors also appear to hold some sway, as do congressional limits and the independence of the Federal Reserve. Nonetheless, the world will need to assess many held truths in the months ahead.

Whether tariffs are upheld or repealed, the Trump administration’s broader geopolitical strategy extends beyond trade, framing global tensions as a new Cold War against an “axis of evil”: China, Russia, Iran and North Korea, with proxy conflicts in Ukraine and the Middle East.

Efforts to reclaim strategic assets, such as replacing a Hong Kong firm in the Panama Canal with BlackRock and eyeing Greenland, reflect a focus on maritime choke points. As Arctic ice melts, Greenland and Canada are gaining strategic importance where China is already investing heavily. Meanwhile, a Chinese move on Taiwan could embolden other powers like Russia and accelerate global instability. It’s not just the U.S. embracing deglobalization — China and others are closing ranks, too.

As Videla puts it, “The global order is being reshaped by nationalism, populism and protectionism. The system that supported growth and stability is under threat. We must be prepared for a more fragmented and volatile world.”

READ ALSO:

Shock as strategy: Making sense of Trump’s first 100 days

How to respond to the new geopolitical order



Pedro Videla

Professor and holder of the Banco Sabadell Chair of Emerging Markets at IESE Business School.

©IESE Business School