

Globalisation is not dead, but it is fading: ‘glocalisation’ is becoming the new mantra

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Industrial policy such as a green growth plan is no longer a dirty word as nations realise shorter supply chains and a strategic state role are necessary

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Not bad. But not great either. That summed up the mood as the World

Economic Forum ended in Davos last Friday with a panel on the [state of the global economy](#). Not bad because most countries outperformed expectations of a year ago. Not bad because sharply rising interest rates didn't plunge the US, the eurozone and the UK into recession. Not bad because the war between Israel and Hamas has failed to send oil prices shooting above \$100 a barrel.

Not great because central banks face a balancing act between cutting interest rates too quickly and reigniting inflation, and keeping them too high and plunging their economies into recession. Not great, because the early weeks of 2024 have led to a wider Middle East conflict, with implications for one of the world's main trade routes. And not great because – as [Davos](#) showed – the global economy is deeply fractured.

Inevitably, there is a risk that things will turn out badly in 2024. One leading global policymaker, speaking privately, said that repeated blows since 2020 meant it would be wise to be braced for the next surprise shock. Only the most incurable Davos optimist would quibble with that.

Washington and Beijing are in a grim struggle for economic supremacy. The gap between north and south is widening, and liberal democracy is being challenged by a new breed of autocrats. The planet continues to heat up. In a week that marks the 100th anniversary of Lenin's death, there are once again competing visions of what constitutes progress and success.

Even so, the death of globalisation has been much exaggerated. The reach of the multinational companies and the banks that continue to flock to the World Economic Forum were evidence of that. As is the rapid growth of artificial intelligence (AI), part of a tech revolution that cuts across borders and which is leaving national regulators floundering in its wake. A year ago, ChatGPT was in its infancy. This year, AI was central to the Davos debate, with those hailing its potential to help solve pressing problems – such as the climate crisis – ranged against those warning of its risks.

So globalisation is not dead, nor even on its last legs. The same goes for the demise of western liberal democracy. To be sure, productivity has been weak and living standards have been squeezed in recent years. Germany's finance minister, Christian Lindner, raised eyebrows when he said his country was the [tired man of Europe](#). But there are good reasons why there are no TV pictures of asylum seekers trying to get into Russia or China.

What is true is that having been pushed on to the defensive, global capitalism is morphing into something different. Peak globalisation – along with peak Davos – happened a while ago, around the time of the global financial crisis of 2008, but it has been the repeated shocks since 2020 that have changed the dynamic.

Everything that has happened since the arrival of the Covid pandemic has pointed to a new paradigm: some call it de-globalisation, others call it – perhaps more accurately – [“glocalisation”](#).

An ugly term, glocalisation is not the global free market, and it is not autarky (a nation that operates in a state of self-reliance), but something in between. It involves shorter supply chains, an emphasis on building back domestic manufacturing capacity, and a more strategic role for government. As with any form of mixed economy, the degree of glocalisation varies from country to country.

Where once Davos lionised frictionless supply chains stretching from China to the developed countries of Europe and North America, now there is a recognition that low cost is not everything and that there is value in governments knowing that they will not run short of vaccines, protective equipment, computer chips and energy. The attacks on cargo vessels in the Red Sea, necessitating much longer journeys around the Cape of Good Hope is the latest example of how vulnerable long supply chains have become. As Christine Lagarde, the president of the European Central Bank, said at the final Davos session: “We were relying on efficiency over security a little too much.” Lagarde noted, correctly, that a bit of rebalancing was no bad thing.

The long-term causes of glocalisation lie in the increasingly fractious relationship between the US and China – a relationship that has been deteriorating since Washington woke up to the threat posed by China's rapid growth and its clearly signalled plan to use its economic power to challenge the US's global hegemony. The

US [Chips Act](#) and the [Inflation Reduction Act](#) are both examples of American determination to rebuild its industrial base through active government intervention.

But while the shift towards onshoring previously outsourced production would have happened anyway, it has certainly been accelerated by the events of the past four years: a pandemic, then supply chain bottlenecks, a surge in inflation, and the war in Ukraine.

The upshot is that industrial policy is no longer a dirty word, even in Davos. Indeed, there was plenty of interest at the WEF in what Labour's plans to boost the supply side of the UK amounted to.

Nick Stern, author of the seminal [report](#) on the economics of climate change, thinks there is a potential sweet spot where the demands for stronger growth and the fight against global heating intersect. AI, he says, can act as an accelerator to help developing countries both with climate change mitigation and adaptation. He is not blind to the pushback by the fossil fuel industry against steps to combat global heating, but thinks the positives outweigh the negatives.

Stern insists investing for good green projects would be good for growth and fiscally responsible. A green light for Labour's green growth plan, in other words. And glocalisation in action.