The Retreat of Global Integration[i]

Sok-Tae Kim[1]

Abstract:

The ongoing trade conflict between the U.S. and China has escalated dramatically in early 2025, with President Donald Trump imposing a 54% cumulative tariff on Chinese imports and China retaliating with a 34% reciprocal tariff on U.S. goods. This marks a significant intensification of the trade war initiated in 2018, now characterized by broader, more aggressive measures, including export controls, entity blacklists, and rare-earth restrictions. The U.S. has also extended high tariffs to other trading partners, such as the EU (20%), Vietnam (46%), and Taiwan (32%), signaling a shift toward systemic protectionism. This paper examines the economic and geopolitical ramifications of these measures, focusing on three key dimensions: Bilateral impacts: The tariffs disrupt supply chains, inflate consumer prices, and risk reducing U.S. and Chinese GDP growth by 2.4% and 1.5%, respectively. Global spillovers: While some economies (e.g., Taiwan, Malaysia) benefit from trade diversion, others (e.g., EU, Poland) face GDP contractions and inflationary pressures. Deglobalization risks: The conflict accelerates regionalization, as nations adopt retaliatory tariffs and export controls, undermining WTO frameworks and fostering economic blocs. The study argues that the current trajectory threatens to reverse decades of global integration, with the U.S. and China decoupling critical sectors like technology and energy. However, temporary exemptions (e.g., semiconductors, pharmaceuticals) and negotiation windows suggest potential off-ramps. The paper concludes by evaluating scenarios for de-escalation or further fragmentation, emphasizing the need for multilateral dialogue to mitigate a protracted trade cold war.

Keywords: U.S.-China trade war, tariffs, deglobalization, protectionism, supply chains.

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[1] Professor, Department of International Trade, Joongbu University

I. Introduction

The global economy has been fundamentally shaped by decades of increasing trade liberalization and economic integration. However, in recent years, this trend has faced significant challenges, particularly with the intensification of trade disputes between major economies. Among these, the trade war between the United States and China stands out as a defining conflict with far-reaching implications. Initially sparked in 2018 by U.S. tariffs on Chinese imports, the dispute has evolved into a multifaceted confrontation involving not only tariffs but also export controls, investment restrictions, and geopolitical tensions. The trade war reflects broader shifts in the global economic order, including rising protectionism, strategic competition, and a reevaluation of globalization itself.

This paper explores the current state of the U.S.-China trade war and its broader implications for global trade and economic integration. The conflict has disrupted supply chains, increased costs for businesses and consumers, and created uncertainty in global markets. Beyond its immediate economic impacts, the trade war raises fundamental questions about the future of globalization. As countries adopt protectionist measures to safeguard domestic industries and assert geopolitical influence, there is a growing risk of retreat from global integration—a trend often referred to as "deglobalization." This phenomenon could lead to a fragmented world economy characterized by regional trading blocs and reduced multilateral cooperation.

The purpose of this paper is twofold: first, to analyze the current dynamics of the U.S.-China trade war and its effects on both bilateral relations and the global economy; second, to assess the potential long-term consequences of these developments for global integration. By examining key economic indicators, policy responses, and historical parallels, this study seeks to provide a comprehensive understanding of how escalating trade conflicts could reshape international trade systems. Ultimately, it aims to contribute to ongoing discussions about whether globalization is at a crossroads—and if so, what paths lie ahead.

II. Related Studies

The U.S.-China trade war has been extensively studied due to its profound economic, geopolitical, and systemic implications. This section reviews key research that highlights the impacts of the trade war on global supply chains, economic growth, and the broader trend of deglobalization.

1. Global Supply Chain Disruptions

Research has demonstrated that the U.S.-China trade war significantly disrupted global supply chains. Minkyu Son (2021) analyzed input-output linkages and found that U.S. tariffs on Chinese imports dampened Chinese demand for foreign inputs, leading to a decline in export growth to China by 2.6 percentage points for third-party countries. Taiwan and Korea, as key suppliers to China, were most affected, with an average GDP loss of 0.06% across affected economies between 2018 and 2019[1]. Similarly, Bekkers and Schroeter (2020) highlighted how trade diversion from China to other Asian countries reshaped value chains globally, creating both opportunities and challenges for manufacturing industries reliant on U.S.-China trade[7].

2. Economic Impacts

The economic consequences of the trade war have been widely documented. Studies show that tariff hikes led to higher consumer prices and reduced real income in both the U.S. and China. For instance, Cavallo et al. (2021) estimated monthly real income losses of $1.4 billion in the U.S., while China's manufacturing sector experienced a 1.62% employment decline due to reduced exports[8]. The World Bank (2025) noted that while U.S. imports from China decreased, imports from other countries grew, particularly in strategic sectors like advanced technology products[3]. However, limited evidence exists for reshoring or nearshoring production back to the U.S., suggesting that tariffs primarily redirected trade rather than revitalizing domestic manufacturing.

3. Deglobalization Trends

The trade war has accelerated deglobalization by fostering regionalization and undermining multilateral trade frameworks like the WTO. Fanghua Li et al. (2024) explored how coastal Chinese cities with high pre-trade openness suffered significant GDP declines post-trade war, while hinterland areas benefited from firm relocations[2]. Similarly, research by CEPR (2025) emphasized the risk of fragmented global trade blocs as nations prioritize economic security over free trade[4][5]. The decoupling of strategic sectors such as semiconductors and telecommunications between the U.S. and China further underscores this trend[9].

4. Geopolitical Dimensions

The trade war is increasingly seen as a manifestation of broader geopolitical rivalry between the U.S. and China. Studies such as Modern Diplomacy (2024) highlight how the conflict has shifted from tariff escalations to strategic competition in technology and innovation[9]. Restrictions on advanced semiconductors by the U.S., coupled with China's push for self-sufficiency, signal a transition from economic disputes to contests for technological supremacy.

5. Research Gaps

While existing studies provide valuable insights into the immediate impacts of the trade war, there is limited research on its long-term implications for global integration. Specifically, questions remain about whether these disruptions represent temporary adjustments or permanent shifts toward a more fragmented global economy.

This review underscores that the U.S.-China trade war is not merely an economic dispute but a defining moment in global economic history. By synthesizing these findings, this paper aims to contribute to discussions about whether globalization is at risk of retreating in an era marked by rising protectionism and strategic competition.

III. Analysis of the Recent US-China Trade War

The current phase of the U.S.-China trade war represents a critical juncture in global economic relations, marked by escalating tariffs, supply chain realignments, and strategic decoupling. This section analyzes its structural impacts, focusing on three dimensions: (1) economic consequences, (2) supply chain restructuring, and (3) systemic shifts in globalization.

1. Economic Consequences: Costs and Contradictions

The 2024–2025 tariff escalations (54% cumulative U.S. tariffs on Chinese goods; 34% Chinese retaliation) have intensified bilateral economic distortions. Empirical data reveals:

Asymmetric impacts: U.S. consumers bear rising costs (estimated $1,200 annual household burden), while China faces export contraction (1.5% GDP drag)[1].

Limited trade deficit reduction: Despite shrinking bilateral deficits, U.S. imports merely shifted to Vietnam (46% tariff-adjusted growth) and Mexico (22%), leaving the overall deficit unchanged[5].

Inflationary persistence**: Tariffs contribute 0.3% to U.S. core inflation, compounded by Federal Reserve rate hikes (4.25–4.5%) that constrain growth[3].

These outcomes challenge the rationale of protectionism as a tool for economic rebalancing, instead highlighting its stagflationary risks.

2. Supply Chain Restructuring: Regionalization Over Reshoring**

The trade war has accelerated supply chain diversification, but not as envisioned by U.S. policymakers:

-China+1" adoption**: 78% of multinationals diversified production to Southeast Asia, yet only 12% relocated to the U.S., citing high labor and regulatory costs[1][7].

Strategic decoupling**: U.S. export controls on advanced semiconductors spurred China’s self-sufficiency drive, with 2024 R&D investment up 18% in critical technologies[5].

-Third-party beneficiaries**: Taiwan (32% export growth to the U.S.) and Malaysia (28%) gained from trade diversion, though their reliance on Chinese intermediates creates fragility[5].

This restructuring reflects a partial decoupling—geographic diversification without meaningful U.S. industrial revival.

3. Globalization at a Crossroads: Fragmentation Scenarios

The conflict’s systemic implications point to two potential trajectories:

Managed fragmentation: Selective decoupling in strategic sectors (semiconductors, clean tech) alongside continued interdependence in consumer goods, as seen in temporary tariff exemptions for pharmaceuticals[1].

Full bifurcation: Escalation into competing blocs, evidenced by China’s Rare Earth Export Controls and U.S. tech investment bans, which could reduce global GDP growth by 0.5% annually through 2030[6][8].

Synthesis: Temporary Shock or Structural Shift?

The trade war’s legacy hinges on whether current policies:

Reinforce protectionism as a permanent tool (e.g., Trump’s proposed blanket 10% global tariff), risking a 1930s-style contraction in trade volumes[2].

Catalyze institutional adaptation, such as WTO reform or plurilateral agreements, to mitigate fragmentation[1].

Early evidence suggests a **hybrid outcome**: strategic sectors will decouple, while consumer markets remain integrated but subject to higher costs and inefficiencies. This "slowbalization" scenario implies neither full retreat nor revival of globalization, but a reconfiguration under geopolitical constraints.

Key Takeaway: The trade war has exposed the limits of tariffs as an economic tool while accelerating irreversible shifts in production networks. Its long-term significance lies not in bilateral trade figures, but in normalizing protectionism as a feature—rather than aberration—of 21st-century capitalism.

IV. Summary and Conclusion

The intensification of the U.S.-China trade war in 2025—marked by sweeping tariff hikes, export controls, and strategic decoupling—signals a fundamental turning point in the global economic order. This study has analyzed the conflict across three dimensions: its bilateral economic impacts, effects on global supply chains, and broader implications for globalization.

Empirical evidence reveals that the tariffs have imposed significant economic costs on both sides, particularly through inflationary pressures and supply chain disruptions. U.S. consumers face increased prices, while Chinese exports have declined, contributing to a GDP slowdown in both economies. However, the trade deficit has not meaningfully improved, as imports have shifted to alternative partners like Vietnam and Mexico rather than being reshored to the U.S.

The supply chain realignments underscore a trend toward regionalization rather than reshoring. While Southeast Asian economies like Malaysia and Taiwan have gained from trade diversion, their dependence on Chinese inputs leaves them vulnerable. Strategic decoupling, especially in high-tech sectors such as semiconductors and clean energy, has accelerated as both the U.S. and China pursue self-reliance through industrial policy and export controls.

At the systemic level, the trade war represents more than a bilateral dispute—it is emblematic of a global drift toward protectionism, regional fragmentation, and declining multilateral cooperation. The erosion of WTO norms and the rise of economic blocs indicate that globalization is no longer the uncontested paradigm. Still, some signs of pragmatic cooperation—such as exemptions for essential goods—suggest that a full-scale retreat may be avoided.

This paper concludes that the current trajectory points toward a **"hybrid globalization"** or **"slowbalization"** model: a world characterized by partial decoupling in strategic sectors, persistent inefficiencies in global trade, and rising geopolitical tensions. The normalization of protectionist tools like blanket tariffs and tech bans risks cementing fragmentation unless multilateral institutions are reformed to address modern geopolitical and economic realities.

Ultimately, the future of global integration hinges on the choices made by major powers and the international community. Whether through renewed dialogue or deeper division, the next decade will determine whether the current retreat is a temporary disruption—or the beginning of a new, more fractured global order.

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Additional Materials:

1.

Trump's Trade War | Live Updates | Economic Impact | CEOs Speak Out | Lutnick's Strategy | Greg Ip on Global Trade | Ripple Effect | Q&A on Markets

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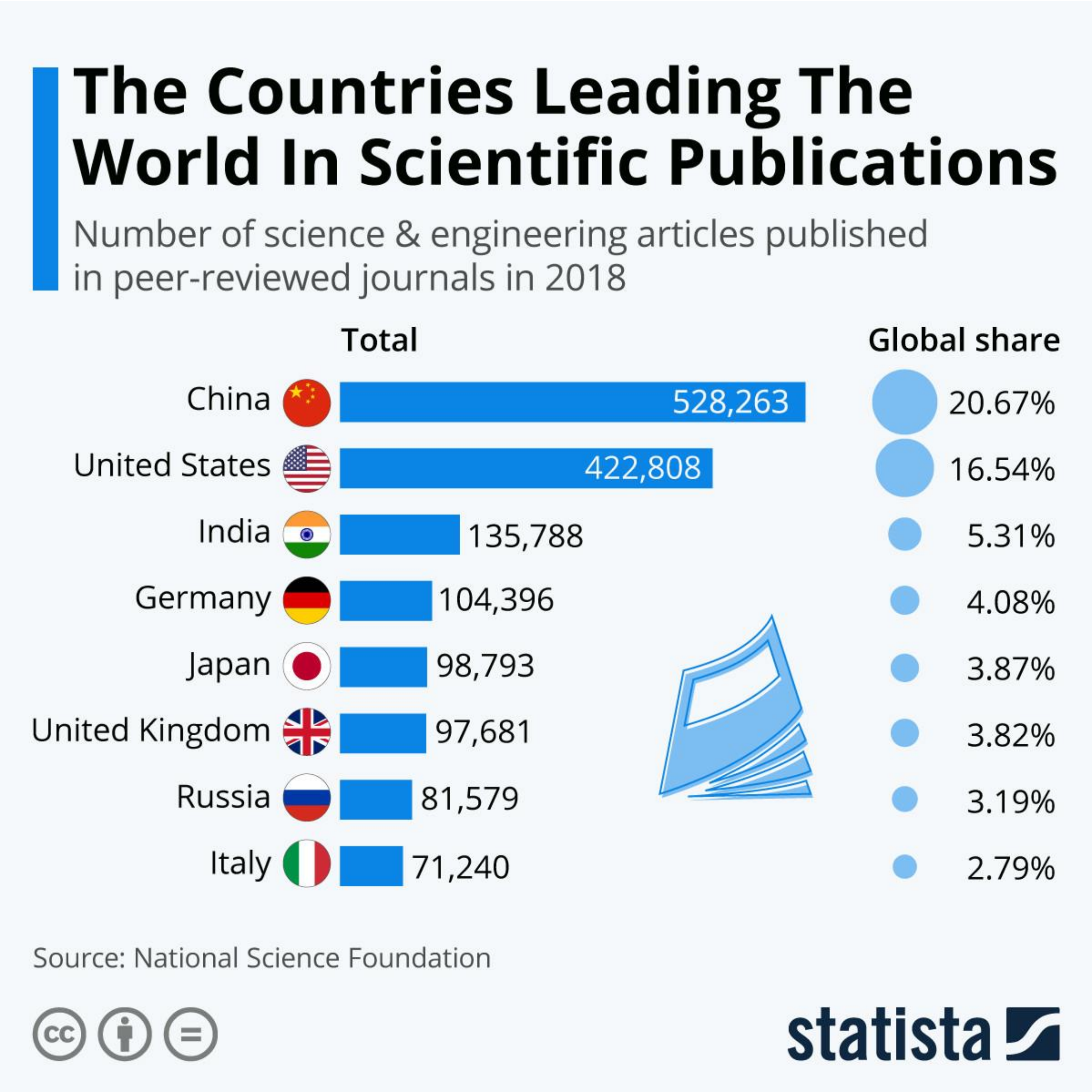
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Number of science & engineering articles published in peer-reviewed journals in 2018
Total
Global share
China
528,263
20.67%
United States
422,808
16.54%
India
135,788
5.31%
Germany
104,396
4.08%
Japan
98,793
3.87%
United Kingdom
97,681
3.82%
Russia
81,579
3.19%
Italy
71,240
2.79%
Source: National Science Foundation
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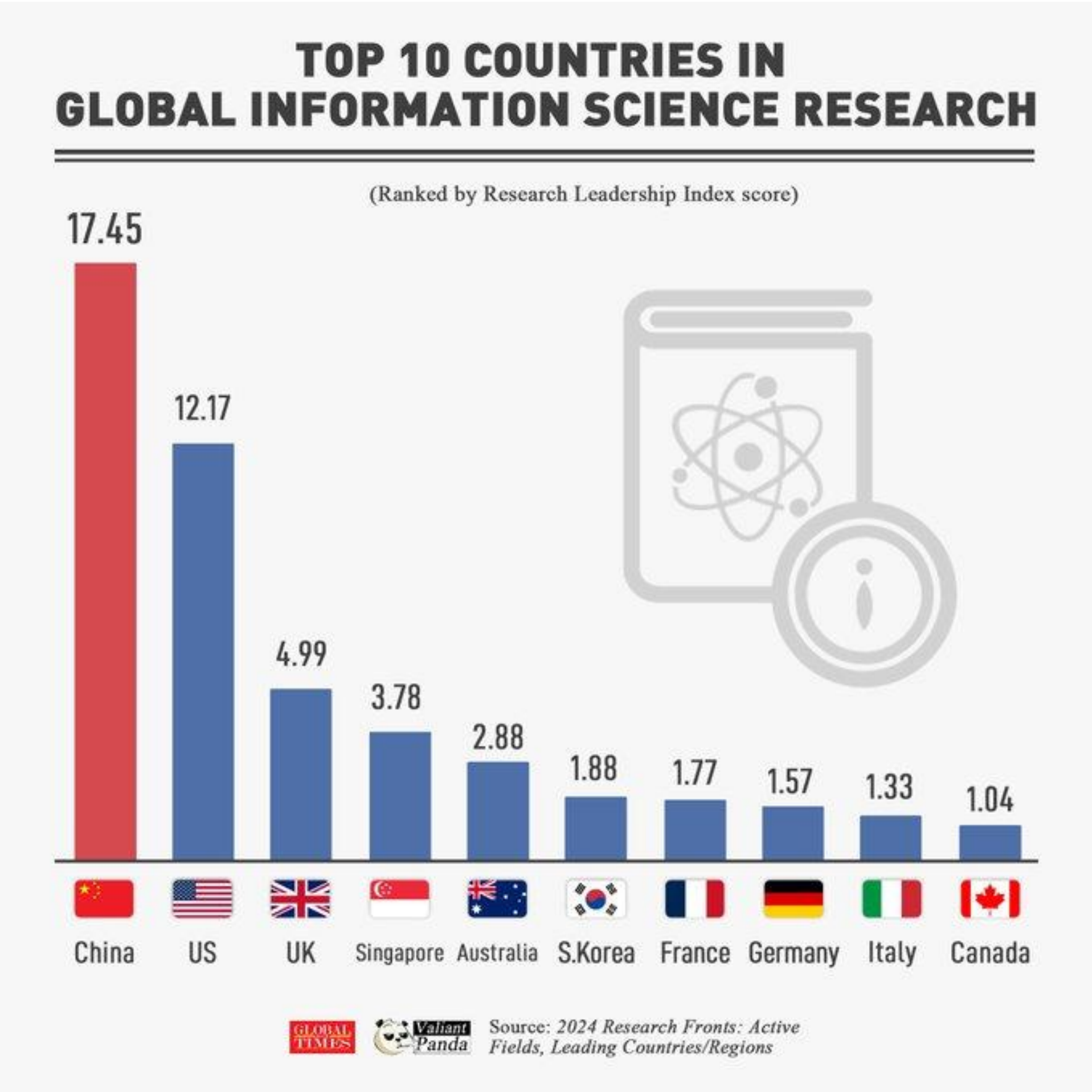

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(Ranked by Research Leadership Index score)
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12.17
4.99
3.78
2.88
1.88
1.77
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1.33
1.04
China
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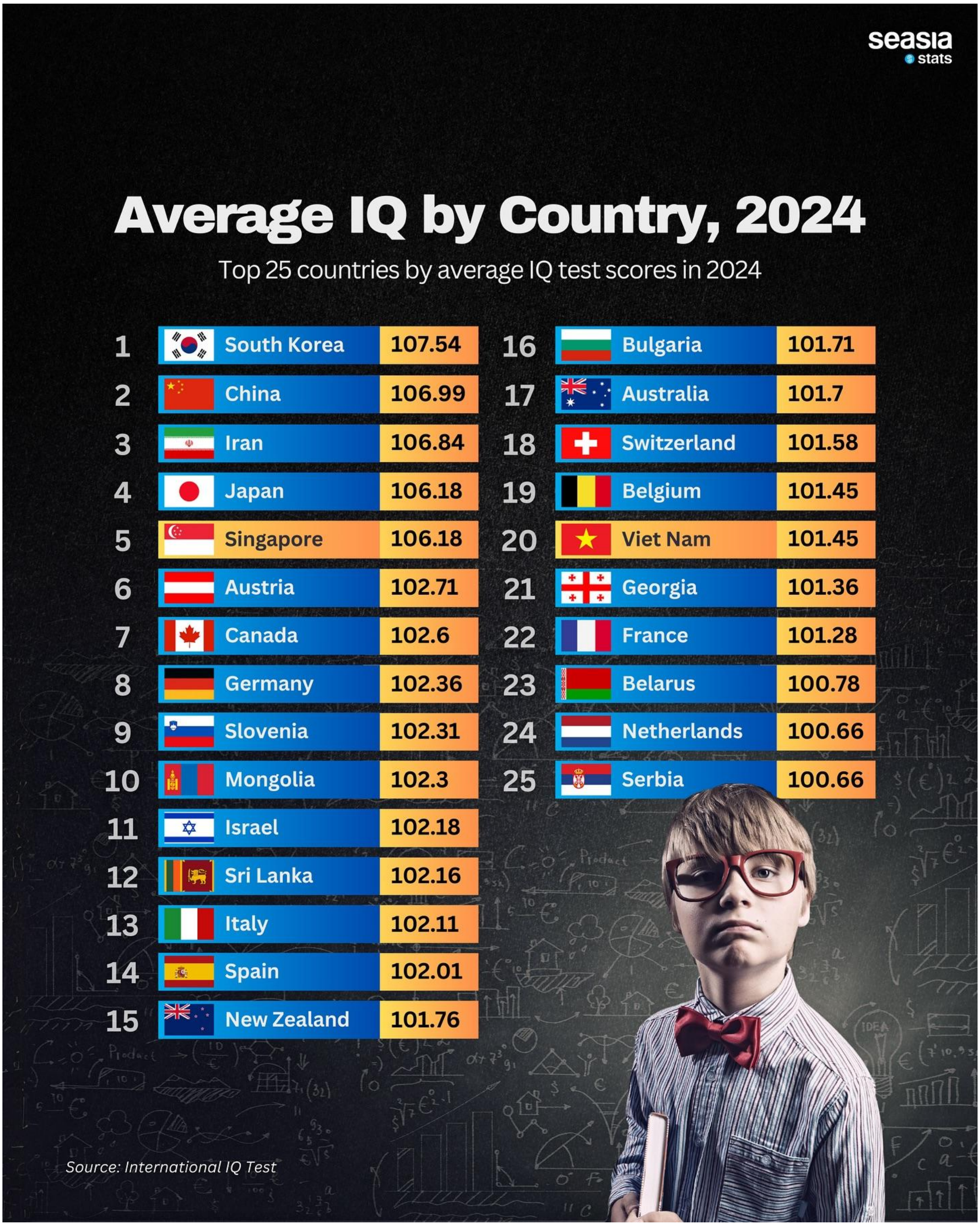
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Average IQ by Country, 2024
Top 25 countries by average IQ test scores in 2024
1 South Korea 107.54
2 China 106.99
3 Iran 106.84
4 Japan 106.18
5 Singapore 106.18
6 Austria 102.71
7 Canada 102.6
8 Germany 102.36
9 Slovenia 102.31
10 Mongolia 102.3
11 Israel 102.18
12 Sri Lanka 102.16
13 Italy 102.11
14 Spain 102.01
15 New Zealand 101.76
16 Bulgaria 101.71
17 Australia 101.7
18 Switzerland 101.58
19 Belgium 101.45
20 Viet Nam 101.45
21 Georgia 101.36
22 France 101.28
23 Belarus 100.78
24 Netherlands 100.66
25 Serbia 100.66
Source: International IQ Test


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