

The Crisis of US-Driven Globalization and Other Challenges to the Global Economy and Society.

Andres Solimano

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1. Introduction

Economic globalization under the leadership of the United States since the end of World War II is under severe stress, by the cumulative tensions of the international order of the last thirty years or so (after the end of communism and the rise of neoliberal economics) and, by the turn to economic nationalism and protectionism in the US with the second administration of President Donald Trump. This is reflected in a new orientation of economic policies in America based in cutting trade ties with other nations and reducing to the maximum possible the inflow of immigrants to America. The degree of international integration in both the goods market (affected by rising import duties or tariffs) and the labor market is curtailed (reduced though massive deportations of working-class immigrants and other restrictions) has increased reversing the trend to less boundaries in international economic relations among nations of the last half century or so. In addition, the US has imposed new limitations to the inflow of foreign graduate students to obtain master's degrees and PhDs in American universities and the setting of obstacles to foreign scholars to attain academic jobs. The arrival of foreign brainpower and talent has been an important factor behind the

leading role of the US in knowledge generation and technological innovation during most of the 20th century and early 21st century.¹ Moreover, the closing of links with the rest of world has been accompanied by the weakening of international organizations such as the UN system, the World Trade Organization, and the American withdrawal others.

The massive tariff hikes since “liberation day” of 2 April 2025 aims at reducing reduce US trade deficits, promote the re-industrialization of the US economy, and foster fiscal revenues through indirect taxation to make space for regressive personal and corporate tax cuts. This policy, however, represents a sharp U-turn from American-led globalization a process that started after World War II and was reinforced since the 1970s and 1980s.

The integration in global capital markets, a cornerstone of American-led globalization has remained less affected than integration in the goods and labor markets as the US still enjoys a deep capital market with ample liquidity that offers obvious attraction to international investors and countries with an excess of national savings over investment. In addition, the fact that the US dollar is the dominant international reserve currency in which oil contracts, gold contracts, energy contracts and a great proportion of central banks reserves are denominated provides another incentive for directing capital inflows to America as transaction costs are reduced. However, this direction of capital inflows could be eventually reversed if some vulnerabilities in the US economy become more serious

¹ Solimano (2025).

and affect market credibility in the years ahead. This is related to the persistent fiscal deficits America is running that observers have pointed out that can aggravate in the future because of tax cuts approved by the legislature in 2025 (the Big and Beautiful Bill) along with spending cuts in health care, education and social security that affect fiscal sustainability. The issue is important as affects the capacity to raise domestic resources to pay external debt that is the counterpart of asset acquisitions by foreigners. Some of these trends are already ongoing and have led to the depreciation of the US dollar in international currency markets. Two additional sources of concern for international capital markets on the financial solidity of the US economy are: (i) the high valuation of the US stock market driven mainly by the rapidly rising price of Artificial Intelligence (AI) stocks whose correction could destroy financial wealth of many optimistic investors and (ii) political pressures on the independence of the Federal Reserve that can affect its commitment to price stability/low inflation.

However, the macro-financial imbalances and vulnerabilities are not only located in the US. In the global south, currency instability and unconsolidated inflation stabilization in Argentina has led to subscribe new debts with the International Monetary Fund and recently with the US government. The wisdom of acquiring more debt in an already highly indebted economy such as Argentina, to solve the monetary, growth and social deficits of a country remains as an open question. The global economy is also affected by armed conflicts wars (Ukraine, Gaza, Sudan), the recent approved increases in defense spending by countries of the

European Union, the rising public debt of main economies in the global north as well as middle- and low-income countries is another source of vulnerability in the global economy. The rise of the membership and influence of the BRICs group is another trend. At the same time, positive prospects for prosperity should be highlighted as the wave of new technological innovations around Artificial Intelligence, robotics, and medical breakthroughs albeit controversies abound regarding their welfare and distributional impacts.

Beyond macroeconomics and defense, a structural global problem is the inequality of incomes, wealth and opportunities that has been aggravated in some cases during the last thirty years. The numbers tell a worrisome story: according to available statistics the richest one percent controls near 45 percent of global personal wealth while close to one-third of the world adult population only holds as net wealth less than US\$ 10,000 owning no significant physical assets (including housing).² In addition, the problem of global warming is serious, and the trend of rising temperatures is not abated despite efforts at transiting from fossil fuels to green and solar energy sources. This paper reviews these issues using the tools of informed economic analysis and recurring to history to put these issues in a proper long-term perspective and help device public policies for a future better world.

2. The Historical Roots of Neoliberal Globalization

² Solimano (2024).

Historically, “globalization” understood as increased economic interdependence among territories across the world, took place with its own characteristics and features in at least three historical periods: first, in *the age of discovery and exploration* that unfolded from the 15th century to the 17th century led by the search of new routes of navigation, the conquering of new territories and the quest for precious metals by the dominant --and competing-- monarchies of the time: the Spanish, the Portuguese, the British, the Dutch and the French.

A second wave of globalization came in the second half of the 19th century after the industrial revolution and the improvement of transport and communication. It extended to the early 20th century until the outbreak of world war I. This was a period of various empires (British, Russian, Ottoman, Prussian, Austro-Hungarian)³ and reflected the rise of economic liberalism, entailing the free movement of goods, capital and to a large extent people (migration). This globalization was largely led by England a net exporter of capital, leading industrial power, monetary hegemon, and naval power.

Third, the last wave of (*neoliberal*) globalization started in the 1980s and was based on the promotion of free trade and capital mobility. Migration also increased but it was not officially promoted by the countries of the global north, that supported globalization in the goods and capital markets. The process received a big boost after the end of the socialist regimes of Russia and Eastern Europe in the late 1980s and early 1990s. Neoliberal globalization upholds global capitalism and was actively

³ Solimano (2010, 2020).

promoted by the United States consolidated as a global superpower after the dissolution of the Soviet Union and the disappearance of the socialist block in Eastern Europe. The process had the active support from international financial institutions such as the International Monetary Fund and the World Bank, both based in Washington DC.

Neoliberal globalization process came after the retreat of Keynesianism following the simultaneous rise of inflation and unemployment (stagflation) in the 1970s in advanced capitalist countries along with the recycling of petrodollars and the expansion of global capital markets. However, globalization has been undermined by financial instability and recurrent financial crises along with the rise of inequality and ecological destabilization and more recently by the turn towards more nationalistic policies in the USA with Trump. Several of these features mentioned above have, historically, accompanied capitalism; therefore, the current crisis of globalization is at the same time a crisis of global capitalism.

In the 1990s it was proclaimed “the end of history “envisioning the world converging to a combination of liberal democracy and market economies after the end of soviet-style communism. This optimism, however, started to be eroded by the prickling of the dot.com financial bubble in the late 1990s and early 2000s with the strains becoming more acute after the international financial crisis of 2008-09 originated in the United States, spreading then to Europe and other areas of the world. The next decade and a half after the global financial crisis was followed by relative economic stagnation and by a series of de-globalization shocks such as

the Brexit --exit of Great Britain from the European Union approved in 2016-- , the trade tensions between the US and China, a new global recession in 2020 associated with the lockdowns of Covid-19 and the disruptions in supply chains along with increases in food and oil prices and overall inflation . The most recent event against globalization is the Trump tariff shock or “liberation day” of April 2; 2025 imposing new import tariffs to manufacturing products, agricultural and technological goods produced in China, Mexico, Canada and in a vast number of countries. The massive tariff hike aims at reducing reduce US trade deficits, promote re-industrialization of the US economy, and foster fiscal revenues through indirect taxation to make space for personal and corporate tax cuts.

The recent increase in tariffs adopted unilaterally by the US government represents a sharp U-turn from American-led globalization a process that started, in a broad sense, after second World War II and pushed with renewed emphasis since the 1970s and 1980s following the breakdown of the Bretton Woods exchange parities in 1971 and the subsequent re-cycling of petrodollars and the financial globalization of the decade of the 1970s. The US promoted trade opening through slashing tariffs and quantitative trade restrictions in different economies and promoted inter- country flows of private financial capital and foreign direct investment.

The China Factor

The United States encouraged the economic opening of China in the years following the death in 1976 of Mao Zedong followed by massive foreign investment from US and European companies eager to take advantage of the low wages prevailing in China accompanied by government guarantees of disciplined labor. Economic opening would enable the transformation of this populous but still poor country into a global platform in the production of manufacturing goods. Moreover, as China per capita income started to rise a new buying power unfolded and the Chinese market became an interesting outlet for the sale of goods produced in the US and other western nations. China became an active participant of globalization both as a super-exporter of manufactured goods in a wide range of goods from textiles, furniture, intermediate goods to electric cars, micro-processors, solar panels, and electronics. China became the host of foreign direct investment from advanced capitalist countries along with an importer of goods and a buyer of US securities that helped to finance trade deficits in this country.

The honeymoon with China, however, proved not to be eternal. The official “promotion of China” by various US administrations since the end of the cold war on account of both geopolitical considerations, say to diminish the international influence of Russia and considering its economic potential for new trade and investment deals, however, started to gradually fade away. This anti-China stance gained traction in the first presidency of Trump, in which the USA started to put trade barriers with this country; this stance radicalized, in the second Trump

administration. China is now seen not as a partner but as the main competitor for the economic hegemony of the USA. However, the share of Chinese GDP in global GDP increased while the US share declined; in turn, the Chinese have managed to steadily close its economic and technological gap with America.

It is apparent that a *geopolitical logic* of preserving national hegemonies—particularly American hegemony-- is overtaking the *economic logic* of globalization and economic integration in the conduct of international relations that had prevailed in the last three to four decades. In this period preserving and enhancing free trade, free capital mobility –although not necessarily free international migration—have been the primary consideration governing inter-country relations. In this context, it is apparent that Neoliberal globalization is in retreat and a new era of economic nationalism and fragmentation is on the rise. The ascent of China along with its remarkable capacity to produce not only light manufacturing but also advanced manufacturing goods including electric cars, solar panels, microprocessors, computers, laptops, and other hi-tech products started to be perceived as a geopolitical threat to American national development, including military hegemony, therefore creating a new attitude, more hostile, to economic globalization.

This shift in attitudes towards globalization is somewhat paradoxical since it is apparent that the United States benefitted from open markets at the global level, helped by the fact the US dollar is the dominant

international reserve currency and that financial globalization has enabled the United States to run persistent trade deficits for more than four decades financed by capital inflows, including the massive buying of treasury bills by China and other nations.

The Impact of International Migration

A source of anti-globalization sentiment in America now is related to *international migration*. Trump run his presidential campaign in 2024 largely against (working class) immigrants and the inflow of foreigners in general. They are presented as the main culprits for the several problems faced by the American society ranging from crime, wage stagnation, slow productivity growth, pressure on housing prices, the fiscal budget, social benefits, inequality and so on. The fact that the power and prosperity of the USA as a nation has been, historically, associated with the inflow of immigrants who came from Europe, Asia, Latin America, and Africa in the 19th and 20th century to work and develop entrepreneurial capacities in a country of opportunities, abundant land and a rich natural resource base is often overlooked. Now “aliens” are a threat for America, they are “invading” the country; the inflows must be stopped, and irregular Latin immigrants started to be the subject of mass deportations.⁴ The anti-foreign zeal is not only restricted to working class migrant but is also reaching foreign students and international scholars teaching and doing

⁴ In the USA policies of deportation of irregular migrants from Latin America and other third world countries are not new. It was followed by several American administrations including Obama I and II and Trump I and, of course, with virulence under Trump II.

research in American universities, starting from one of the most prestigious ones such as the 400 years-old Harvard University. The impact of government hostility against Harvard and other Ivy-league universities for the future of science, technology and the culture of the country remains to be seen.

Although the free mobility of people across nations was never seen with equal sympathy to free trade in goods and services and to the international mobility of capital people's migration has been a component of neoliberal globalization. Migrants coming from Mexico, Honduras, el Salvador, Colombia, Venezuela, and other Latin American countries provide work force to agriculture, construction, the hospitality sector, and industry, performing jobs that many Americans don't want to do. At the same the regularization of immigrants (visa provision) has not proceeded at the same pace of the inflow of new people from abroad and, according to various estimates, as of 2025 the US is host of some 12 million irregular migrants. At the same time the US has benefitted from the arrival of foreign talent who accounts for a significant proportion of new innovations and knowledge generation. In turn, investment migration programs in the modality EB-5 and others provide capital useful for the creation of new firms and businesses.

The Weakening of International Organizations

Another source of anti-globalization sentiment by some sectors of ruling American elites is a certain contempt deployed against international

organizations. Isolationist tendencies are not new and were already observed a century ago when the US refused to join the League of Nations created in 1919 in the aftermath of World War I. The second Trump administration has withdrawn from multilateral institutions such as the World Health Organization, the International Court of Justice Tribunal and has weakened the World Trade Organization, the International Labor Office and is undermining the United Nations system. However, the ideal of “a rules-based global economic order” certainly requires adherence by member countries to an international institutional system that promotes peace, the diplomatic resolution of differences and conflicts among nations and the unfolding of international trade, capital mobility, technological cooperation, and international migration.

The Economic Logic of Globalization in Confusing Times

In this confusing context, it is worth mentioning that economics views international integration among nations as an important mechanism to promote economic efficiency in production, and a source of consumer gains all leading, if distributional effects are properly considered to enhanced social welfare. In fact, economic integration, by allowing the exchange of goods and services between countries of different resource endowments, technological levels and comparative advantages is expected to benefit consumers that will be able to buy best quality goods such as last generation cars, computers, cellular phones, electronics,

clothing, agricultural goods at a lower price compared with the cost of these goods in a situation when countries impose import taxes and other restrictions on international trade. A similar logic is valid for trade in services as banking, tourism, insurance, entertainment such as movies, concerts, air traveling and so on.

On the supply side international trade expands the scale of production, lowering the costs of production and yielding lower prices than otherwise. In turn, resources such as labor, physical capital and human capital are expected to be allocated to the sectors in which they are more productive, in the language of international trade to sectors of the economy that have comparative advantages, say where they are more productive and efficient compared with other nations. In turn, if capital is allowed to move to countries with good supporting infrastructure, moderate labor costs and legal certainty this will improve the overall efficiency of capital and bring about increased global output. However, not all the effects of globalization are unmistakably positive as we shall see below. The development of modern capitalism with the industrial revolution of the late 18th century and early 19th century and the subsequent internationalization of the system in the late 19th century provide an important case of study to shed more light on the positive and less positive features of current globalization.

In the last three decades or so we have seen that because of external opening and globalization several countries have accelerated their rates of economic growth and reduced poverty; this has been the case of China, India, Vietnam, Chile, and others. At the same time, however, the

gains of globalization, with its winners and losers, tend to be unevenly distributed within countries and between nations. *Efficiency and distributive justice* may not always coincide, and this trade-off is a very important source of tensions and discontent associated with the process of neoliberal globalization. Economic inequality has risen with globalization and a small class of billionaires and super rich has emerged in the world endowed with strong economic power, control of the mass media and political influence. The wealth and income gap between these economic elites and the rest of the population --working class, the middle class, the marginalized, the poor--has reached alarming levels.⁵

It is an irony that the current globalization backlash is now having its epicenter in the country that initially forcefully promoted globalization. However, to understand this puzzle it is important to note that since the onset of neoliberalism in America the consequences have been wage stagnation, a growing social divide between the have and have-not, economic insecurity, lack of good quality jobs, student debt, housing shortages, rising national debt along with technological improvements such as the onset of the computer revolution, the internet, robotics, and now artificial intelligence. The combination of regressive social effects along with prosperity and better technologies seem to have created disaffection and resentment among significant segments of the working class and the middle class against rich and powerful wealthy elites, professional elites, and the political establishment. No wonder, economic globalization is viewed with suspicion.

⁵ See the Global Wealth Report and Solimano (2024).

Anatomy of the Costs and Discontents of Globalization

From the previous discussion we can identify the economic arguments in favor of globalization to include the fostering of prosperity associated with production for enlarged markets, broader consumer choice and greater economic efficiency. These benefits, however, must be balanced with the economic costs and tensions associated with the process of globalization. This section is devoted to identifying the costs and tensions of international integration to understand better the causes of the current wave of anti-globalization sentiment that apparently affects America and other important nations of the global north.

A first source of internal tensions of the globalization process is linked to trade liberalization, a process that is expected to boost economic efficiency but that also entails winners and losers. In advanced economies the winners locate in rising activities and occupations that thrive with international integration such as banking, insurance, entertainment, high tech sectors, housing, financial experts, tech-experts, corporate lawyers, professional economists, and others. In contrast, the losers are in the declining industries such as auto-makers, coal, iron, aluminum and steel, less skilled labor-intensive activities that experienced serious problems to withstand foreign competition. Under globalization the industrial working class in America, France, Britain, and other nations has seen a decline in job opportunities affecting adversely

their life-time careers in the traditional industries where they have worked most of their productive lifetime.

At an analytical level the branch of welfare economics shows that international trade can increase social welfare (the sum of individual welfare levels in society) creating a “Pareto- superior position” in which somebody in society is better off but none is worse off *provided* winners can compensate losers. This compensation can take place through income transfers, re-skilling, training and so on.⁶

This environment created among working people deep feelings of social frustration, psychological stress, and disenchantment with the process of globalization and the market-society in which essential activities and human resources are treated as discardable commodities. In turn, this discontent is often capitalized by populist leaders, often of a right-wing persuasion, that have articulated an anti-trade and anti-migration discourse that can be appealing to electorates facing the stresses of globalization. The crisis of traditional industries and the ensuing discontent of affected workers is not apparently capitalized by centrists’ political parties or by the anti-capitalist left.

In the US, President Trump both in 2016 and 2024 managed to mount presidential campaigns built around an agenda critical of current globalization complemented with nationalistic, authoritarian, and imperialist overtones. Nonetheless, significant segments of the American

⁶ See Solimano (2023, chapter 4).

working class voted for him in 2016 and 2024 enabling Trump to win the respective presidential elections. In France, in turn, industrial working class, also affected by globalization and living in the *banlieu* in Paris and other main cities have voted in several occasions for the conservative Front National of Marine Le Pen rather than the Communist Party, although in 2024 the left wing coalition of Jean Luc Melenchon -from the France Insoumise-- won the special election of 2024 called by president Macron and impeded a general victory of the National Front.

A second source of globalization tensions is related to the multiple financial crises and overall financial instability that have taken place both in the periphery of the global economy (mainly in Latin America and East Asia) and in center economies (chiefly the USA, Sweden, and Spain, Ireland) in the 1980s, 1990s and 2000s, accompanying the process of neoliberal globalization. These crises include the Latin American debt crises of 1982-83 hitting Argentina, Mexico, Brazil, Peru, Chile, Venezuela following a process of overborrowing in the 1970s. The debt crises were triggered by the Volcker interest rates hikes of the early 1980s. In the late 1970s and throughout the 1980s debt problems went beyond Latin America and reached Turkey, the Philippines, and former socialist countries such as Poland, Hungary and later Rumania and Bulgaria. External debt also burdened the USSR and perhaps it was one of the factors that prompted its demise along with costly wars such as the invasion of Afghanistan.

Financial crises have also affected the supposedly more stable center economies. In the US there was the Savings and Loan crisis of the late 1980s, the crises of the Exchange Rate Mechanism in Europe in the early 1990s with the speculative attacks against the British Pound. The bursting of the dot.com stock boom in the US in the late 1990s and early 2000s and the sub-prime crises in the real state sector leading to the financial crisis of 2008-09 with international ramifications was another main financial shock. In 2023 the Credit Swiss was forced to close by financial authorities in Switzerland and the Silicon Valley bank in the USA due to practices of risky lending and fragile balance sheets. These episodes show the vulnerabilities of financial liberalization and free capital mobility, key cornerstones of financial globalization.

Back to the periphery, in 1994 there was the Mexican exchange rate crises and financial stress and financial turbulence reached Argentina in 1995 and in 2001 when the convertibility board put in place in 1991 that had set the exchange parity between the Argentinean peso and the US dollar at a rate of one to one was abandoned. The collapse of the exchange rate regime was accompanied by riots, popular uprisings, and the rotation of several presidents in December of 2001. Other episodes of financial crises include the East Asian crises of 1997-98, the Russian currency and financial crises of 1998 and the Brazilian financial turbulence of 1999. The Venezuelan economic crises set in motion around 2016 and lasting several years led to hyperinflation and massive contraction in GDP (more than 50 percent in the crises years) prompting emigration of near six million people from Venezuela to other Latin

American countries, Spain, and the US. This was probably the most serious humanitarian crises of the western hemisphere in decades.

A third source of tensions of globalization is the exacerbated inequality of income, wealth, and opportunities, both within countries and among nations that has accompanied globalization. In the second wave of globalization of the late 20th century and early 21st century inequality of wealth, has skyrocketed associated with booming asset prices and privatization. In addition, inequality of incomes (wages, profits, interest, and dividends) has remained high. In the labor market of advanced economies sluggish demand for labor and stagnant has accompanied relocation of production overseas particularly in the US. This worsening in income and wealth distribution has led to more polarized internal social divides between economic elites and the super-rich on one side and the working class and middle-class people on the other. Inequality in the United States started to rise after the end of the post WW II golden age in the 1980s with the tax cuts, deregulation policies and trade opening of Ronald Reagan. These policies have been maintained, overall, by subsequent administrations of both Republican and Democratic Party Presidents with the predictable result that inequality has remained high.

Market-generated inequality has increased also in the traditionally egalitarian countries of Nordic Europe particularly in Sweden. However, in these countries this process is moderated by the *redistributive role of the state* through taxes and subsidies that keeps, within more reasonable levels, the inequalities generated in the market process. Moreover,

inequality climbed sharply in Russia after the end of communism. In fact, the restoration of capitalism in this country after 70 years of socialism led to the formation of a new class of billionaires and oligarchs with close connections with the political system. These links are of critical importance to preserve the enormous wealth accumulated by the oligarchs but of course challenges the operation of democracy.

The rise of inequality has also reached China after several decades of high growth that followed China's opening to western globalization and massive inward foreign investment from US and European companies lured by the existence of an abundant labor force earning modest wages. On the trade side, China became an effective export platform first of light and then of sophisticated, high-tech, manufactured goods.

Countries in the far East that have *avoided a surge in inequality* are Japan and the Republic of Korea.⁷ These experiences are interesting in showing that it is possible to integrate in the world economy and maintain reasonable indices of income and wealth distribution. These two experiences provide a note of optimism that more equitable and socially sustainable globalization is, in principle, possible.

A fourth source of globalization backlash is associated with the process of international migration. The basic theory of international migration predicts that people will move from labor abundant, low- wage countries to labor scarce, high wage nations. Additional factors include the quality of cities, the availability of educational, health and financial facilities and

⁷ See D' Costa (2025).

social and political stability in the recipient countries (Solimano, 2024). Historically, labor scarce countries such as the Argentina, Canada, the USA in the 19th century with abundant land and natural resources attracted millions of people from Europe that was “overpopulated”. In fact, between the second half of the 19th century to around 1920 near 60 million people left the “old world” --Europe with limited land, abundant labor, and relatively modest wages -- to the “new world” the USA, Canada, Argentina, Brazil, Australia, New Zealand a set of countries with abundant land, labor scarcity and higher wages. These flows of migration contributed to wage convergence between sending and recipient countries (see Solimano, 2010).

In general, sizeable migration processes have distributive consequences and can create non-trivial political problems, particularly in the recipient countries as immigration tends to moderate (or even depress) the real wage in the receiving country thereby affecting the living standard of the local population. This wage effect, along with strains on social services and changes in the ethnic and cultural make up of countries tend to be resented after large waves of immigration take place, leading, eventually, to immigration backlashes as the one occurred in the 1920s in the US and in Europe. In the second wave of globalization of the 1980s and 1990s the international migration regime has been less liberal than in the first wave of globalization of the late 19th century and early 20th century.

In the second wave of globalization, the proportion of foreign population to total population has currently reached between 10-15 percent in the United States in Europe and 20 percent in Australia. In several South

America recipient countries, immigration became a serious problem in the 2010s and 2020s, specially with the massive emigration of around six million people coming from crisis-ridden Venezuela. Main immigration destination countries include Chile, Peru, Colombia, and others. Source countries of emigration in the region are Haiti, Ecuador, Colombia, Venezuela, and others affected by poverty and insecurity.

This rapid inflow of immigrants creates adjustment problems in the provision of health, education, and housing services along with a rise in organized crime. This later factor has contributed to create an anti-immigrant sentiment as foreign gangs are perceived as linked to urban insecurity and crime. Migration is a rather complex dimension of the overall globalization process a very sensitive issue, particularly at political level.

A fifth source of stress and tensions that undermines the support for globalization is the lack of effective government responses to the dislocations of globalization. The nation-state has a limited ability to cope with changes coming from the outside of national borders such as trade penetration, destabilizing capital inflows and outflows, massive immigration, internationally transmitted pandemic and so on. However, it should compensate losers of globalization to facilitate it and avoid redistributive results that impair political support for an open trade system. In addition, global institutions such as the IMF, World Bank, the OECD, the World Trade Organization, ILO, the UN provide a way to manage the tensions and challenges of globalization. However, in a rapid

changing world these institutions must adjust to new realities and issues and that flexibility is not always present. In turn, a big hegemonic country like the USA has a complex relationship with them as they perceive them as imposing certain constraints in their ability to act in their national interest and hegemonic priorities. The tensions between hegemonic countries and international institutions are a reality.

A sixth source of stress is inter- country rivalries and the challenge of hegemonies by rising powers that have managed to grow fast with globalization building strong trade facilities and technological platforms. The clearest case of this trend is of course China reflected in its ascendant share in global GDP and a rapid closing of the technological gap between the country and the US and Europe. In fact, China has developed increasing technological sophistication and an ability to effectively compete in the international markets in micro-chips, computers, electric cars, solar panels. The fear of the US is the erosion of the leading edge in economic and military supremacy by the advance of China. Historically, rivalry between nations and empires has been part of the human landscape since ancient times with the Byzantium and Roman empires, the Ottoman empire, the Spanish Crown, the Portuguese, the Dutch, the French empires, and the Chinese and Mongol dynasties, to cite some main examples. More recently, in the 20th century, the aftermath of World War I led to the subsequent dissolution of the four main empires of the time: the Russian empire, the Ottoman empire, the Prussian empire, and the Austro-Hungarian empire.

The British empire entered an irrevocable period of relative decline being surpassed by the ascendancy of the US in the 1920s and 1930s with the American advantage fully consolidated after WWII. The second world war led Germany, France, the UK to lose their colonies and started a process of de-colonization; developing countries in the global periphery develop agendas of economic and political autonomy relative to dominant economies in the core of the global economy. In the early decades of the 21st century the rise of China, India and the newly industrialized countries of Asia provide the main challenge to the economic hegemony of the US as we move to a multi polar world.

Current Economic Vulnerabilities and the Future of Globalization

The future of globalization will depend on how current misalignments and imbalances are managed. The US economy has been incubating large fiscal deficits, trade imbalances and inflationary pressures. At the same time, there is a booming US stock market closely linked to the high valuation of the Artificial Intelligence (AI) stocks, whose dynamics resembles a “technology bubble”. This creates a positive “wealth effect” for consumers who have invested in the stock market, but its sustainability is still an open question.

Inflationary pressures are related to higher tariffs compounded by the likely effects (e.g higher wages, labor shortages) of the deportations of undocumented working-class immigrants that work in agriculture, the construction sector, and services. The rise in internal costs and prices tend to depress real wages and cool-down consumption and aggregate demand,

However, recessive effects coming from price hikes are at least partly compensated by the rise in stock prices and crypto assets prices. Other vulnerabilities to the American economy are related to the depreciation of the US dollar, the undermining of the independence of the Federal Reserve (American Central Bank) and the prospective fiscal deficits in the years ahead.

Vulnerability and macroeconomic-financial risks, however, not only pertains to the American economy. In the global south, Argentina has embarked since late 2023 in an orthodox stabilization plan to bring hyperinflation down and deregulate the economy under free market, libertarian President Javier Milei. The plan has relied on two main pillars: (i) economic austerity through sharp cuts in public spending to close a large fiscal gap that was financed through money creation with the result of explosive inflation; (ii) overvaluation of the exchange rate to cool-down inflationary pressures. As a result of fiscal austerity, the economy experienced cuts in aggregate demand, employment, squeezing the delivery of social services and entailing the closing of many industrial plants. As a result, these policies bred social discontent and the government lost an important election in the Buenos Aires province in September 2025. In addition, in recent months markets are discounting the ability of the government to stabilize the economy and produce a return to growth. The exchange rate has depreciated, rising country risk premium and the stock market plunged. To avert a chaotic situation the Argentinean government has recently managed to arrange a financial rescue package, through currency swaps between the US Federal Reserve and the Argentinean Central Bank where the former buys Argentinean pesos and the

later receives US dollars. The swap operation is for U\$20 billion but an additional loan of U\$20 billion is in the cards to avoid a further crash of the currency before the crucial elections on October 26 that threaten the survival of the Milei government. The operation is risky for the US taxpayers given the fact that the peso can slide down further, and default risks is not small. From the Argentinean side, the accumulation of large external debt both with the International Monetary Fund and now the US government provide a bleak perspective for the Argentinean economy.

Other sensitive spots that can affect the global economy are related to the continuation of the Ukrainian war, the instability in the middle east and the Gaza conflict, now under a feeble peace agreement, the burden of increased defense spending adopted by most countries of the European Union, the rise of influence of the BRICs block, the dynamism of the Chinese and the Indian economy. The future of the globalized economy will depend on how these trends and sensible spots are managed and the extent to which the turn to economic nationalism and protectionism in the US plays out at global level.

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